

Telecom Decision CRTC 2002-34

Ottawa, 30 May 2002

Regulatory framework for second price cap period

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Summary

This summary provides highlights of the price regulation regime that will be applicable during the next four years to TELUS, SaskTel, MTS, Bell Canada and Aliant Telecom (the “ILECs”).

The regime has been designed to meet the following objectives:

- to render reliable and affordable services of high quality, accessible to both urban and rural area customers;*
- to balance the interests of the three main stakeholders in the telecommunications markets (i.e., customers, competitors and incumbent telephone companies);*
- to foster facilities-based competition in Canadian telecommunications markets;*
- to provide incumbents with incentives to increase efficiencies and to be more innovative; and*
- to adopt regulatory approaches that impose the minimum regulatory burden compatible with the achievement of the previous four objectives.*

To further these objectives, the Commission is adopting a price regulation regime that differs from the initial regime in a number of important ways.

First, the next price regulation regime includes a greater number of baskets and service groups – eight in total – thereby permitting the Commission to more finely tune its pricing constraints to implement the objectives.

In particular, the revised basket structure and focused pricing constraints ensure that the benefits of productivity gains are more evenly distributed across the various types of services and, hence, are enjoyed by a greater range of customers. They also indirectly help foster local competition by ensuring that the ILECs cannot reduce prices in a competitive market and recoup the lost revenues by raising prices in a market where competition is weak or absent.

Second, the Commission is imposing a number of service-specific rate element constraints in order to provide customers with additional price protection where local competition is expected to develop slowly.

Third, the Commission has refined the treatment of services in the Competitor Services group by establishing two categories of such services. The first category comprises services in the nature of an essential service. The pricing of these services has been revised and made subject to pricing constraints to ensure that competitors have access to the relevant services at rates which will foster the development of facilities-based

competition. The second category comprises those services developed for use by competitors other than those in the nature of an essential service and are priced on a case-by-case basis. In addition, the Commission is requiring the ILECs to introduce a competitor Digital Network Access service and price it in the same way as services in the nature of an essential service.

Fourth, the Commission is introducing quality of service mechanisms which provide for rebates to customers and competitors if the ILECs fail to meet the Commission mandated quality of service indicators. These new mechanisms are being introduced on an interim basis and will be finalized in follow-up proceedings. The Commission has also decided to initiate a proceeding in the near future to examine the establishment of a “consumer bill of rights”.

Fifth, the Commission has approved the Service Improvement Plans of all of the ILECs, except SaskTel, subject to certain adjustments. These plans will extend service to unserved customers and upgrade service to underserved customers.

Sixth, in keeping with the ongoing effort to streamline and improve the efficiency of regulation and in light of the structure of the next price regulation regime, the reporting requirements of the ILECs have been revised to eliminate the filing of Phase III/Split Rate Base reports, as well as incorporate transaction reports. In addition, the Commission has decided to review the Phase II costing approach and develop an updated Phase II manual.

Finally, with respect to contribution issues, the Commission has set the productivity offset for the national subsidy fund calculation at 3.5%. The Commission has also clarified certain aspects of the subsidy calculation.

The Commission will conduct a review of the regime commencing in the fourth year of its term.

The Basket Structure and Pricing Constraints

The price regulation regime for the next four years includes eight baskets or groups of services: residential local services in high cost serving areas (HCSAs); residential local services in non-high cost serving areas (non-HCSAs); business services; other capped services; Competitor Services; services with frozen rates; public payphones; and uncapped services. Each of these baskets or service groups is subject to pricing constraints tailored to meet the circumstances of the relevant services.

The individual basket constraints rely on an inflation factor, a productivity factor and an exogenous factor, as appropriate. The Commission has selected the chain weighted GDP-PI published by Statistics Canada as the inflation measure and it has set the productivity offset at 3.5%.

In addition to basket constraints, a variety of rate element constraints are imposed on specific services in light of competitive circumstances and related considerations. These rate element constraints provide customers with additional price protection.

The basket and service group structures and key pricing constraints are as follows:

- A basket of residential local services has been created for non-HCSAs. This basket is divided into two sub-baskets: basic residential services and residential optional local services. The basket is subject to a constraint of inflation less a productivity offset given that little competition is anticipated in residential local services in most locations over the next four years. However, in order to avoid the possibility that the operation of the constraint might force price reductions which would have a negative impact on the development of local competition, this basket is subject to a deferral account mechanism. The disposition of the deferral account will be reviewed annually.*
- In order to provide additional pricing protection to customers, the sub-basket of basic residential services in non-HCSAs is subject to a constraint of inflation less a productivity offset, provided that productivity does not exceed inflation. If productivity does exceed inflation, the constraint will be set at zero. Services in this sub-basket are also subject to a rate element constraint which limits increases in any service rate element to 5% per year. The second sub-basket, which contains residential optional local services in non-HCSAs, is not subject to a basket constraint. However, some services in this sub-basket are subject to a constraint which limits price increases to \$1 per feature per year.*
- A basket has been established for residential local services in HCSAs. This basket is subdivided into two sub-baskets: basic residential services and residential optional local services. No constraint is imposed on the basket. However, the sub-basket of basic residential services is subject to a constraint of inflation less a productivity offset, provided that productivity does not exceed inflation. If productivity exceeds inflation, the constraint will be set at zero. Services in this sub-basket are also subject to a rate element constraint which limits increases in any service rate element to 5% per year. Some residential optional local services in the second sub-basket are subject to a constraint which limits price increases to \$1 per feature per year.*
- Single-line and multi-line business local exchange services are grouped in a single basket and subject to a constraint set at inflation. No productivity offset is imposed. These services are also subject to a rate element constraint limiting individual rate increases to 10% per year.*

- *Most services that were included in the other capped services basket in the initial price cap regime continue to be assigned to a separate basket which will also include non-forborne Competitive Segment services. This basket is subject to a constraint of inflation less a productivity offset. In addition, these services are subject to a rate element constraint limiting rate increases to 10% per year.*
- *Services that are in the nature of an essential service or are primarily used by competitors are assigned to the Competitor Services basket. No constraint is imposed on this basket as a whole. However, the basket is divided into two service groups which are subject to pricing constraints: Category I Competitor Services (i.e., services in the nature of an essential service) and Category II Competitor Services (i.e., other competitor services).*
- *Services in the Category I Competitor Services group are generally to be priced at Phase II costs plus a 15% mark-up. They are also subject to a rate element constraint limiting rate increases to inflation less a productivity offset, except for a limited number of services that are already priced to reflect productivity gains. The rates for services in Category II Competitor Services are capped at existing levels.*
- *Services which were grouped together and subject to frozen rate treatment in the initial price cap regime (e.g., 9-1-1 service, Message Relay Service) will continue to be subject to the same treatment in the next regime.*
- *Public and semi-public pay telephones are placed in a separate category and their rates are frozen until the Commission conducts a policy proceeding on this service.*
- *All tariffed services not in one of the previous baskets or service groups are classified as uncapped services and are not subject to any upward pricing constraints.*

I Background

The introduction of price cap regulation

1. *In Review of regulatory framework*, Telecom Decision CRTC 94-19, 16 September 1994 (Decision 94-19), the Commission developed a regulatory framework for the telecommunications industry intended to allow all Canadians, over time, ubiquitous and affordable access to an increasing range of competitively provided telecommunications services. The Decision 94-19 framework encompassed a wide range of regulatory issues, including a new approach to the regulation of the rates of the incumbent telephone companies, as well as a framework for the introduction of competition into the local services market.
2. The framework for rate regulation involved three key, interrelated initiatives:
 - the replacement of earnings regulation with price regulation. This new method of regulation provided the incumbent telephone companies with greater incentives to improve efficiency and introduce network and service innovations;
 - the splitting of the rate bases of the incumbent telephone companies into competitive and utility segments, effective 1 January 1995, to facilitate the transition to price regulation. The utility segment relates mainly to the local and access operations of the companies (the Utility Segment); and the competitive segment refers to services subject to varying degrees of competition (the Competitive Segment). Earnings regulation was maintained for the Utility Segment for the period 1995 to 1997; and
 - a significant reduction in the subsidy of local access services paid by users of long distance services. Ensuring that the rates for local access services more closely reflected the costs of these services was necessary to produce the benefits of price regulation, including increased incentives to reduce costs.

These initiatives were implemented via a number of Commission decisions, the most important for present purposes being *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997 (Decision 97-9).

3. In Decision 97-9, the Commission established the form of price regulation that would apply to the major incumbent local exchange carriers (ILECs). At that time, these companies were: BC TEL, Bell Canada, The Island Telephone Company Limited (Island Tel), Maritime Tel & Tel Limited (MTT), MTS NetCom Inc. (now MTS Communications Inc.) (MTS), The New Brunswick Telephone Company, Limited (NBTEL), NewTel Communications Inc. (NewTel), and TELUS Communications Inc. (TELUS (Alberta)). The Commission notes that subsequent to Decision 97-9, TELUS Alberta and TELUS Communications (B.C.) Inc. (formerly BC TEL; hereinafter TELUS (BC)) merged into TELUS Communications Inc. (TELUS). The Commission also notes that Island Tel, MTT, NBTEL and NewTel subsequently merged to become Aliant Telecom Inc. (Aliant Telecom).

The initial price cap regime

4. Decision 97-9 established a four-year price cap regime for the Utility Segment, with a review to be initiated in the last year of the regime.
5. The Commission's price cap regime was designed to achieve the following objectives:
 - a) to render reliable and affordable services of high quality, accessible to both urban and rural area customers;
 - b) to foster competition in the Canadian telecommunications markets;
 - c) to provide incumbents with incentives to increase efficiencies and to be more innovative, and with a reasonable opportunity to earn a fair return for their Utility Segments; and
 - d) to implement a price cap regime that is simple, straightforward, easy to understand and reduces the regulatory burden to the greatest extent possible.
6. The structure and pricing constraints in the initial price cap regime reflected both the state of competition in various services, as well as the expectation for the development of competition over the course of the price cap period.
7. Under the price cap regime, certain of the ILECs' Utility Segment services were grouped into a single basket of capped services (Capped Services) subject to the price cap formula. This formula has determined the maximum allowable aggregate change in prices, on an annual basis, for the Capped Services. Aggregate rate changes for Capped Services were limited to the rate of inflation minus a productivity offset of 4.5%. The productivity offset reflected the assumption that the ILECs could become more productive, through, for example, reductions in input costs. The price cap formula also took into account the financial impact of limited exogenous factors arising from events beyond the ILECs' control.
8. The single basket of Capped Services was divided into three sub-baskets subject to additional pricing constraints. For the first sub-basket, Basic Residential Local Services, average annual rate increases could not exceed the rate of inflation. Additionally, no individual rate element within the sub-basket could increase in smaller telephone exchanges by more than 10% in any year. For the second sub-basket, Single and multi-line local business services, individual rate elements for single-line business services in smaller telephone exchanges could not increase by more than 10% in any year. Finally, for the third sub-basket, Other capped services, average annual rate increases could not exceed the rate of inflation.
9. Certain Utility Segment services (Uncapped Services) were excluded from the Capped Services basket, including optional local services. In addition, the Commission determined that certain services required by local and toll competitors (Competitor

Services) would not be included in the Capped Services basket. However, Competitor Services were required to be priced to recover their incremental costs and to make an appropriate contribution to fixed common costs.

10. In *Implementation of price cap regulation and related issues*, Telecom Decision CRTC 98-2, 5 March 1998 (Decision 98-2), the Commission determined implementation issues in connection with the price cap regime, including the appropriate Utility Segment rates at the outset of the regime (going-in rates).
11. Saskatchewan Telecommunications (SaskTel) was not subject to the first price cap regime, as it only came under federal regulation on 30 June 2000. In *SaskTel – Transition to federal regulation*, Decision CRTC 2000-150, 9 May 2000 (Decision 2000-150), the Commission approved a transitional regulatory framework for SaskTel. The Commission determined, among other things, that Utility service rates could not increase above the levels established on 30 June 2000. The Commission also indicated that the company would likely be included in the upcoming review of the initial price cap regime.
12. As noted above, in Decision 97-9, the Commission indicated that it would conduct a review of the initial price cap regime in the fourth year of the price cap period. In order to conduct that review in as effective a manner as possible, the Commission initiated a proceeding in 2000 to determine the scope of the review.

Review of the price cap regime

13. In *Proceeding to determine the scope of the price cap review*, Public Notice CRTC 2000-99, 14 July 2000 (PN 2000-99), the Commission requested comments on the scope of the upcoming review of the price cap regime. Issues raised by the Commission included (a) whether price cap regulation or the current price cap regime can permit sustainable competition to evolve; (b) the criteria to measure the success of the current price cap regime in achieving its goals and objectives; and (c) the issues that should be considered in the proceeding to review the price cap regime.
14. After the close of the record of the PN 2000-99 proceeding, the Commission was informed that representatives of various stakeholders, including ILECs, competitive local exchange carriers (CLECs), long distance service providers, and consumer and public interest advocacy groups, had initiated a series of consultations. The parties hoped to issue a joint proposal to the Commission regarding the regulatory regime that should follow the initial price cap regime.
15. In light of these consultations, the Commission postponed finalizing its conclusions with respect to the scope of the price cap review. Ultimately, the parties were unable to reach consensus on a proposal and notified the Commission of this fact.

16. On the basis of the input from the PN 2000-99 proceeding, as well as Decision 97-9 and related decisions, the Commission issued *Price cap review and related issues*, Public Notice CRTC 2001-37, 13 March 2001 (PN 2001-37), to establish an appropriate regulatory regime to go into effect in 2002.

Scope of the present proceeding

17. In PN 2001-37, the Commission indicated that it would consider whether the current form of price cap regulation continues to represent an appropriate basis of regulation to balance the interests of the three main stakeholder groups – consumers, ILECs and competitors.
18. The Commission also sought proposals from parties as to the elements that should be included in the new regulatory regime, including:
 - a) the components of a price cap formula, including the appropriate measure of inflation, the level and applicability of a productivity factor, and the treatment of any exogenous factors;
 - b) the definition and treatment of Capped and Uncapped Services;
 - c) the service basket structure; and
 - d) the length of the price cap period.
19. The Commission also invited proposals on any changes to the current treatment of Competitor Service rates; on the appropriate treatment of rates in high-cost serving areas (HCSAs); and on the upward pricing constraints on the basic toll schedules.
20. In addition, the Commission invited comments on the appropriateness of including a quality of service component in the price regulation regime, or other methods, such as targeted refunds to customers, to address inadequate service quality. Further, the Commission sought input on other benchmarks for consumer service, such as billing policies, and on a consumer bill of rights.
21. With respect to monitoring and information reporting requirements, the Commission indicated that any proposed changes should take into account the role such information plays in ensuring the need for and effectiveness of competitive and consumer safeguards.
22. The Commission also stated that it would review the major ILECs' service improvement plans (SIPs), filed pursuant to *Telephone service to high-cost serving areas*, Telecom Decision CRTC 99-16, 19 October 1999 (Decision 99-16). The purpose of the SIPs is to extend service to unserved customers, and to upgrade service levels to underserved customers to achieve the basic service objective as defined in Decision 99-16.

23. Finally, the Commission stated that while it had outlined a number of specific issues on which it sought comment, parties could also submit comments on other issues or alternative proposals relevant to the proceeding.
24. In *Public Notice CRTC 2001-37 – Price cap review and related issues: Requests for clarification of issues and determinations on public disclosure of information and on further responses to interrogatories*, Decision CRTC 2001-582, 10 September 2001, the Commission addressed requests for clarification of issues made by TELUS and Bell Canada. Among other things, the Commission confirmed that the issue of the mark-up on Competitor Services would be considered in the context of possible changes to the current treatment of Competitor Services rates. Accordingly, the Commission made the record of the follow-up proceeding to *Restructured bands, revised loops and related issues*, Decision CRTC 2001-238, 27 April 2001 (Decision 2001-238), regarding whether the mark-up on local loop costs should be reduced from 25% to 15%, part of the record of the present proceeding.
25. In *Public Notice CRTC 2001-37 – Price cap review and related issues: Follow-up to Decision CRTC 2001-582, re requests for clarification of issues and determinations on deficiencies and confidentialities*, Decision CRTC 2001-618, 28 September 2001 (Decision 2001-618), the Commission addressed further requests for clarification, and requests from Aliant Telecom, Bell Canada, MTS, and SaskTel (collectively, the Companies), and TELUS that certain evidence be ruled outside the scope of the proceeding. Among other things, the Companies stated that they were unclear as to whether and to what extent the Commission intended to re-examine the fundamental framework put in place for local competition. The Companies stated that they prepared their evidence based on the assumption that the Commission had already made certain key determinations in *Local competition*, Telecom Decision CRTC 97-8, 1 May 1997 (Decision 97-8). The Companies also stated that the fundamental framework was based on the view that local competition should be facilities-based, with competitors relying increasingly on use of their own facilities, and made fundamental distinctions between the pricing rules for specified essential services and all other services. TELUS asked whether the Commission intended to vary Decision 97-8.
26. The Commission confirmed its view that, while local competition, in the long term should be facilities-based with competitors relying increasingly on use of their own facilities, significant reliance on resale and unbundling would continue to be necessary on a transitional basis.
27. The Commission also confirmed that the definition of "essential service" contained in Decision 97-8 and the current classification of certain services as "essential" were not under consideration in the proceeding. With respect to whether pricing rules for essential services were under consideration, the Commission noted that services found to be essential services in Decision 97-8 are also Competitor Services (see Decision 98-2). Therefore, the Commission stated that, insofar as pricing rules for Competitor Services were clearly within the scope of the proceeding, policy issues and evidence relating to the pricing of essential services were also within the scope.

The proceeding

28. The following companies were made parties to this proceeding and directed to file evidence: Island Tel, MTT, NBTel, NewTel, Bell Canada, MTS, SaskTel and TELUS.
29. The Commission also invited evidence and submissions from interested parties. A total of 53 individuals, municipalities, provincial governments, corporations and other organizations registered as interested parties.
30. The following interested parties filed submissions, interrogatory responses, comments and/or arguments:
 - Aliant Telecom
 - Action Réseau Consommateur, the Consumers' Association of Canada, Fédération des associations coopératives d'économie familiale, and the National Anti-Poverty Organization (ARC et al.)
 - AT&T Canada Corp. Inc. and AT&T Canada Telecom Services (AT&T Canada)
 - BC Old Age Pensioners' Organization, BC Coalition for Information Access, Consumers' Association of Canada (BC Branch), Council of Senior Citizens' Associations of BC, Senior Citizens' Association of BC, Tenants Rights Action Coalition, West End Seniors Network (BCOAPO et al.)
 - Bell Canada
 - Consumers' Association of Canada (Manitoba), Manitoba Society of Seniors (CAC(Man.)/MSOS)
 - Call-Net Enterprises Inc. (Call-Net)
 - City of Calgary (Calgary)
 - Commissioner of Competition, Competition Bureau (the Commissioner of Competition)
 - Consumers' Association of Canada (Alberta) (CAC Alta)
 - Distributel Communications Limited (Distributel)
 - Futureway Communications Inc. (Futureway)
 - GT Group Telecom Services Corp. (Group Telecom)
 - Microcell Telecommunications Inc.
 - Manitoba Keewatinowi Okimakanak Inc. (MKO)
 - MTS
 - Paytel Canada, Inc. (Paytel)
 - Primus Telecommunications Canada Inc.
 - Rogers Wireless Inc. and Rogers Communications Inc. (RCI)
 - SaskTel
 - Shaw Cablesystems GP (Shaw)
 - Telesat Canada
 - TELUS
 - Bell Canada, Aliant Telecom, MTS, SaskTel (the Companies)

31. ARC et al. submitted evidence jointly with the following parties: BCOAPO et al., CAC (Man.)/MSOS, MKO and Calgary. Testimony from expert witnesses on a variety of subjects was included in these various joint submissions. For simplicity, references in this Decision to these joint submissions are attributed to ARC et al.
32. A total of 1,935 letters and e-mails (3,876 signatures) were received by the ILECs and the Commission. The breakdown by ILEC was as follows: TELUS - 1,086; Aliant Telecom - 388; Bell Canada - 357; MTS - 38; and SaskTel - 9. The remaining 57 letters and e-mails were general comments not directed at a specific carrier.
33. Of the correspondence addressed to TELUS, 360 letters express disagreement with the approach used for its SIP and with having to pay to provide service to those who chose to live in remote areas. Six letters related to quality of service, while the rest objected to the rate increases.
34. Most of the 388 letters and e-mails (representing 1,847 signatures) sent to Aliant Telecom objected to the company's proposal to increase rates.
35. Bell Canada received 357 letters and e-mails; 55 related to its SIP, while the remainder generally disagreed with any kind of rate increase.
36. An oral hearing was held from 1 October to 22 October 2001 before Vice-Chairman David Colville (chairman of the hearing), and Commissioners Barbara Cram, Jean-Marc Demers, Stuart Langford, David McKendry, Andrée Noël, and Ronald Williams.
37. The oral hearing began with comments from the general public, followed by cross-examination of the evidence by the parties. Written comments from the general public were filed up to 15 October 2001, and oral argument by parties was presented on 22 October 2001. Written arguments were filed on 22 October 2001 and written reply arguments on 31 October 2001.

II Overview of the next price regulation framework

The form of regulation

38. In this proceeding, parties addressed whether price cap regulation of the ILECs should continue; whether the initial price cap regime met the objectives established in Decision 97-9; and whether the form of price cap regulation applied to the ILECs should be modified and, if so, in what ways.
39. The Companies were of the view that, despite some weaknesses, the initial price cap regime was a major improvement over rate of return regulation. TELUS submitted that price regulation was a superior regulatory regime that provided incentives for efficiency and investment which closely emulated those of a competitive marketplace.

40. AT&T Canada was of the view that the objectives of the initial regime were appropriate and should be carried forward into the next regime, although greater focus should be given to fostering sustainable competition. RCI submitted that while the initial price cap regime was not successful in all respects, the general approach and objectives continued to be in the public interest. ARC et al. supported the continuation of a price-based form of regulation. ARC et al. submitted that there was value in regulatory consistency for all parties, and that significant change at this time would increase uncertainty about the form of the next regime and increase regulatory risk unnecessarily.
41. Overall, there was a broad consensus that the initial price cap regime provided better incentives for improved efficiency and innovation than rate base/rate of return regulation. In particular, the evidence in the present proceeding indicated that the ILECs have achieved productivity gains well beyond the productivity offset of 4.5% established in Decision 97-9. In light of these results, the general view of parties was that price cap regulation during the initial period had been an improvement over traditional rate base/rate of return regulation, and that the Commission should continue to apply price cap regulation to the ILECs.
42. The Commission agrees that price regulation remains more effective than rate base/rate of return forms of regulation in fulfilling the objectives of the *Telecommunications Act* (the Act). In particular, price regulation provides the ILECs with stronger incentives to minimize costs, to operate more efficiently, and to be more innovative in the provision of services. Accordingly, the Commission has decided to continue to apply price regulation to the ILECs.
43. However, it was evident from the record of this proceeding that there were a number of concerns regarding certain aspects of the initial price cap regime. In particular, a number of parties highlighted the unequal distribution of the benefits from productivity gains and also commented on quality of service issues. There were also concerns about the interrelationship between the state of local competition and the structure of the initial regime.

The state of local competition

44. According to the *Report to the Governor in Council: Status of Competition in Canadian Telecommunications Markets and Deployment/Accessibility of Advanced Telecommunications Infrastructure and Services*, September 2001 (GIC Report) (filed in this proceeding as CRTC Exhibit No. 5), by year end 2000, competitors served 771,000 business lines, or approximately 10.3% of the business market. Competitors served 30,000 residential lines, or about 0.2% of the residential market.
45. On its face, the GIC Report indicates that local competition is in its early stages. With respect to the residential market, the GIC Report indicates that competition is almost non-existent.

46. Parties were generally agreed that local competition was developing slowly. CLECs have focused on serving the downtown cores of large urban areas, with occasional entry, mostly via resale of ILEC facilities, into medium-sized urban areas. Based on evidence filed by parties during the proceeding, CLECs have attained market shares of around 10% in the local business sector overall, and market shares of up to 16% of the local business market in some large urban centres. The evidence also indicates that in the residential market, competitors have achieved a market share of approximately 0.2%.
47. Overall, the evidence filed by parties in this proceeding reinforced the perspective provided by the GIC Report. Facilities-based local competition is generally limited to the business market in large urban areas. There is some resale-based competition in the business market in other areas. There is little, if any, local competition of any type in the residential market.
48. In the Commission's view, a number of factors have contributed to the slow growth of local competition, particularly of facilities-based competition. For example, CLECs incurred significant start-up and on-going costs. They were required to lease services or facilities from the ILECs in order to serve many of their customers, at the same time incurring costs for co-location in ILEC central offices. In addition, CLECs continued to face challenges gaining access to multi-dwelling buildings, non-carrier support structures and obtaining municipal rights-of-way on acceptable terms. While CLECs could address these difficulties, in part, through resale of ILEC services, or through unbundled local loops, both of these alternatives resulted in reduced margins.
49. As far as the future is concerned, the ILECs stated that they expect continued entry and market share growth by wireline competitors, including ILEC affiliates, wireless carriers and cable companies using Internet protocol telephony or other technologies. The Companies forecast that by 2005, CLECs would serve approximately 23% of business network access services (NAS) in the Companies' territories; while TELUS estimated a market share loss of 20% of business NAS in its territory by the same year.
50. The ILECs expected slower market share gains by CLECs in the residential market, but anticipated that the cable companies would offer local service over cable facilities in the 2003 to 2005 period. The ILECs noted that Eastlink Limited (Eastlink) had gained significant market share in Nova Scotia. In addition, they noted that Call-Net was re-entering the local residential market in Alberta and Toronto. TELUS projected that by 2005 or 2006, cable companies would provide local service to about 10% of NAS in its territory. The ILECs also expected that some wireline users would switch to wireless services, principally as an alternative to a second landline and, to a limited extent, as the only access to the telephone network.
51. AT&T Canada and Call-Net submitted that there were still barriers to entry to the local market, noting that the ILECs could have a cost advantage over CLECs with their size, scale economies and a ubiquitous network. Call-Net stated that, in addition, the ILECs have numerous incumbency advantages, such as depreciated networks, low customer acquisition costs and close to 100% market share.

52. AT&T Canada expected that competitors would serve 12.8% of business lines in Bell Canada's territory, and 11% in TELUS' territory by 2005; and that competitors would serve 2% of residence lines in Bell Canada's territory, and 1.8% of residence lines in TELUS' territory.
53. Group Telecom was of the view that the present regulatory framework for local competition was generally appropriate, and submitted that change should focus on two key areas. First, under certain conditions, CLECs should be permitted to provide service to customers who are now under long-term contracts to the ILECs. Second, the Commission should oversee more closely the activities of ILECs' affiliates in the ILECs' home territories, to prevent the avoidance of regulatory obligations through inappropriate use of affiliates.
54. RCI submitted that cable companies were currently focused on converting their networks to digital video, and that RCI expected to enter the local market only in the period 2003 to 2005. In RCI's view, local telephony provided over cable facilities would not have a significant impact on competition in the local market during the next price cap period.
55. ARC et al. submitted that current wireless services were not a good substitute for wireline services, because wireless carriers rated their services by minutes of use and did not permit multiple extensions to one line. ARC et al. observed that the ILECs' predictions of market share losses to new technologies during the initial price cap period had not materialized. ARC et al. also observed that ILECs would likely be among the bigger players using any new technology.
56. The Commissioner of Competition submitted that due to pricing, coverage, suitability for data services, service quality and battery life issues, wireless services were not a substitute for wireline services at this time.
57. Based on current trends, the Commission believes it is likely that competition in the business market will continue to increase over the next few years. The Commission also considers that, in the business market segment, the ILECs' market power is reasonably limited in areas where competitors have facilities or are otherwise present through the resale of ILEC services, notably through Centrex resale.
58. In the residential market, however, virtually no competition developed during the initial price cap period, with the limited exception of some areas in the Maritimes. Overall, competitors achieved minimal market share in residential basic local exchange services.
59. In addition, there was no evidence to suggest that competitors had made any inroads into the market for residential optional local services. On the contrary, the ILECs were able to increase revenues from these services through rate increases without experiencing a significant reduction in demand.

60. The Commission considers that competitive entry into the residential market will continue to be limited in the foreseeable future. Based on the record of the present proceeding, it is unlikely that the larger cable companies will enter the residential market in the near future on any significant scale.
61. The Commission is also of the view that investment to construct new facilities to serve residential customers will be limited during the next price cap period given the current financial state of the industry and the significant costs involved.
62. Finally, given the close link between local exchange service and optional local services, the Commission considers it unlikely that competitors will have much success selling optional local services to residential customers who receive their local exchange service from the ILECs. Consequently, in the Commission's view, the lack of competition in residential local exchange service will continue to be accompanied by a lack of competition in residential optional local services.
63. Accordingly, the Commission does not anticipate that competition will be sufficient to discipline the ILECs' residential local exchange and residential optional local service rates during the next price cap period.
64. In light of the current state of local competition and its projected development over the next several years, the Commission has decided it is necessary to introduce a variety of adjustments to the price regulation regime applicable to the ILECs. These changes are detailed in Parts III, IV and VI of this Decision.

Balancing stakeholder interests

65. A number of parties pointed out that there was a significant disparity in the distribution of the benefits of price regulation during the initial price cap period. For example, while the price of local business services dropped significantly in some areas, residential local service rates (both basic and optional) rose in virtually all locations. Also, while the ILECs enjoyed significantly improved returns on their Utility Segment services, the financial health of competitors - who relied on ILEC services in order to compete - deteriorated seriously. These developments were considered problematic by some parties for several reasons.
66. First, when considered together, the increases in residential local service rates, the financial weakness and the limited market penetration of competitors, and high returns achieved by the ILECs, raised concerns about whether an appropriate balance had been struck in the initial regime between the interests of the different stakeholders (customers, ILECs and competitors).
67. For example, ARC et al. and BCOAPO et al. argued that the Commission should attempt to ensure that some of the productivity gains generated by the industry under price cap regulation accrue to residential customers. For their part, AT&T Canada, Call-Net and RCI each argued that the Commission should give greater emphasis to the needs of competitors in order to foster local competition.

68. Second, the disparity between the benefits flowing to business and residential customers was significant. Between 1998 and 2000, business rates in urban areas declined in every province except Saskatchewan. SaskTel was not subject to price cap regulation during the initial price cap period. On average, business rates in urban areas declined by 15% in Ontario and Quebec, 11% in British Columbia, and 5% in Alberta. In contrast, during this same time period, rates for residential local services (basic and optional) rose in all ILEC territories.
69. The fact that these two classes of customers (i.e., business and residential) received such widely different rate treatment under the initial price cap regime reinforces the view that the interests of different groups were not equitably balanced.
70. Third, the downward trend in ILEC local business rates squeezed the margins available to competitors and therefore acted as an impediment to competitive entry. The Commission considers that, if this situation were to continue, it would have a significant adverse effect on the development of local competition – to the detriment of both customers and competitors. The effect would initially be manifested in the business market where the price reductions occur. However, over the longer term there would likely be an impact on competitive entry into the residential market as well, since CLECs would have difficulty achieving economies of scope and scale on the same basis as the ILECs.
71. In light of these developments, the Commission is of the view that adjustments are necessary to the basket structure and pricing constraints of the price cap regime applied to the ILECs. These modifications are discussed in detail in Part IV of this Decision.

Quality of service

72. During the initial price cap period the ILECs, with the exception of SaskTel, filed quality of service reports, as required by *Quality of service indicators for use in telephone company regulation*, Telecom Decision CRTC 97-16, 24 July 1997 (Decision 97-16). Those reports indicated that quality of service problems occurred during much of the period for each of the ILECs.
73. From 1998 to 2000, all of the ILECs who filed reports had substandard performance for many months each year. Despite some improvement for several companies in 2000, compared to earlier years, the number of months of substandard performance was unacceptably high. For example, in 2000, Bell Canada failed to meet the required monthly standards 48 times across all indicators, while TELUS (BC) and TELUS (Alberta) each had substandard performance 42 times. In 2001, only Bell Canada consistently met all indicators.
74. The ILECs' unsatisfactory quality of service record during the initial price cap regime indicates that measures must be put in place to ensure that customers receive reliable services of high quality. Furthermore, the Commission is not persuaded that competitive pressures in either the retail or competitor services markets will be sufficient to ensure

that ILECs will meet approved service quality standards during the next regime. Consequently, the Commission has concluded that regulatory changes are required to address this concern. These changes are discussed in detail in Part VI of this Decision.

Earnings sharing

75. An adjustment to the price cap regime that was discussed in the present proceeding was earnings sharing. An earnings sharing mechanism involves setting an earnings threshold which, when reached, triggers the sharing of additional revenues with customers – either through rebates or via other rate adjustments.
76. ARC et al. suggested earnings sharing should be considered if the Commission felt there was a significant risk of setting the productivity target either too high or too low. Under ARC et al.'s proposal, ILECs would be allowed to choose from a number of alternatives ranging from a high productivity offset with no earnings sharing, to a low offset with significant earnings sharing. ARC et al. noted that most jurisdictions have had sufficient confidence, beyond the first round of price cap regulation, to establish a productivity target without earnings sharing.
77. The ILECs opposed the introduction of an earnings sharing overlay to the price cap regime.
78. The Companies submitted that the most costly consequence of earnings sharing would be a reduction in incentives for infrastructure investment due, in part, to greater uncertainty regarding the stream of financial returns from large-scale investments.
79. The Companies also submitted that, if an earnings sharing mechanism were implemented, the ILECs' administrative burden would be even greater than under rate of return regulation. A price cap/earnings sharing regime would require the production, monitoring and analysis of Utility Segment financial results on an annual basis and the determination of an allowable rate of return – as is required under rate of return regulation – as well as demonstrated compliance with the pricing constraints associated with the price cap formula.
80. TELUS submitted that a regulated firm would have little incentive to improve efficiency if it believed the regulator would take any savings and pass them on to consumers in the form of lower rates. Similarly, TELUS argued that large-scale investments in infrastructure modernization would not be attractive if the regulator could appropriate the returns from such investment. TELUS also argued that, under pure price cap regulation, business and residential consumers would benefit from more choice in suppliers and technologies, and lower prices overall, than under any monopoly-style form of regulation.
81. The Commissioner of Competition submitted that the current price cap structure, with no earnings sharing overlay, should be maintained in order to ensure continuity and reduce uncertainty for consumers, industry participants and investors.

82. In the Commission's view, an earnings sharing mechanism would re-introduce a number of significant elements of earnings regulation and thereby diminish the advantages of price regulation. The approach proposed by ARC et al. could alleviate, to some extent, the disincentives typically associated with earnings sharing, since the ILECs would have input on the extent of earnings sharing that would apply to them. However, this approach would increase administrative requirements for both the ILECs and the Commission due to the additional process involved in calculating and tracking the earnings sharing overlay. Permitting the ILECs to operate under different regimes would also likely create confusion and uncertainty in the industry. Overall, the Commission considers that the disadvantages of such an approach would outweigh its benefits. Consequently, the Commission has decided that the next price cap regime will not include earnings sharing.

Objectives of the next price cap regime

83. In light of the state of local competition and the concerns identified above, the Commission considers it necessary to assess whether the objectives of the initial price cap regime should be carried forward to the next regime, or whether some modifications to those objectives are necessary.
84. Most parties who commented on the objectives of price regulation were generally of the view that the four objectives identified in Decision 97-9 for the initial price cap regime continue to be relevant and should guide the Commission in its determinations for the next regime.
85. The Companies stated that their proposal had been fashioned to meet the objectives that a) telephone service prices should continue to remain affordable, b) the benefits of facilities-based competition be widespread, and c) the environment be conducive to investments being made in the telecommunications industry.
86. AT&T Canada submitted that the objectives of the upcoming regime should not be any different than the objectives of the initial price cap regime. To achieve these objectives, AT&T Canada argued, the upcoming regime should correct an imbalance in the initial regime and focus more closely on fostering sustainable competition.
87. Group Telecom suggested that the overriding objective of the next regime should be the removal of existing barriers to facilities-based competition and the maintenance of balanced incentives for entry on a facilities basis.
88. RCI submitted that the objectives for the initial price cap regime continued to be in the public interest on a going forward basis. However, in RCI's view, not all of these objectives were satisfied by the initial price cap regime and certain adjustments were required in the next price cap period to correct this imbalance.
89. ARC et al. argued that in addition to the objectives of affordability, competition, and investment, as put forward by the Companies, other critical objectives included reliability and quality of service, rural/urban equity, creating incentives for greater efficiency and innovation, and ensuring just and reasonable rates for both retail and

wholesale customers of ILEC Utility Segment services. In ARC et al.'s view, the next price cap regime should balance the interests of stakeholders by ensuring fair rates for competitors and end-users and providing an opportunity for ILECs to earn a fair return.

90. The Commissioner of Competition submitted that the primary goal of price cap regulation is to replicate, as nearly as possible, a dynamically competitive market for telecommunications. The Commissioner of Competition also suggested that the price cap regime should meet the multiple objectives of fostering increased reliance on market forces with the introduction of local competition, rendering affordable telecommunications services, allowing pricing flexibility to the ILECs, and protecting competitors from anti-competitive pricing.
91. Most parties also agreed that the interests of the three main stakeholders – customers, ILECs and competitors – should be balanced under the regime.
92. In light of these comments and the matters discussed above, the Commission considers it appropriate to modify the objectives of the initial price cap regime for the purposes of the next regime.
93. First, given the importance of balancing the interests of customers, ILECs and competitors, the Commission believes this goal should be identified as an additional, explicit objective.
94. Second, with respect to the objective of fostering competition, most parties who commented on this point emphasized that the goal should be the fostering of facilities-based competition. The Commission is of the view that facilities-based competition is the most appropriate way to ensure high quality, affordable service, as well as innovation and service differentiation. Accordingly, this objective has been reworded.
95. Third, the Commission notes that the third objective for the initial regime made express reference to the opportunity for the ILECs to earn a fair return for their Utility Segments. This objective was implemented by conducting a revenue requirement review in order to set going-in rates for the initial regime.
96. In PN 2001-37, the Commission indicated that it did not intend to conduct a revenue requirement assessment of Utility Segment results unless an ILEC proposed rate increases to be effective at the outset of the next price cap regime, other than increases that would reduce the subsidy requirement in HCSAs. None of the ILECs proposed that rates increase at the outset of the next regime. Instead, parties focused on the price cap framework, including the basket structure and the productivity offset.
97. As discussed in greater detail in Part X of this Decision, the concept of a Utility Segment no longer has relevance in the next regime given the expanded scope of the pricing constraints the Commission has decided to impose, as well as the introduction of a Phase II-based subsidy requirement in 2002.

98. Accordingly, the Commission has concluded that it is neither necessary nor appropriate to retain a reference to ILEC Utility Segment earnings in the objectives for the next price cap regime since the focus of price cap regulation is prices, not earnings. The wording of this objective has therefore been modified accordingly.
99. In light of the above, the regulatory framework set out in this Decision is designed to achieve the following objectives:
- a) to render reliable and affordable services of high quality, accessible to both urban and rural area customers;
 - b) to balance the interests of the three main stakeholders in telecommunications markets, i.e., customers, competitors and incumbent telephone companies;
 - c) to foster facilities-based competition in Canadian telecommunications markets;
 - d) to provide incumbents with incentives to increase efficiencies and to be more innovative; and
 - e) to adopt regulatory approaches that impose the minimum regulatory burden compatible with the achievement of the previous four objectives.

Price cap period

100. In Decision 97-9, the Commission noted that a longer price cap period would provide a greater opportunity for the benefits of price cap regulation to materialize, while a shorter price cap period would reduce the cumulative effects of any error in setting the price cap parameters. The Commission determined that a four-year period would result in an appropriate balancing of these factors.
101. In the present proceeding, the Companies supported a second price cap period of at least four years, assuming their proposed regulatory framework were adopted. They suggested that the appropriate length of time for the new price regulation period would depend on the nature of the pricing constraints and the other parameters adopted for that period. The Companies argued that, if the period between reviews were too short, the incentives associated with price regulation would be blunted. In their view, a short period would not provide sufficient time to assess whether the constraints and parameters chosen were allowing price cap objectives, such as fostering the development of local competition, to be attained.
102. TELUS proposed a five-year price regulation plan. TELUS was of the view that a shorter duration would dampen incentives for infrastructure investment and cost-saving innovation, since the ILECs would be unlikely to realize the full value of these measures in less than five years. TELUS also submitted that new entrants would benefit from a longer period since it would provide a stable, predictable regulatory framework and rate structure, which are critical considerations when companies are making long-term capital

investments. TELUS argued that a five-year plan would still be short enough so that any errors in setting the parameters of the plan would not compound in perpetuity. TELUS also noted that since this is the second price regulation plan, the Commission is now more experienced with this form of regulation, and could move to a longer duration of plan without fearing unforeseen detrimental effects.

103. TELUS proposed that the initial five-year plan automatically be renewed for successive three-year periods unless, as a result of a Commission-initiated review, a determination was made to end the plan. The company proposed that any end-of-term review, and ongoing monitoring, should focus primarily on the development of competition. TELUS also proposed that the Commission allow for the possibility of a stakeholder-negotiated alternative to a review.
104. A number of parties, including AT&T Canada, Calgary and Call-Net, supported a term of four years. The Commissioner of Competition, RCI and Shaw considered a period of four or five years to be appropriate. CAC Alta supported a term of three years, proposing that parties should also have the option of applying to the Commission for longer or shorter terms. CAC Alta considered five years to be too long, noting that the uncertain development of competition would be reason enough for a shorter rather than longer term.
105. The Commission considers that, going into the next price cap period, there remains a need to balance the benefits inherent in a longer plan with those offered by a shorter plan. A longer plan provides a greater opportunity for the benefits of price cap regulation to materialize, and also provides the stability of a predictable regulatory framework for all stakeholders. A shorter plan has the advantage of limiting the impact of unanticipated outcomes of the price cap regime that could unfairly benefit one group of stakeholders at the expense of another.
106. The Commission notes that extensions or abridgements of the plan, if granted on a case-by-case basis, could result in staggered price cap periods among the regulated companies. This could favour some ILECs over others, depending on market conditions and other factors present at the time of a particular review. As well, plan assessments performed at different times would result in administrative inefficiency, since end-of-term reviews would no longer be performed for all ILECs at the same time.
107. The Commission further notes that most parties supported a minimum term of four years. The Commission agrees that a four-year plan would allow the benefits of price cap regulation to be further realized, while providing for the possibility of a timely adjustment to correct the regulatory framework for any errors in its structure or to reflect the evolution of competition over the price cap period. Accordingly, the Commission has determined that the duration of the next price cap regime will be four years.

108. The Commission considers that a review toward the end of the next price cap period offers the Commission the best opportunity of examining how well the plan is working and to modify the regulatory framework, as necessary. Accordingly, the Commission has determined that a review of the next price cap regime will be initiated in the final year of the plan.

III Competitor services

Definition and Classification

Background

109. Competing local, long distance and wireless carriers, as well as resellers, rely on a variety of ILEC services in order to interconnect with the ILECs' networks, configure their own networks and provide services to their end-users. The pricing of these ILEC services has an important impact on the ability of the competing carriers to succeed in the marketplace, as well as on the incentives for them to construct their own facilities.
110. In Decisions 97-9 and 98-2, the Commission concluded that ILEC services, which were either in the nature of an essential service or were used primarily by telecommunications service providers, should be made available to competitors at rates based on Phase II costs plus an appropriate mark-up. These services were grouped in a category called Competitor Services and were not subject to the overall price cap formula. Other ILEC services which might be used by competitors, but were also used by retail customers, were included in either the Other Capped Services sub-basket or the Competitive Segment.
111. In PN 2001-37, the Commission sought comments on possible changes to the treatment of Competitor Services. This Part of the Decision addresses the assignment to and pricing of services in the Competitor Services category.

Position of parties

112. Almost all parties who filed comments addressed issues related to Competitor Services. Most of these comments envisioned that the Commission would continue the approach to Competitor Services set out in Decisions 97-9 and 98-2, subject to possible adjustments. However, AT&T Canada and Call-Net each filed major proposals which would significantly change the treatment of Competitor Services. AT&T Canada and Call-Net argued that implementing their respective proposals would be critical to achieving sustainable competition. Given the scope and scale of their proposed changes, these two proposals are discussed first.

AT&T Canada's proposal

113. AT&T Canada submitted that the current approach to setting rates for Competitor Services was not satisfactory. In AT&T Canada's view, there were problems associated with the use of Phase II costs for rating purposes; namely, the inability to audit Phase II

studies, the extent to which the studies do not relate to each other or to the financial statements of the ILECs, and the natural tendency of the ILECs to be cautious and therefore to potentially overstate costs. In light of these concerns, AT&T Canada argued that Phase II costing was not the appropriate tool to determine competitively neutral rates for access to ILEC network facilities.

114. AT&T Canada proposed a significantly different approach to Competitor Services. Under AT&T Canada's proposal, among other things, a new category of services would be created comprising all services in the existing Competitor Services category, as well as other services used by competitors, including services such as Digital Network Access (DNA), Centrex, switched trunks, Primary Rate Interface (PRI) and Digital Exchange Access (DEA).
115. AT&T Canada proposed that a CLEC be entitled to a Facilities Based Carrier (FBC) rate. The FBC rate would grant a CLEC a 70% aggregate discount from existing tariff rates for services in the new Competitor Services category. That is, the CLEC's total bill for the relevant services would be calculated according to tariffed rates and then discounted by 70%.
116. AT&T Canada argued that a 70% discount would be appropriate since, in its view, this would approximate the cost advantage enjoyed by the ILECs given their ability to self-supply the relevant services.
117. In order to arrive at the 70% figure, AT&T Canada used its own on-net cost data for the services in question. AT&T Canada argued that this approach was necessary because the relevant cost data for the ILECs were not available.
118. In calculating the resulting savings, AT&T Canada assumed that: (a) its network effectively resembled an ILEC network serving approximately the same number of customers, and (b) the entire customer base could be served on the network. The second step involved the comparison of the estimated on-net costs with AT&T Canada's actual cost of serving the same customer base using a mix of AT&T Canada's own facilities and ILEC facilities (i.e., the current mix of customers served on-net and off-net).
119. Based on the mix of network facilities and services that it purchased from the ILECs in 2000, AT&T Canada's cost analysis indicated that the ILECs enjoy a 70% self-supply cost advantage relative to the 2000 tariff rates charged to competitors for these same facilities and services. AT&T Canada argued that the ILECs' actual cost advantage would likely be greater than 70% given that the ILECs would enjoy greater economies of scale, density and scope than AT&T Canada.
120. AT&T Canada emphasized that the 70% discount would apply to the aggregate cost of a group of services rather than a particular network element or service. Consequently, in AT&T Canada's view, there would be no concern about a CLEC receiving a particular

service below cost. AT&T Canada argued that applying the 70% discount to a CLEC's aggregate expenditures would ensure that the ILEC recovered both its incremental costs of supplying this same set of services, as well as a contribution towards fixed common costs.

121. AT&T Canada stated that the objective of the FBC rate was to neutralise the cost advantage the ILECs enjoy as a result of their incumbency and ubiquitous network infrastructure. According to AT&T Canada, its proposal would remove a significant economic barrier to entry in the local market.

Parties' comments on AT&T Canada's proposal

122. The Companies described the conceptual framework of AT&T Canada's proposal as nonsensical. They argued that an ILEC's cost of self-supply could not be measured using costs in a competitor's network. They also argued that AT&T Canada's 70% discount had nothing to do with the ILECs' cost of self-supply, or even with AT&T Canada's own cost of self-supply. In their view, AT&T Canada was effectively proposing that it should receive a discount so that its total expenditures would be equivalent to what it would continue to pay ILECs, if AT&T Canada had its own ubiquitous network. The Companies therefore argued that AT&T Canada would continue to use \$304 million worth of ILEC services but would not have to pay for those services since it could theoretically self-supply those services, even though it would not actually incur the costs of self-supply.
123. The Companies also argued that AT&T Canada had greatly understated the financial impacts of its proposal. They submitted that AT&T Canada's estimate ignored the impact of providing the discount to other companies that would qualify for the discount. The estimates also ignored the potential for other Canadian carriers to register as CLECs (and operate on some minimal scale) in order to receive the 70% discount on other services (e.g., switching and aggregation which is required only to provide long distance service).
124. TELUS argued that AT&T Canada's proposal was based on the implicit assumption that all its customers would suddenly move from their physical location so as to be located on AT&T Canada's current network topography, whereas, in reality, customers do not move to networks; networks are built to the customer. TELUS argued that ILECs incur a cost in serving customers; either by leasing facilities from other carriers, or by incurring the costs of building a network and that, in reality, networks are not free. In TELUS' view, no one would invest any capital to build facilities if it could obtain such facilities at prices so significantly below ILECs' costs.
125. Both the Companies and TELUS argued that rates based on Phase II costs permitted competitors to take advantage of the ILECs' economies of scale and scope. In particular, competitors did not pay the comparatively high price for access facilities based on their limited volumes and service mixes, but instead enjoyed the same cost of network access as the ILECs.

126. With respect to AT&T Canada's FBC rate proposal, the ILECs argued that it could lead to individual competitor services being priced below incremental cost, resulting in a subsidy to the CLECs. The ILECs argued that they would be disadvantaged because they would have to recover fixed common costs associated with services used by competitors from retail rates in other competitive markets.
127. Group Telecom opposed AT&T Canada's proposal on the grounds that it attempted to sustain a resale-based entry strategy and discouraged investment in competitive facilities. In Group Telecom's view, facilities-based new entrants could not compete against the ILECs if their services and facilities were available at a 70% discount. This would eliminate an important source of revenues for new entrants (i.e., the lease of facilities to other competitors). The end result of AT&T Canada's proposal, in Group Telecom's submission, would be to undermine the viability of facilities-based competitors like itself and reinforce the ILECs' facilities monopoly.
128. While Distributel generally supported AT&T Canada's proposal, it opposed AT&T Canada's suggestion that the 70% discount only be available to CLECs. In Distributel's submission, resellers played an important role in the market place. Distributel argued that resellers would be driven out of business very quickly if their competitors were entitled to the 70% discount and they were not.

Call-Net's proposal

129. Call-Net submitted that the core principle of its proposal would be to reduce rates charged by the ILECs for critical network services provided to competitors. Call-Net proposed that a Carrier Segment be created that would include all regulated services purchased by Canadian carriers from the ILECs. These services would be priced at their Phase II costs without a mark-up.
130. Call-Net noted that cost studies would be required for any services in the Carrier Segment which were not already priced based on their Phase II costs in order to establish their rates. Since it would take some time for these cost studies to be developed and assessed, Call-Net argued that the Commission should establish an interim regime which would involve repricing the relevant services to their incremental costs using the results of existing cost studies as proxies.
131. Call-Net argued that, since the ILECs acknowledged that they did not need to recover their fixed common costs on a service-by-service basis, the lack of mark-up on the Phase II costs of the services in the proposed Carrier Segment should not be problematic. Under Call-Net's overall price cap proposal, ILECs would be permitted to keep both the rollover effects of exogenous factors permitted during the initial price cap regime, as well as their annual productivity gains. The associated revenues would, in Call-Net's submission, ensure full recovery of the ILECs' fixed common costs.

132. Call-Net argued that, under its proposal, competing Canadian carriers would be able to supplement their networks and extend their reach on a "business case basis" that matched that of the ILECs. In Call-Net's submission, this would help overcome the historical advantage enjoyed by the ILECs as a result of their ubiquitous networks.
133. Call-Net also submitted that, if its proposal were accepted, competitors would continue to have incentives to build their own facilities in order to achieve the following objectives: to derive scale and scope efficiencies, to realize the accounting benefit of moving the cost from the expense category to the category of a capital expenditure, to gain greater control over the costs of facilities and greater control over the quality of service provided over the facilities and an opportunity to differentiate on the basis of quality.

Parties' comments on Call-Net's proposal

134. The Companies submitted that Call-Net's proposal would permit high-cost companies to enter the market successfully and that this result would be contrary to economic efficiency. They also argued that the fact that ILECs might recover their fixed common costs disproportionately across services did not imply that rates for services used by competitors did not need to incorporate a contribution to fixed common costs.
135. TELUS argued that, if productivity gains were used to offset the ILECs' foregone mark-up on Carrier Segment services, as suggested by Call-Net, this would amount to taking productivity gains twice. The productivity gains on non-Carrier Segment services would be taken the first time by effectively moving them to the Carrier Segment, and taken again through the real price reductions that competition would demand in the market for the non-Carrier Segment services. TELUS argued that this would not provide an ILEC with a reasonable opportunity to recover its costs because reductions in competitor services rates would drive down retail rates by an amount greater than the productivity gains that might be realized in the provision of those services.
136. The Companies and TELUS both argued that Call-Net's proposal would make resale more attractive than facilities-based competition, contrary to the Commission's express goal of promoting facilities-based competition.
137. Group Telecom argued that it would be difficult for other carriers to compete with the ILECs with respect to services in the Carrier Segment since these competitive carriers have fixed common costs they must recover, but no alternative source of revenues of the type proposed by Call-Net for the ILECs. Group Telecom also argued that the Call-Net proposal would artificially sustain Call-Net's resale-based entry strategy by mandating subsidized pricing for ILEC services. According to Group Telecom, Call-Net's proposal would impede the development of facilities-based competition.

138. Distributel supported the general thrust of Call-Net's proposal but opposed the suggestion that only Canadian carriers be entitled to enjoy the benefit of the reduced rates for Carrier Segment services. Distributel argued that resellers should be entitled to comparable treatment since they play an important role in the competitive market.

Analysis of the AT&T Canada and Call-Net proposals

139. The Commission considers that the AT&T Canada and Call-Net proposals give rise to concerns in regard to four matters: i) their potential effect on retail prices; ii) their potential effects on the wholesale market; iii) their implications for cost recovery; and iv) the implications of the proposals for facilities-based competition. Each of these concerns is discussed, in turn.

Effect on the retail services market

140. In the Commission's view, the AT&T Canada and Call-Net proposals would negatively affect the retail market in at least two ways.
141. First, if ILEC services used by competitors were priced at incremental cost, as Call-Net proposes, or subject to an effective 70% discount, as proposed by AT&T Canada, ILECs would need to recover fixed common costs from other retail services. This would put upward pressure on the prices for those services. However, ILECs would only be able to raise prices in those situations where they did not face competition, and then only to the extent permitted by any Commission-imposed pricing constraints. The overall effect would be to distort the efficient functioning of the retail market.
142. Second, if competitors enjoyed lower input prices, this would permit them to lower their retail prices. This would put downward pressure on the ILECs' retail prices, despite the fact that this pressure would not be based on the superior efficiency of competitors. Once again, this would have a distorting effect on the retail market.
143. Overall, the broader the range of services and the deeper the price discount applied to those services, the greater the distorting effect would likely be on the retail market. The Commission concludes that the rates charged for Competitor Services must be set at a level which would not distort the retail market.

Effect on the wholesale market

144. Carriers such as Group Telecom and AT&T Canada compete in the wholesale market, supplying facilities and services to other telecommunications service providers. The Commission agrees with the submission of Group Telecom that the wholesale market is an important source of revenue for facilities-based entrants, as well as a means of reducing the risk of capital recovery. If a carrier serves both the wholesale and retail markets, it has two opportunities to gain revenue from an end-user: directly via retail services and indirectly via wholesale services provided to the carrier that provides retail service to the end-user.

145. In the Commission's view, the development of a wholesale market is important to the overall development of facilities-based competition. Foreclosure of this market to new entrants would seriously undermine the evolution of facilities-based competition.
146. In the Commission's view, both the AT&T Canada and Call-Net proposals would have a significant negative effect on the wholesale market since it is unlikely any competitor could match ILEC prices that were based either on incremental costs or on an effective 70% discount.

Implications for cost recovery

147. To date, the Commission's general approach to Competitor Services has been to price them on the basis of Phase II costs plus a mark-up. Many of these services, such as those identified as being essential and near-essential, have been priced at Phase II costs plus a 25% mark-up. Other services, such as Direct Connection (DC) service, have been priced with higher mark-ups.
148. AT&T Canada proposed that the Commission abandon its Phase II costs plus a mark-up method and instead adopt the FBC rate approach. AT&T Canada argued that the FBC rate approach would be more representative of the real cost of providing these services on the ILECs' networks. Call-Net suggested that the Commission modify its approach by setting rates for essential, near-essential and some retail services used by carriers at their Phase II costs without any mark-up.
149. The ILECs, RCI and Group Telecom recommended that the Commission retain its current rating approach for Competitor Services. The Companies stated that adopting AT&T Canada's 70% discount proposal would result in interconnection, and essential and near-essential services being priced at 62.5% below cost. Even under Call-Net's proposal, the relevant services would not contribute to fixed common costs, resulting in a competitive advantage for competitors in the end-user market. TELUS stated that pricing services used by competitors at incremental cost would impose the burden of recovering the fixed common costs entirely on the ILECs, which would have to recover these costs solely from their retail services.
150. RCI supported TELUS' view that it would be consistent with recognized economic theory for interconnection rates to reflect incremental costs plus an appropriate mark-up to cover fixed common costs.
151. The Commission is of the view that services in the nature of an essential service should be priced so as to permit ILECs to recover the appropriate service costs and to provide an appropriate contribution, while at the same time giving competitors an opportunity to compete effectively in the marketplace.
152. Having reviewed AT&T Canada's proposal and the relevant comments of parties, the Commission finds that AT&T Canada's approach has the effect of giving AT&T Canada the benefit of the ILECs' networks without providing for the recovery of the associated costs.

153. The Commission considers that Phase II costing does not raise comparable concerns, since the costs involved are those of the ILECs themselves on a service by service basis. Moreover, Phase II costs are intended to reflect economic costs. As discussed in Part X of this Decision, the Commission intends to initiate a proceeding to review Phase II costing in order to determine if any modifications would be appropriate.
154. As far as Call-Net's proposal is concerned, the Commission considers that services provided to competitors should generally be priced to recover Phase II costs and to provide an appropriate contribution. Accordingly, the Commission is of the view that the removal of the mark-up, as suggested by Call-Net, is not appropriate.

Implications for facilities-based competition

155. The Commission's regulatory framework is intended to foster facilities-based competition. The Commission believes that fostering facilities-based competition is the most appropriate way to ensure high-quality, affordable service, as well as innovation and service differentiation.
156. The Commission is concerned that classifying all services used by a competitor as Competitor Services – or subjecting them to pricing as proposed by AT&T Canada and Call-Net – could introduce a significant disincentive to the construction of new facilities and thereby impair the development of facilities-based competition.
157. The Commission notes that both AT&T Canada and Call-Net stated their intent to continue to build facilities even if their proposals were granted. However, competitors would almost certainly prefer to use and resell ILEC facilities and services if the margins were comparable to or better than those achievable through self-provisioning. There would be little, if any, incentive to take the risk of constructing facilities in such a case.
158. For example, under the AT&T Canada proposal, a CLEC with a minimal local network could find it more profitable and less risky to focus its primary efforts on the resale of an ILEC's Centrex service. The arbitrage opportunity created by the 70% discount might increase competition, but it would not be facilities-based. The resale approach would require little capital, entail less risk and permit much quicker roll-out of service.
159. Similarly, the Commission is of the view that a carrier would generally not find it advantageous to build a network if it could obtain services at an ILEC's incremental cost as proposed by Call-Net.
160. The Commission considers that, in order to foster facilities-based competition, mandated cost-based rates are necessary for certain facilities and services. However, it is also important to ensure that such pricing be justified on a case-by-case basis, and that these services be priced at a level that does not create a disincentive to the construction of facilities. In the Commission's view, AT&T Canada's and Call-Net's proposals raise serious concerns in both regards.

Conclusions regarding the AT&T Canada and Call-Net proposals

161. Based on the analysis above, the Commission is of the view that neither the AT&T Canada nor the Call-Net proposal would foster facilities-based competition. On the contrary, each proposal would introduce disincentives for the construction of facilities. They would also undermine the development of a wholesale market and likely lead to significant distortions in the retail market. Finally, neither approach would lead to just and reasonable rates.
162. In light of these conclusions, the Commission does not consider it appropriate to adopt either the AT&T Canada or the Call-Net proposal for the classification and pricing of Competitor Services, except as discussed below with respect to DNA service.

Definition of Competitor Services

163. In Decision 98-2, the Commission concluded that it was appropriate to assign an ILEC service to the Competitor Services category if the service was in the nature of an essential service or was primarily used by telecommunications service providers. Since Decision 98-2, a number of new services have been added to Competitor Services, such as trunk-side wireless access interconnection service and MTS' call forward busy service.
164. In the present proceeding, TELUS, Group Telecom and RCI did not consider it appropriate to change the criteria for classifying a service as a Competitor Service.
165. The Companies submitted that, in the next price cap period, Competitor Services should include only interconnection services, co-location services and services which provide essential and near-essential facilities. The Companies argued that services that can be self-supplied or are available from alternative sources of supply or, in some cases, can use essential/near-essential services as a substitute, should be excluded.
166. The Commission considers that restricting the composition of the Competitor Services basket, as proposed by the Companies, would unduly limit the development of facilities-based competition.
167. The Commission has decided to establish two categories within the Competitor Services basket in order to clarify the pricing treatment of these services. The first category comprises those services which are in the nature of an essential service and will be known as Category I services. Services in the nature of an essential service comprise interconnection and ancillary services required by Canadian carriers and resellers interconnecting to the ILEC's networks, including essential services as defined in Decision 97-8; and near-essential services, such as those that were the subject of *Local competition Sunset clause for near-essential facilities*, Order CRTC 2001-184, 1 March 2001 (Order 2001-184). This last group of services are critical inputs required by competitors in light of the very limited competitive supply for these services.

168. Category I Competitor Services will be priced on the basis of Phase II costs plus the mandated mark-up, with certain exceptions as discussed below.
169. The second group of Competitor Services will be those services developed for use by telecommunications service providers - other than services in the nature of an essential service - and will be known as Category II Competitor Services. The pricing of these services will be determined on a case-by-case basis.
170. The assignment of Competitor Services between Category I and Category II is set out in Appendix 1 to this Decision.

Proposed additions to Competitor Services

171. Distributel argued that Centrex tie trunk terminations should be reclassified as a Competitor Service because they are "primarily used by telecommunications service providers". Distributel also proposed a regulatory mechanism to implement a revenue-based interpretation of the phrase "primarily used". The Companies submitted that Distributel's request was outside the scope of this proceeding.
172. With respect to Distributel's proposed revenue-based interpretation of "primarily used", the Commission considers that revenue is not the only factor relevant to the identification of an ILEC service as a Competitor Service. The Commission also considers that implementing Distributel's proposal would impose an undue regulatory burden. Accordingly, the Commission concludes that it is not appropriate to adopt Distributel's proposal with respect to the interpretation of "primarily used by telecommunications service providers".
173. Centrex tie trunk terminations are a component of Centrex service, a local exchange retail service, and are used by competitors to compete in the local and long distance markets. The tie trunk terminations are not a stand-alone service and were not designed specifically for telecommunications service providers. Instead, they are one component of Centrex service which is available to both business customers and competitors.
174. Resale of Centrex service, including tie trunk terminations, is a means by which competitors provide service to end-users, as evidenced by the fact that Bell Canada derives 78% of its tie trunk termination revenues from competitors. However, as tie trunk terminations are one component of Centrex service, this is not sufficient, in the Commission's view, to warrant classification of tie trunk terminations as a Competitor Service. Accordingly, Centrex tie trunk terminations will not be classified as a Competitor Service.

Digital Network Access service

175. The ILECs' DNA tariffs provide customers, including competitors, with the digital transmission of information from the customer's premises to another premises within the local exchange at 1.544 Mbps (DS-1), or 44.736 Mbps (DS-3), or from the customer's premises to the rate centre in the local exchange to connect with other network services

at transmission speeds of DS-0 (64 Kbps), DS-1 or DS-3. In addition, companies, such as Bell Canada, offer a service that provides transmission at 155 Mbps (OC-3) and 622 Mbps (OC-12) which is available between two points in the same local exchange or to connect a customer's location to a network service at a wire centre.

176. The DNA tariff structure includes four elements: the access, link, intra-exchange channel and a channelizing feature. The access component of DNA service is the transmission facility from the customer premises to the ILEC's serving central office. The intra-exchange channel component provides transmission facilities between the ILEC central offices that are within a local exchange. The link component provides the connection between the access component and a competitor's equipment or other ILEC services. The channelizing feature is used to channelize a DS-1 service into DS-0 channels or a DS-3 service into DS-1 channels.
177. In Decision 97-8 and in Order 2001-184, the Commission provided for the unbundling of essential and near-essential Type A and Type B loops and priced them at Phase II costs plus an appropriate mark-up (mandated cost-based rates). Type C loops, which are a DNA service at a DS-1 transmission speed, were not part of the unbundling regime established in Decision 97-8. Type C loops are, however, included in the ILECs' unbundled loop tariffs, but are priced in accordance with the DNA service rates.
178. The similarities between Type A and B loops and DNA service are:
 - i) they all provide access from a customer premise to the ILEC central office; and
 - ii) they are all used as inputs in the provision of end-user services such as local, toll and data.
179. Call-Net argued that a DNA service should be provided to competitive carriers at mandated rates. In support of this proposal, Call-Net indicated that its expenditures on DNA service had represented its largest expenditure on ILEC telecommunications services in 2000. Call-Net stressed the importance of DNA service as an input to the services of both competitors and ILECs, including a wide variety of local, toll and data services. Competitors also used DNA service to connect their switches with those of the ILECs. AT&T Canada made similar points in support of the proposal.
180. The Companies opposed Call-Net's proposal, arguing that a Type A-5 loop, a specific category of Type A loop, combined with x-DSL technology, can be used by competitors to derive a DNA-like DS-1 service. The Companies were of the view that this would effectively lower the cost of DS-1 service for competitive carriers.
181. Call-Net identified several problems with using a Type A-5 loop to derive its own DNA-like DS-1 service. First, Call-Net argued there was a significant difference in the ILECs' mean time to repair (MTTR) for DNA service as compared to Type A loops. It stated that ILEC customers had contracts for DNA service that quote an MTTR of four hours, whereas competitors had an MTTR of 24 hours for Type A loops. Second, Call-Net

argued that there were certain technical restrictions in using a Type A-5 loop as a DNA service. For example, provisioning a Type A-5 loop for DNA service requires copper continuity, no loading coils, no bridged taps and a limited distance from the ILEC central office. Costs and time required to condition the Type A-5 loops were also raised by Call-Net, particularly given the roll-out of new fibre technologies. Finally, Call-Net argued that it is not possible to derive useful transmission speeds at the DS-3 level with a Type A-5 loop. For these reasons, Call-Net concluded that the Companies' proposed solution was not viable.

182. The Commission agrees with Call-Net's assessment of the difficulties of using a Type A-5 loop as a cost-effective way of provisioning DNA service, and considers that the reliance on such an approach would place competitors at a competitive disadvantage.
183. For this reason and with a view to fostering facilities-based competition, the Commission concludes that there is a need for the ILECs to develop a competitor-DNA service and that this service should be assigned to Category I Competitor Services.

Competitor-DNA service

Components of the service

184. As noted above, the DNA service tariff has four components: access, link, intra-exchange channels and a channelizing feature. The Commission has determined that the access component and the link component should be included in a competitor-DNA service, as provided for in the following paragraph.
185. The access component of the competitor-DNA service is to provide a transmission facility at DS-0, DS-1, DS-3, OC-3 and OC-12 transmission speeds from an end-customer premise to a competitor's switch within the same ILEC serving wire centre area or to the ILEC serving wire centre, in which case it must terminate on the competitor's co-located equipment. The link component, being an integral part of the access, is to allow for connection at transmission speeds up to the OC-12 level.
186. In order to avoid distortions in the retail market for DNA service, a competitor may not engage in simple resale of the competitor-DNA service.
187. With respect to the intra-exchange component is concerned and as far as the access component other than as set out in the previous paragraph, the Commission is of the view that the record is insufficient to establish whether they should be part of the competitor-DNA service. The Commission does not consider that the channellizing feature should be included in a competitor-DNA service.
188. The Companies argued that competitors can supply DNA service when it is used to provide the facilities that link a CLEC's co-location site (in the ILEC's central office) and the CLEC switch. TELUS also made reference to the fact that CLECs were self-

supplying connecting facilities between co-location sites and their own switches in a significant number of cases. Group Telecom stated that all of its 62 existing co-location sites were provisioned with its own fibre, as would be the case for most of its planned co-location sites.

189. The Commission recognizes there is some self-supply by carriers of intra-exchange facilities. However, it is unclear from the record the extent to which carriers can self-supply or have competitive alternatives to intra-exchange facilities. Prior to making its determination on this matter, the Commission requires additional information from parties. The follow-up process for this purpose is addressed below.
190. The creation of a competitor-DNA service would result in a reduction in revenues for the ILECs. As discussed later in this part of the Decision, it is appropriate to compensate the ILECs for the reduction in DNA service revenues attributable to the introduction of the competitor-DNA service.
191. Accordingly, each ILEC is directed, when it files its tariff for a competitor-DNA service, to submit an estimate of the annual reduction in DNA revenues attributable to the introduction of the competitor-DNA service, on the basis of 31 December 2001 demand from competitors for DNA service.

Interim competitor-DNA service tariff

192. In order to implement the competitor-DNA service as expeditiously as possible, the Commission directs each ILEC to issue an interim competitor-DNA service tariff no later than 14 June 2002. The interim tariff is to have the following terms and conditions:
 - service is available only to competitors to provide access between an end customer premise to a competitor's switch within the same ILEC serving wire centre area or to the ILEC serving wire centre, in which case it must terminate on the competitor's co-located equipment;
 - a competitor may not engage in simple resale of the competitor-DNA service;
 - rates for the access component are to be set at the rate levels currently approved for the access component of DNA service when it is provided under a five-year contract term; and rates for the link component are to be set at the rate levels currently approved for the link component of DNA service, reduced by 40%;
 - the service is to be provisioned on a monthly basis with an average four-hour MTTR, determined on a monthly basis; and
 - the link component is to be available solely for use in conjunction with the access component of competitor-DNA service to connect to the competitor's equipment.

Access Tandem service

193. The Commission has examined the pricing of services in the Competitor Services category and finds that the Access Tandem service rates require reassessment. The Access Tandem service is similar in many respects to DC service which has benefited from significant cost reductions over the past few years. It could be expected that the costs of Access Tandem service would also have declined. The process for the review of Access Tandem service rate is discussed below.

Call-Net's proposal to waive loop order service charges

194. Call-Net proposed that the Commission waive ILEC service charges associated with the provision of unbundled loops for residential customers. Call-Net argued that waiving these charges is necessary to "jump-start" local competition in the residential market and to lower the costs of customer acquisition.
195. The Companies and TELUS argued that Call-Net's proposal would provide incentives for uneconomic entry and compromise economic efficiency by sending incorrect price signals to the marketplace. In their view, Call-Net's proposal would permit a CLEC to avoid the full costs of acquiring a new customer, and CLECs otherwise marginally too inefficient to compete would, by virtue of the subsidy, find it profitable to enter the market.
196. The Commission recently held a proceeding to review loop service order charges that led to *Interim approval for revised unbundled loop-service order charge*, Decision CRTC 2001-694, 16 November 2001. In that decision, the Commission approved significant rate reductions. The Commission notes that the service charge for loop orders is not avoidable and causes the ILECs to incur various provisioning costs. Accordingly, the Commission concludes that it would not be appropriate to waive the ILECs' loop order service charges as Call-Net proposed.

Mark-up on Category I Competitor Services

Background

197. In general, the services in Category I Competitor Services have been priced on the basis of Phase II cost plus a 25% mark-up. In PN 2001-37, the Commission invited comments on possible changes to the treatment of Competitor Services, including the mandated mark-up. The Commission also asked parties to provide their views on whether the mark-up for Competitor Services currently tariffed with a 25% mark-up should be reduced to 15%.
198. The possibility of reducing the 25% mark-up to 15% was the subject of the follow-up proceeding to Decision 2001-238 which focused on the appropriate level of mark-up for the ILECs' unbundled loop service. As noted above, the record of the Decision 2001-238

follow-up proceeding has been made part of the record of the present proceeding. For convenience, the Decision 2001-238 follow-up proceeding is referred to as the "Loop mark-up proceeding" hereafter.

199. The Commission notes that, as it is addressing the appropriate level of mark-up in respect of virtually all Category I Competitor Services in this Decision, with the exceptions noted below, it will not be necessary for it to make a separate finding in the Loop mark-up proceeding.
200. The Commission notes that there are three services in Category 1 Competitor Services for which the associated rates do not include any mark-up. The Equal Access Start-up rate was designed to specifically recover equal access start-up costs. Co-location construction charges resulting from sub-contracted work, pursuant to *Co-location*, Telecom Decision CRTC 97-15, 16 June 1997 (Decision 97-15), are flowed through to co-locators. The Billing and Collection Accounts Receivable Management Discount service is rated on the basis of an estimate of percentage of revenues billed that are uncollectible.
201. The Commission notes that the determination of an appropriate level of mark-up for a given service's costs is a decision related to pricing rather than costing.
202. As indicated previously, for the purposes of costing Competitor Services, the Commission will continue to utilize the Phase II costing method. Phase II costs measure prospective incremental costs of a particular service. These costs are based on the present worth of future economic cashflows over a multi-year study period associated with providing a service. The present-worth calculations rely on time value of money principles and are determined based on a forward-looking cost of capital. The approach is based on the principle that providing a given service in order to meet the anticipated demand for that service causes a company to incur additional costs to those that it would incur if it did not provide the service. It is only those costs that are included.
203. By design, therefore, Phase II costs do not capture a company's fixed common costs, since those are not incurred as a result of offering the service. Phase II costs are influenced by recent technology developments and substitutions, recent operational developments and solutions, and as discussed below, may bear little or no resemblance to the embedded plant operations and costs. The phrase "embedded cost differential" refers to the difference between embedded costs and Phase II current costs.
204. Historically, the level of mark-up used in respect of rates for Category I Competitor Services has been generally designed to provide a contribution to the recovery of two broad categories of costs. The first category is fixed common expenses, such as the ongoing corporate overhead costs that do not vary with the company's offering of services and that are therefore not included in a Phase II cost study. The second category is the embedded cost differential. These costs include annualized capital costs not included in Phase II studies, such as service start-up capital costs that are not incurred to provide a specific service or changes in the costs of given equipment over time. In

addition, this differential reflects the fact that embedded costs reflect a mix of newer and older technologies, whereas Phase II costs reflect growth technologies. This differential is a sunk cost and is therefore not included in the Phase II cost study.

205. In Decision 92-12, the Commission stated that a mark-up can be viewed as providing a contribution to common and access costs as well as to the differences between Phase II current costs and Phase III embedded costs (which generally exceed Phase II costs). While initially not allowing for a mark-up on the network interconnection charge, the Commission subsequently determined that pricing of the separate components should generally include a 25% mark-up.
206. The Commission stated in Decision 97-8 that essential facilities, and other facilities to which mandated pricing is applied, should be priced to recognize fixed common costs in addition to Phase II costs. These facilities should also be priced so as not to unduly deter facilities-based competitive entry.
207. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000 (Decision 2000-745), the Commission noted that: (a) in pricing certain services, it has in the past applied a 25% mark-up on the Phase II costs to contribute to the recovery of the company's fixed common costs along with the embedded cost differential; (b) in the context of calculating the total subsidy requirement, it is not appropriate to include the embedded cost differential; (c) it expected that the ILECs' fixed common costs will decline in a competitive environment as a result of increased operational efficiencies; and (d) in the context of calculating the total subsidy requirement, a mark-up of 15% would provide a sufficient level of contribution to recognize the ILECs' fixed common costs.

Positions of parties

208. The Companies submitted that a mark-up of 25% reflects the balancing of different regulatory objectives and that there is no need to lower the mark-up. In the Companies' view, such a reduction would lead to competitive inequity and would hinder the development of facilities-based competition.
209. The Companies submitted in the Loop mark-up proceeding that the overall mark-up for unbundled local loops should include a mark-up to recover the embedded costs associated with local loop plant, and a mark-up to recover the fixed common costs of the ILECs.
210. Under the Companies' proposal, a cost-based percentage mark-up would be determined based on average percentage mark-ups required to recover (i) fixed common expenses and (ii) embedded costs, weighted respectively by the proportions of expenses and capital in the Phase II loop cost studies. Under this proposal, the percentage mark-up required to recover the company's fixed common expenses would represent a corporate average based on the ratio of the company's total functional operating expenses (FOE) classified as fixed common costs over total company Phase II expenses (which consist of demand or service-driven FOE adjusted to capture the related variable common costs).

By contrast, the percentage mark-up required to recover embedded costs would be based on the ratio of depreciation expense associated with the embedded loop plant to annual depreciation expense associated with current loop capital expenditures. The Companies calculated the mark-ups required under their proposals using the costs specified in Decision 2001-238. Based on these analyses, the total mark-up appropriate for unbundled loops was estimated at 37.5% for Bell Canada, 33.6% for Aliant Telecom, and 44.9% for MTS.

211. With respect to other essential and non-essential services, the Companies submitted that the same principles used to develop the estimated mark-up for unbundled loops would be applicable. However, due to the absence of data related to embedded capital, the Companies submitted that the ILECs did not have specific service level data available that would permit the identical approach to be followed in the case of these services as proposed for unbundled loop services.
212. The Companies submitted that the incremental costs associated with non-loop essential and near-essential services were in contrast to loops, predominantly non-capital related expenses. The Companies noted that this meant that the fixed common expense mark-up (estimated at 26.4%, 18.4% and 34.5% for Bell Canada, Aliant Telecom and MTS, respectively) would have a greater weight in determining the mark-up on non-loop essential and near-essential services than was the case for loops. The Companies suggested that the capital costs associated with non-loop related essential and near-essential services were primarily related to electronic equipment, the costs of which have been falling over time, implying that the mark-up associated with embedded capital costs for non-loop related essential and near-essential services would certainly be positive. Hence, the overall mark-up applicable to non-loop related essential and near-essential services would be greater than a mark-up based only on the fixed common expense mark-up. Thus, according to the Companies, a mark-up of at least 25% would be justified for these non-loop related essential and near-essential services.
213. TELUS submitted that rates for the services in question must be maintained at least at the level of Phase II costs plus a mark-up of 25%. TELUS argued that its ability to recover its embedded costs would be in jeopardy if the Commission decreased the level of mark-up used to calculate rates for Competitor Services, as TELUS would be required to include a mark-up of greater than 25% on remaining services (other than rates for Competitor Services and residential services).
214. TELUS submitted in the Loop mark-up proceeding that the data and the terms required to determine mark-ups were complex, and that it was essential to establish uniform definitions for costs and mark-up. The mark-up should, in TELUS' view, allow for the recovery of two broad categories of costs. The first category would include fixed and common non-capital expenses, such as the expenses classified and defined as fixed common costs in the Phase II manuals, as well as other expenses that were not included in Phase II studies or in the fixed common cost category such as Official Telephone Service. The second category would include annualized capital costs not included in Phase II studies, such as start-up capital that was not incurred to add to the network to

provide any specific service. Together, these two categories of costs, referred to by TELUS as fixed and common costs, must in the company's view be included in the mark-up, if it was to have a reasonable opportunity of recovering its total Utility Segment current costs. TELUS further submitted that the difference between embedded and current capital cost should also be recovered as an additional and separate adjustment.

215. TELUS did not support the adoption of a service-specific mark-up. TELUS argued that, if a service-specific mark-up were set without considering the mark-up for all other Utility Segment services, there would be no way to evaluate whether the total Utility service revenues would over or under-recover total Utility Segment costs.
216. TELUS submitted that its evidence fully supported the Commission's finding in Decision 97-8 that total Utility Segment Phase III costs exceeded the Phase II costs by more than 25%. TELUS indicated that, although it had stated on more than one occasion that it would accept a 25% mark-up, the new evidence demonstrated that the required mark-up, regardless of the approach used, was greater than 25% and that the required percentage mark-up was different for each ILEC. TELUS argued that it was the Commission's duty to set just and reasonable rates for each company separately and, as the Commission now had before it evidence that demonstrated that ILEC-specific mark-ups were required, it should establish mark-ups on that basis.
217. TELUS proposed two separate methods to calculate the average percentage mark-up. Under the first approach, an average percentage mark-up would be calculated by taking the ratio of the fixed common costs associated with the Utility Segment services as a whole to the total Utility Segment Phase II cost (sum of Utility Segment service Phase II costs). Under the second approach, the difference between the total Utility Segment Phase III cost and the total Utility Segment Phase II cost would be calculated, and this difference would be divided by the total Utility Segment Phase II cost. Under TELUS' two alternative approaches, similar average percentage mark-ups for TELUS' Utility Segment, of 35.4% and 36.7% respectively, were obtained.
218. TELUS submitted that the record of the Loop mark-up proceeding also demonstrated the need for a broader Phase II and mark-up review than TELUS had recommended in the past. In TELUS' view, this review should include an audit of Phase II costs and current fixed and common costs as well as an audit of the Phase II processes, methodologies and implementation so that one consistent approach could be adopted nationally.
219. In the Loop mark-up proceeding, SaskTel submitted that it had provided data to support the need for a minimum mark-up of 20.6% to recover its fixed costs. In SaskTel's view, a mark-up of 25% continues to be appropriate for the recovery of both fixed common costs and shared costs.
220. In the Loop mark-up proceeding, Call-Net and AT&T Canada noted the high variability in the Companies' mark-up estimates. They pointed out, for example, that Bell Canada had proposed a mark-up of 163% for unbundled loops to recover embedded costs in its

initial submission, but in its final comments had submitted that a mark-up of 41% was required. Call-Net and AT&T Canada submitted that, because the level of ILEC output had increased substantially, the relative level of fixed common costs must have decreased and would continue to do so. They further submitted that the ILECs had over-estimated the differences between embedded and current capital expenditures, over-estimated the amount of fixed common costs and put forward proposals to shift disallowed Phase II costs into the mark-up.

221. Call-Net and AT&T Canada argued that, if accepted, the ILECs' proposals would thwart local competition by raising the rates paid by entrants for unbundled loop facilities. Call-Net and AT&T Canada submitted that the ILECs had failed to justify the continued use of a 25% mark-up, and that a mark-up in the range of 8% to 10% would be more than sufficient to allow the ILECs to recover their fixed common costs.
222. Group Telecom argued that, despite the many years of debate surrounding the issue of the appropriate mark-up, no reliable cost justification for the 25% level of mark-up has ever been provided or even attempted by the ILECs. Group Telecom noted that the ILECs had for several years claimed that it was not possible to justify the level of mark-up on the basis of costs. Group Telecom further submitted that the ILECs had not made a case for the continued use of the 25% mark-up for unbundled loops.
223. Group Telecom commented on TELUS' proposed methodology and noted that TELUS had relied on a ratio of annual fixed common costs to annual total Phase II costs. Group Telecom submitted that the aggregate Phase II costs calculated for TELUS' Utility and Competitive Segments were not reliable because Phase II costs were not available for all services, and argued that TELUS has made an arbitrary adjustment to determine the Phase II costs of those services for which costing information was not available. Group Telecom noted that not all of the Phase II costs had been filed with the Commission in the context of the tariff approval process. Group Telecom further noted that, even in the case of the cost studies that had been filed, the degree of regulatory scrutiny had varied. For example, in respect of the Phase II costs of retail services, scrutiny through the imputation test was typically much reduced by comparison with the scrutiny to which cost studies for essential and near-essential services were subjected. As a result, Group Telecom submitted that the Commission could not have sufficient confidence in the aggregate Phase II costs for it to rely on these costs in establishing the required mark-up.
224. Group Telecom recommended that any attempt to determine a cost-based percentage mark-up to be applied to Phase II loop costs should be based on an average of the components considered necessary to recover fixed common expenses and any embedded cost differential, weighted respectively by the proportions of expenses and capital in the Phase II loop costing studies. Group Telecom further submitted that the ILECs had provided no persuasive evidence to support their request for a mark-up greater than 15%. Group Telecom argued that, in fact, a 15% mark-up provided a significant contribution to the recovery of any excess of embedded over Phase II capital costs, contrary to the

Commission's expectation in Decision 2000-745. Group Telecom recommended that the Commission adopt a 15% mark-up in establishing rates for unbundled loops on a final basis.

225. Futureway submitted that Bell Canada's expenses had significantly declined since the 25% mark-up had initially been set, and that there were compelling reasons to reduce the mark-up to a level lower than 15%.

Commission determination on the mark-up

226. In the Loop mark-up proceeding, Group Telecom submitted that a 15% mark-up on Phase II loop costs would permit each ILEC to recover a corporate average percentage of fixed common expenses, and would in addition provide a significant contribution towards the recovery of the embedded cost differential. The Commission notes that Group Telecom's analysis relied on the Companies' proposed cost-based percentage mark-up method, which determines a blended average percentage mark-up that considers the recovery of fixed common expenses and embedded capital costs, weighted respectively by the proportions of expenses and capital in the Phase II loop cost studies. Under Group Telecom's analysis, a total mark-up of 15% was assumed as a starting point. The mark-up on Phase II loop costs required to recover the corporate average percentage of fixed common expenses was then determined and deducted from the 15%. The remaining amount, if any, was assumed to contribute to the recovery of embedded capital costs.
227. Under this proposal, the percentage mark-up required to recover the company's fixed common expenses represented a corporate average based on the ratio of the company's total FOEs classified as fixed common costs over total company Phase II expenses. In the denominator, the total company Phase II expenses were assumed to be equal to the demand or service-driven FOE adjusted to capture the related variable common costs. In the case of Bell Canada and TELUS, Group Telecom estimated the percentage mark-ups required to recover the company's fixed common expenses to be 21.8% and 9.5%, respectively. When weighted by the respective proportions of expenses in the loop cost study of 29% and 23.9%, the percentage mark-ups on Phase II loop costs required to recover fixed common expenses were estimated at 6.3% for Bell Canada and 2.3% for TELUS. Given that these percentage amounts are clearly less than 15%, the remainder was assumed to contribute to the recovery of embedded capital costs. While the percentage mark-up amounts contributing to the recovery of the embedded capital costs were lower than those implied by Bell Canada's and TELUS' respective proposals, Group Telecom's analysis demonstrated that a 15% mark-up would permit each ILEC to recover a corporate average percentage of fixed common costs and would in addition provide a contribution towards the recovery of the embedded cost differential.
228. TELUS was the only ILEC that commented on Group Telecom's approach. TELUS indicated that it generally found Group Telecom's methodology to be sound, but noted that the proportion of expenses had been applied to the wrong percentage mark-up required to recover the company's fixed common expenses. TELUS submitted that, in calculating the corporate average percentage of fixed common costs, Group Telecom had

erroneously included in the denominator TELUS' total operating expenses instead of TELUS' total FOEs. TELUS noted that total FOEs would be a lower amount than total operating expenses because some costs such as network maintenance were not included in FOEs. TELUS submitted that as a result, the embedded capital recovery implied in the 15% was also wrong.

229. The Commission notes that the Companies' proposed percentage mark-up method relied on each ILEC's total operating expenses, including network maintenance expense, to calculate the corporate average percentage of fixed common costs. The Commission considers Group Telecom's calculation for the recovery of the fixed common expenses to be correct. Moreover, even if the total FOE estimate was adjusted to exclude TELUS' maintenance expense, TELUS' corporate average percentage of fixed common costs would be such that a 15% mark-up would permit TELUS to recover this revised corporate average percentage of fixed common costs and, in addition, would provide a contribution towards the recovery of its embedded cost differential.
230. The Commission notes that the above analysis is based on loop costs, for which the proportion of expense-related costs is no greater than 30% of total service costs. Nevertheless, the Commission anticipates that the same result will obtain in respect of virtually all other Category I Competitor Services that are subject to mandated cost-based pricing.
231. Accordingly, the Commission finds that a 15% mark-up on each ILEC's Phase II service costs for Category I Competitor Services, that are subject to mandated cost-based pricing, will provide sufficient contribution towards the recovery of that ILEC's fixed common expenses and the embedded cost differential.
232. The Commission notes TELUS' argument that mark-ups should be ILEC-specific because each ILEC's costs are different. The Commission also notes, however, that mark-ups have historically been applied uniformly across ILECs' services as a matter of policy. Moreover, as discussed above, the Commission considers that a mark-up of 15% on each ILEC's Phase II costs for Category I Competitor Services subject to mandated cost-based pricing will provide sufficient contribution towards the recovery of each ILEC's fixed common expenses and the embedded cost differential.
233. In light of the above and having regard to the objective of fostering facilities-based competition, the Commission finds it appropriate to approve rates for these services based on Phase II costs plus a 15% mark-up.
234. As indicated earlier, rates for Category I Competitor Services have generally been determined based on Phase II costs plus a 25% mark-up. Accordingly, each ILEC is directed to reduce Category I Competitor Service rates, the rates for which were based on this principle, to Phase II costs plus 15%. In regard to the Category I Competitor Service rates that currently have a mark-up greater than 25% above Phase II costs, these are discussed in the section below. For those few Category I Competitor Services, the rates for which mark-ups on Phase II costs are less than 15%, the Commission will not

require rate reductions. A summary of the Commission's determinations regarding the rate adjustments to Competitor Services is provided in Appendix 1 to this Decision. The specific filing requirements are set out below.

235. The Commission notes that this pricing adjustment, as well as the creation of a competitor-DNA service, will reduce the revenues the ILECs derive from the relevant services. Because these changes result from policy consideration as opposed to cost reduction, the Commission is of the view that the ILECs should be compensated for the reduction in revenues. The Commission considers that these policy considerations and the method of compensation balance the interests of the three main stakeholders. The method of compensation is discussed in Part V of this Decision.

Specific mark-up implementation Issues

Co-location floor space rates

236. In Decision 97-15, the Commission concluded that, with the exception of MTS, ILECs generally have vacant central office floor space with no alternative uses, and accordingly, the Phase II costs associated with the use of this floor space for co-location purposes are zero. The Commission further noted that the competing interconnecting carriers would derive value from the ILECs' floor space and should contribute towards the recovery of the associated investment. With respect to MTS' proposed floor space rate, the Commission considered that, given its practice of moving personnel into vacant central office space, MTS would incur incremental costs in providing floor space for co-location purposes. MTS' floor space rate was therefore determined based on Phase II costs plus a 25% mark-up and was set at \$16.20 per square metre. In determining floor space rates for the other ILECs, the Commission considered MTS' floor space rate as a benchmark, to be adjusted for the differences in the ILECs' embedded land and building costs.
237. The Commission is of the preliminary view that it would be appropriate to use the floor space rate of \$14.90 per square metre, based on MTS' Phase II costs plus a 15% mark-up, for each ILEC. In the Commission's view, this rate would recover each ILEC's Phase II costs and would provide sufficient contribution to aid in the recovery of each ILEC's fixed common costs and embedded costs. The Commission also notes that the floor space rates adopted in Decision 97-15 for TELUS included use of the required bay space. Accordingly, the Commission is of the preliminary view that TELUS' half-bay floor space rates per square metre should be revised to \$12.95 for Category I, \$10.36 for Category II, and \$6.48 for Category III.

Direct Connection rates

238. In *Unbundled rates to provide equal access*, Telecom Decision CRTC 97-6, 10 April 1997 (Decision 97-6), the Commission adopted a uniform DC rate of \$0.007 per-minute per-end for each ILEC excluding SaskTel.

239. Subsequent to Decision 97-6, on 9 March 2000, the Commission issued a letter decision (the 9 March 2000 letter decision) that lowered the ILECs' DC per-minute per-end rate of \$0.007 to \$0.003. In the proceeding leading to this letter decision, the Commission received revised Phase II costs for the DC service from each ILEC except SaskTel. The Commission noted that the ILECs have in general reported significant cost reductions for the DC service, due in part to reductions in the per-minute expenses.
240. The Commission concluded in the 9 March 2000 letter decision that the proposed uniform \$0.003 per minute per-end DC rate recovers the service's revised Phase II incremental costs. The Commission noted that it had established in Decision 97-6 mark-ups for the DC service that were in excess of 25% to recognize, among other things, the differences between the DC service's embedded and current costs. The Commission indicated in the 9 March 2000 letter decision that it found no evidence to demonstrate that the mark-up included in the \$0.003 rate does not provide sufficient contribution to recover fixed common costs, including the recognition of embedded costs.
241. In *Direct Connect rate approved for SaskTel*, Order CRTC 2000-1080, 1 December 2000, the Commission approved a DC rate of \$0.005 per-minute per-end for SaskTel, based on Phase II costs plus a 25% mark-up. In that decision, the Commission noted that SaskTel's cost to provide DC service was \$0.00382 per-minute per-end. The Commission concluded that a DC rate of \$0.005 per-minute per-end is appropriate for SaskTel to recover the associated Phase II costs and to provide sufficient contribution to recover fixed common costs.
242. The Commission is of the preliminary view that it would be appropriate to use the updated DC Phase II cost estimates provided in the above proceedings plus a 15% mark-up to determine each ILEC's revised DC rate. In the Commission's view, this revised DC rate would recover each ILEC's Phase II costs and would provide sufficient contribution to aid in the recovery of each ILEC's fixed common costs and the embedded cost differential. The Commission is therefore of the preliminary view that the following ILEC per-minute per-end DC rates should be adopted:

| | |
|-----------------|-----------|
| NewTel | \$0.00131 |
| MTT | \$0.00216 |
| Island Tel | \$0.00219 |
| NBTel | \$0.00267 |
| Bell Canada | \$0.00128 |
| MTS | \$0.00276 |
| SaskTel | \$0.00439 |
| TELUS (Alberta) | \$0.00214 |
| TELUS (BC) | \$0.00185 |

Line-side wireless access service and paging/telephone number access rates

243. In Bell Canada Tariff Notice (TN) 5903, Bell Canada proposed that its line-side wireless access service (WAS) rates be lowered to \$0.06 per active telephone number and \$0.02 per reserved number, based on its updated service costs, plus a 25% mark-up. In

Telecom Order CRTC 97-1765, 27 November 1997, the Commission noted that the line-side WAS rates filed to support Bell Canada TN 5903 only included the Phase II prospective incremental costs and did not include past embedded costs of advancement of the 416/905 area code split and costs for the advancement of the step-by-step switch modifications. The Commission concluded that the interim rates of \$0.14 per active telephone number and \$0.04 per reserved number would also provide an adequate recovery of these costs.

244. The Commission is of the preliminary view that it would be appropriate to determine Bell Canada's line-side WAS rates for the active and reserved telephone numbers based on the above Phase II cost estimates plus a 15% mark-up. In the Commission's view, these revised WAS telephone number rates would recover Bell Canada's Phase II costs and would provide sufficient contribution to assist in the recovery of Bell Canada's fixed common costs and the embedded cost differential. The Commission is therefore of the preliminary view that Bell Canada's telephone number rates, applicable to both the line-side WAS and paging/telephone number access (TNA) tariffs, should be revised to \$0.0593 for the active number and to \$0.0153 for the reserved number.

TELUS' wireless service provider enhanced provincial 9-1-1 network access service

245. In TELUS TNs 327 and 4120, the company proposed a rate of \$0.03 per wireless telephone number per month, rounded to the nearest cent. TELUS submitted that the rate was established based on Phase II costs plus a mark-up in accordance with the Commission's directives regarding the pricing of Competitor Services.
246. The Commission notes that the rate for this service, if based on Phase II costs plus a 15% mark-up, would be no more than \$0.0263 per wireless telephone number per month when rounded to the fourth decimal place. The Commission is of the preliminary view that it would be appropriate to adopt the rate of \$0.0263 per wireless telephone number per month for TELUS' wireless service provider (WSP) enhanced provincial 9-1-1 network access service in both Alberta and British Columbia.

Follow-up processes

247. In addition to the interim competitor-DNA tariff discussed above, the Commission also directs the ILECs to file by 13 September 2002 proposed tariffs for final consideration, which incorporate the following elements:
- rates for the competitor-DNA service at DS-0, DS-1, DS-3, OC-3 and OC-12 rates that reflect Phase II costs plus a 15% mark-up, with supporting cost studies;
 - rates for the access component of the competitor-DNA service, developed using the rating model adopted for unbundled loops and the banding structure approved in Decision 2001-238, such that the prices for the number of access facilities do not vary with the quantity provided; and

- identify the band to which each wire centre or exchange is assigned.
248. The ILECs are also directed to file in the same time period modified DNA tariffs which identify the band to which each wire centre or exchange is assigned.
249. The Commission wishes to provide parties with the opportunity to comment on whether the ILECs should make the intra-exchange channel component of the DNA tariff and the access component of that tariff, when used in circumstances other than those described in the tariff, available to carriers through a competitor-DNA Tariff. The Commission requests that parties filing comments include a discussion of the factors influencing competitive supply of these facilities by non-ILECs and a discussion of the factors influencing a competitive carrier's ability to self-supply facilities between a competitors switch and an ILEC's switch and those facilities that substitute for the intra-exchange channel of the ILECs' DNA service. Parties are also requested to provide as much factual data on a band-specific basis by incumbent territory as possible.
250. The Commission establishes the following process for the purpose of the follow-up proceeding.
- All persons wishing to participate are requested to register with the Commission by 17 July 2002.
 - The Commission will publish a list of interested parties for the purpose of this follow-up proceeding as soon as possible thereafter.
 - Parties are to submit their comments by 13 September 2002.
 - Parties may submit reply comments by 15 October 2002.
 - Parties filing submissions are required to copy all parties on the list of interested parties. Documents must be received, not merely sent, by the date indicated.
251. The process for review of the Access Tandem service rate is as follows:
- ILEC Access Tandem service rates are made interim as of the date of this Decision.
 - ILECs are to file updated cost studies and revised rates for the Access Tandem service by 17 July 2002.
 - Interested parties may file comments by 21 August 2002.
 - ILECs may file reply comments by 3 September 2002.
 - Parties submitting comments and reply comments are required to serve a copy of their comments on all interested parties. Documents must be received, not merely sent, by the dates indicated.

252. In connection with the changes in the Category I Competitor Services rates, each ILEC is directed to:
- file by 6 August 2002 proposed tariff pages for approval which reflect the Commission's determinations in this Decision for the Category I Competitor Service rates, by rate element, as specified in Appendix 1 to this Decision.
 - file by 6 August 2002 the estimated revenue loss attributable to the reduced mark-up, on an annualized basis, based on 31 December 2001 demand levels and excluding the revenue loss associated with the use by the ILEC's Competitive Segment of Category I Competitor Services.
253. The Commission also establishes the following process to provide parties with the opportunity to comment on its preliminary views with respect to the above-noted revised rates for co-location floor space, DC service, Bell Canada's line-side WAS/TNA telephone number services and TELUS' WSP enhanced provincial 9-1-1 network access service.
- Parties to this proceeding may submit comments by 2 July 2002 and the ILECs may submit comments in reply by 12 July 2002.
 - Parties submitting comments or reply comments are required to serve a copy of their comments on all other interested parties. Documents must be received, not merely sent, by the dates indicated.
254. The Commission notes that, in Part IV of this Decision, all tariffed rates were made interim, effective 1 June 2002. Consequently, the changes to the Category I Competitor Service rates will be effective on that date.

IV Services, baskets and pricing constraints

Introduction

255. In the initial price cap regime, the Commission imposed an overall price cap constraint equal to inflation less a productivity offset on revenues from a single basket of ILEC services. This basket was divided into three sub-baskets that were also subject to additional sub-basket, service or rate element pricing constraints:
- Basic residential local services;
 - Single and Multi-line Business local services; and
 - Other capped services.
256. Services that were priced to maximize contribution before the implementation of price caps, such as optional local services, and services for which the Commission considered that a price cap would be redundant, such as Special Facilities Tariffs (SFTs), were

generally not assigned to a capped services sub-basket. Competitor Services, as defined in Decision 98-2, were also not included in capped services. Rates for certain other services, such as 9-1-1 service and Message Relay Service, were subject to a price freeze over the four-year price cap period.

257. In PN 2001-37, the Commission asked for comments on what changes, if any, should be made to the structure of the initial price cap regime. The Commission received a number of proposals for change.

Positions of parties

The Companies' proposals

258. The Companies' proposal assigned Utility Segment services to the following categories:
- a) services subject to an upward pricing constraint;
 - b) services not subject to an upward pricing constraint; and
 - c) local payphone services.

The Companies' proposal with respect to local payphone services is discussed separately below.

259. The Companies took the position that a productivity offset should not apply to any basket or sub-basket of services or to Utility Segment revenues as a whole. The Companies submitted that a productivity offset should apply only to the costs for residential local exchange service in HCSAs.

Services subject to upward pricing constraints

260. The Companies assigned ILEC services that would be subject to upward pricing constraints to the following service groupings: Basic Residential Local Services, Other Residential Local Services, Business and Other Capped Services, services with frozen rate treatment and Competitor Services.

a) Basic Residential Local Services

261. In non-HCSAs, the Companies proposed that rates for residential individual line service (including Touch-Tone) should be allowed to increase, on average, by the rate of inflation each year. In addition, price increases would be capped at 10% per year at the rate element level. The Companies stated that the proposed upward pricing constraint was intended to ensure, through a price freeze in real terms, that prices for these services would remain fair.

262. In HCSAs, the Companies submitted that the prices of residential local individual line and multi-party services should generally be constrained by specified maximum annual increases. The Companies therefore requested the flexibility to increase residential individual line and multi-party service rates in HCSAs by an annual maximum of \$2, with a maximum monthly rate of \$30 to be reached over the next price cap period.
263. SaskTel proposed not to increase residential local service rates in 2002. SaskTel also indicated that, in 2003, it would eliminate excess mileage charges when it would implement the \$2 residential local service rate increase.
264. Aliant Telecom proposed to increase residential individual line service rates to \$25 in 2002 across its territory. MTS requested the flexibility to increase residential individual line service rates in Band D (a non-HCSA) by \$2 in each year of the next price cap period. These requests are considered separately below.
265. The Companies submitted that the proposed pricing flexibility would provide the correct signals to the marketplace and therefore would promote competitive entry in the residential market. In support of their argument that the pricing flexibility sought would result in affordable residential rates, the Companies provided international rate comparisons, and evidence regarding the penetration rates for telephone service and the percentage of household income spent on telephone service.
266. The Companies submitted that their proposal would permit a gradual reduction in the subsidy requirement. The Companies argued that, notwithstanding the pricing flexibility requested in HCSAs, residential local rates would remain affordable. The Companies noted that, if their proposal was approved, rates in HCSAs would be less than rates currently approved for Télébec ltée (Télébec) and certain other independent telephone companies at the end of the next price cap period.
267. The Companies proposed to place a ceiling on annual rate increases for multi-party service in HCSAs and further proposed that the level of this ceiling should be determined on a company-specific, and band or sub-band specific basis.
268. Aliant Telecom stated that it planned to discontinue residential two-party, four-party and multi-party service within the next year in areas where facilities exist to upgrade to individual line service. According to Aliant Telecom, fewer than 20 of its party lines could not be upgraded. Aliant Telecom did not request the flexibility to implement rate increases for these services in the next price cap period.
269. Bell Canada proposed to move rates for residential multi-party service closer to residential individual line rates over the next price cap period. Bell Canada argued that these rate changes would narrow the gap between multi-party and individual line service prices and encourage customers to migrate to individual line service.

270. Bell Canada noted that the last time customers of party line service experienced a rate increase was 1 January 1998. The company indicated that it still had approximately 34,000 four-party line customers. Bell Canada noted that, with the completion of its Local Service Improvement Program at the end of 2001, individual line service would be available on demand throughout its territory. Bell Canada proposed to grandfather, effective 1 January 2002, all four-party access lines that remained in service. The company stated that, at that time, it would cease offering four-party line service to new customers.
271. Bell Canada and SaskTel provide Exchange Radio Telephone Service (ERTS) within certain telephone exchanges beyond where they have distribution lines. Bell Canada also offers individual line service using Regional Communications Service (RCS) where it is more economical to provision service using this technology. Bell Canada noted that ERTS and RCS customers would be subject to the proposed rate increases for HCSAs through the basic rate component of their monthly rate. Bell Canada proposed to freeze the rate for the other rate components at their current levels for the period from 2002 to 2005.
272. Consistent with the Companies' proposal for residential services in HCSAs, SaskTel proposed a maximum annual increase of \$2 for both ERTS and Northern Radio Telephone Service rates in each of 2003, 2004 and 2005.

b) Other Residential Local Services

273. The Companies proposed that the Other Residential Local Services category would include basic residential installation charges and Extended Area Service (EAS) and Community Calling Plan (CCP) charges, where separately identified (i.e., in Newfoundland and Saskatchewan). For these services, the Companies proposed to have the flexibility to increase rates, on average, by no more than the rate of inflation each year. In addition, price increases at the rate element level would be capped at 10% per year.
274. As an exception to the Companies' proposal, Aliant Telecom requested the flexibility to increase EAS and CCP charges in Newfoundland to a uniform rate of \$5 per month over the next price cap period.

c) Business and Other Capped Services

275. The Companies proposed that average price changes be constrained by the rate of inflation each year for those services assigned to the business and other capped services group in respect of which upward pricing constraints were still needed. The Companies also proposed to impose an annual 10% limit on price increases for these services at the rate element level. They argued that this pricing flexibility would be required to further encourage the growth of local competition in the business market. They also submitted that it would send the signal to competitors that mandated rate reductions would no longer be required for these services.

276. As an exception to the Companies' proposal, SaskTel requested the flexibility to increase business rates in HCSAs to \$38 by 2005. SaskTel also indicated that it would eliminate excess mileage charges for all business customers in 2003 when it would implement rate increases for business customers in HCSAs.

d) Services with frozen rate treatment

277. The Companies proposed to maintain the approach taken in Decisions 97-9 and 98-2 whereby the Commission froze the rates or terms of certain services. The Companies also proposed that the Commission maintain the current rate treatment for 9-1-1 service during the next price cap period. In addition, the Companies proposed to freeze rates for residential unlisted number service, which the Commission capped at \$2 in Telecom Order CRTC 98-109, 4 February 1998.

e) Competitor Services

278. The Companies stated that the current process for reviewing rates for Competitor Services is based on evidence of a change in the underlying costs. The Companies initially proposed that rates for Competitor Services should continue to be subject to review on application by the ILECs, by the competitors or through a proceeding initiated by the Commission.

279. In their reply argument, the Companies stated that they would not oppose the application of an inflation factor less a productivity offset (I-X) to rates for services assigned to Competitor Services, as defined by the Companies: that is, essential, near-essential, interconnection and co-location services. The Companies further submitted that periodic reviews of underlying costs should not be undertaken if the prices of Competitor Services were governed by inflation less a productivity offset. The Companies submitted that prices subject to this approach would reflect assumed changes in underlying costs on a going forward basis.

Services not subject to an upward pricing constraint

280. The Companies submitted that a service should not be subject to upward pricing constraints if any of the following conditions were met:

- i) the service was subject to sufficient competition to discipline pricing;
- ii) the service was discretionary;
- iii) the service was already subject to contractual arrangements that govern prices; or
- iv) the service was a substitute for services whose rates are constrained by market forces or regulatory pricing constraints.

281. With respect to the first condition, the Companies' proposal for a competitiveness test is described and considered later in this Decision.

282. For discretionary services, such as optional local services, the Companies proposed that the pricing policy established in Decision 97-9 should be maintained and that an upward pricing constraint should not apply to discretionary services.
283. The Companies submitted that the policy in Decision 97-9 had been established on the basis that no public policy goal would be served by imposing pricing constraints on these services. They noted that, because the rates for these services had been set to maximize contribution, the residential local exchange service rates were lower than they would otherwise be. Finally, the Companies submitted that customers could tailor their consumption of such services based on price.
284. The Companies further submitted that capping optional services would be inconsistent with the Commission's determination in Decision 2000-745 that a target contribution of \$60 from optional services per residential access line would be used in the calculation of the subsidy requirement for HCSAs.
285. As far as services subject to contractual arrangements were concerned, the Companies argued that it would be redundant to place additional pricing constraints on services for which rates were already constrained by factors independent of the price cap framework. The Companies submitted that fixed-price contracts offered under SFTs fall into this category.
286. Finally, the Companies argued against imposing upward pricing constraints on the rates of services that were substitutes for other services whose rates were constrained by market forces or through regulatory pricing constraints. For example, the Companies submitted that rates for Centrex service, which would be a substitute for business access services, should not be capped.

TELUS' proposal

287. TELUS proposed that all Utility Segment services except residential local service in HCSAs be uncapped and placed into one of three categories:
- a) non-forborne services subject to both an upper pricing constraint and a price floor;
 - b) non-forborne services subject only to a price floor; or
 - c) forborne services that are not subject to pricing constraints.

TELUS noted that forborne services were constrained by the terms and conditions on which forbearance was granted. TELUS' proposal with respect to local payphone services is discussed separately below.

Non-forborne services subject to an upper pricing constraint and a price floor

a) Residential local exchange service

288. TELUS requested the flexibility to increase rates for residential local exchange service (including EAS) by an annual maximum of \$3, to a maximum monthly rate of \$35 to be

reached over the five-year price cap period proposed by TELUS. TELUS noted that the rate increases in HCSAs would be offset by an equivalent reduction in contribution.

289. TELUS further submitted that the imputation test would continue to apply to these services. TELUS submitted that a monthly rate of \$35 was affordable and had been deemed so by the Commission when it approved the current rate for Télébec (\$34.42). TELUS argued that because the maximum rate would not change over the next price cap period, it would, considering inflation, decrease in real terms and, therefore, would be even more affordable at the end of the next price cap period.
290. TELUS argued further that any proposal to limit price increases to residential services to a greater degree than it proposed could limit competitive entry in non-HCSAs and would delay these rates from reaching market levels. The company argued that competitors would not find it attractive to provide competitive residential local service until rates reached market levels.

b) Business local exchange service rates

291. TELUS proposed that rates for business local exchange services (including EAS) in bands where competitive entry had not occurred should be subject to an upward pricing constraint of 10% per year. TELUS noted that the imputation test would continue to apply to these services. The company was opposed to the application of an additional pricing constraint to these services on the basis that doing so would further limit the ILECs' pricing flexibility.

c) Services with frozen rates

292. TELUS proposed to freeze rates for services with social welfare considerations and public safety concerns at their current rates. These services include 9-1-1 service, Message Relay Service, Call Display Blocking, Call Blocking for 900 service and Toll Restriction.
293. Individual line service (ILS) charges are additional non-discretionary charges for residential and business exchange service provided to customers in Alberta beyond a base rate area. TELUS noted its intention to replace ILS charges during the next price cap period and submitted that ILS charges should be frozen at their current rates, thereby maintaining the affordability of ILS charges, until such time as it submitted a proposal for Commission consideration.

d) Competitor Services

294. TELUS proposed that Competitor Services be priced at Phase II costs plus an approved mark-up and that the Commission should retain the current rules with respect to price changes for these services. The company noted that unbundled loops would continue to be subject to their own internal price cap mechanism.

e) Installation charges

295. TELUS proposed that service charges for the installation of local exchange services should be priced at Phase II costs plus an approved mark-up.

Non-forborne services subject only to a price floor

296. TELUS proposed that rates for those non-forborne Utility Segment services that were not included in the baskets described above should be subject to a price floor to protect against anti-competitive below-cost pricing. The Commission's current imputation test would determine the price floor.
297. TELUS opposed the application of a pricing constraint to optional local service rates on the basis that these services were discretionary and did not receive a subsidy. TELUS agreed with Bell Canada's view that this would be inconsistent with the contribution regime established in Decision 2000-745, in which the Commission established a monthly contribution target of \$5 per residential NAS as an incentive for the ILECs. TELUS argued that placing an upward constraint on price changes for residential optional local services in the next price cap period would deny the ILECs the flexibility they required to meet or exceed this target. TELUS argued that artificially constraining prices for residential optional services would also have a dampening effect on competitive entry in the local market.
298. TELUS submitted that, if the Commission wished to sustain the conditions under which implicit subsidies could be used to support the ILECs' residential local service prices, it should not impose any pricing constraints on residential optional local services and should not impose an I-X offset on the revenues derived from these services.

Other parties' comments on the ILECs' proposals

299. AT&T Canada submitted that the ILECs' proposals would preserve those elements of the current regime that have allowed the ILECs to earn record profits and to stifle competition. AT&T Canada argued that the ILECs' proposals incorporated new measures to ensure even greater profitability in the future and removed all checks on the ILECs' ability to increase profits at the expense of consumers and competitors.
300. Call-Net submitted that while the ILECs professed to be interested in providing a greater incentive for competitive entry by letting prices move to market levels, in reality they were requesting pricing flexibility to raise and lower prices at their discretion in the narrowly defined markets where competition does exist.
301. Call-Net submitted that what was most troubling of all was that the ILECs proposed to keep their productivity gains across all of their services, other than those on residential local services in HCSAs. In Call-Net's view, the ILECs would either use these revenues to frustrate competitive entry or to benefit their shareholders.

302. Group Telecom submitted that the long-run sustainable level for business and other rates would be determined by the marketplace, and that these rates would change over time in response to changes in the costs of providing service. Group Telecom suggested that the Commission exercise care in substituting its judgement for that of the marketplace, particularly in instances in which the regulatory regime being considered could place downward pressure on retail rates. Group Telecom argued that there was a risk that regulation could push prices below long-run market levels and thereby compromise opportunities to recover investments.
303. Group Telecom agreed with the pricing constraints proposed by the Companies for business and other capped services. AT&T Canada generally supported the pricing constraints proposed by the Companies on residential, business and other capped services.
304. RCI noted that one of the themes running through the Companies' and TELUS' proposals was that increasing prices would encourage more competition. RCI noted that prices for capped services were above costs with the exception of residential rates in HCSAs. The company submitted that increasing rates at a time when costs were falling would not encourage competitive entry, as competitors would know that any rate increases in the geographic locations where they competed would be short-lived.
305. RCI submitted that the ILECs' proposal to encourage competitive entry by raising rates would potentially result in huge revenue increases that would be used by the ILECs to do one of two things: fund aggressive activity in markets as they became competitive, or benefit the ILECs' shareholders.
306. ARC et al. and BCOAPO et al. argued that subscribers were entitled not only to affordable rates, but also to just and reasonable rates. In their view, just and reasonable rates were necessarily linked to costs and, by implication, to earnings. According to ARC et al. and BCOAPO et al., subscribers should be entitled to their share of direct financial benefits flowing from price cap regulation.
307. ARC et al. and BCOAPO et al. also submitted that residential rates must meet the criterion of affordability, where affordability refers to a consumer's ability to pay. Calgary and ARC et al. and BCOAPO et al. submitted that affordability was an issue for low-income customers, but not for those with high incomes. They submitted that affordability had a much more limited scope than the concept of "just and reasonable rates", which was relevant for all ratepayers.
308. ARC et al. and BCOAPO et al. also argued that telephone service was an essential service that people could not afford to be without, regardless of their financial circumstances. ARC et al. and BCOAPO et al. submitted that the evidence of the Companies regarding penetration rates did not provide an appropriate indicator of whether residential local rates were affordable for low-income households.

309. Noting that residential local exchange rates were generally compensatory in non-HCSAs, ARC et al. and BCOAPO et al. and the Commissioner of Competition submitted that the Commission should not increase these rates to encourage competition. These parties argued that if competitors were unable to compete against the ILECs when the ILECs' prices were compensatory, then their entry was not desirable. The Commissioner of Competition further argued that relaxing the price constraints on the ILECs to increase margins for competitors would be counterproductive.
310. CAC Alta submitted that the proposals of the ILECs were fundamentally unfair. It argued that consumers should not be expected to underwrite either competition or excessive profits to the ILECs or any combination of the two. CAC Alta argued that customers of residential local service should share in the many benefits occurring in this industry which could be used to lower rates without the caveat that prices would have to go up before the benefits of lower rates could be delivered.
311. The Commissioner of Competition submitted that the evidence in this proceeding strongly suggested that the ILECs continue to possess market power with respect to local exchange service in most areas of Canada. He argued that ILECs were likely to retain that market power for the foreseeable future. The Commissioner of Competition submitted that it would be necessary for the Commission to continue to protect consumer interests and to foster the competitive process.
312. The Commissioner of Competition submitted that the proposals of the ILECs appeared to be an overreaction to a perceived design flaw of the initial price cap regime that resulted in downward pressure on business rates. He noted that a contributing factor was that residential rates were not sufficiently high, resulting in little, if any, room to move residential rates downwards.
313. The Commissioner of Competition argued that the approach adopted by the Commission in Decisions 97-8 and 97-9 should be continued. In particular, he opposed proposals favouring a productivity offset equal to zero. The Commissioner of Competition submitted that proposals to prematurely remove pricing constraints on the ILECs were not warranted and that removing these constraints would be inimical to the efficient pricing and provision of local telecommunications services to Canadians.
314. AT&T Canada opposed any form of pricing constraint that could potentially place downward pressure on residential local rates in HCSAs, where rates were already below cost. AT&T Canada submitted that rates in HCSAs should be allowed to increase during the next price cap period in order to reduce the total subsidy requirement and to establish greater equity in the subsidy requirement levels in each ILEC operating territory.
315. AT&T Canada noted that residential rate levels in HCSAs varied significantly from one ILEC to another, ranging from just over \$20 to almost \$30 per month. AT&T Canada submitted that a common target rate for residential local service of at least \$35 should be established in HCSAs across all ILECs, noting that the Commission had already approved residential rates of close to \$35 in other parts of the country, e.g., in Télébec's

territory. AT&T Canada proposed that residential local rates in HCSAs should be allowed to increase sufficiently in each year so that each ILEC would be able to meet the target rate level by the end of the next price cap period.

316. ARC et al. and BCOAPO et al. submitted that it was not necessary to rebalance the rates in HCSAs to the extent proposed by the ILECs. These parties submitted that the HCSA subsidy had been reduced in size to a sustainable level, and they argued that the subsidy required would continue to diminish as costs declined. ARC et al. and BCOAPO et al. argued that evidence in this proceeding clearly showed that competitors were a long way from even indicating an interest in serving residential customers in HCSAs, regardless of prevailing rate levels.
317. The Commissioner of Competition argued that the concern with existing rates in HCSAs stemmed not from concerns about the exercise of market power, but rather from the economic inefficiency associated with a policy that mandated retail prices below costs. He submitted that implementing proposals to move rates to costs would lead to an increase in economic efficiency and would greatly improve prospects for competitive entry. The Commissioner of Competition supported proposals made by the ILECs and AT&T Canada to increase rates and to reduce the subsidy in HCSAs.

RCI's proposal

318. RCI submitted that the fundamental principles of the existing price cap regime should be maintained through the application of the existing price cap formula, with an updated productivity offset, to service baskets containing services that were not subject to sufficient competition to warrant forbearance. RCI submitted that it was necessary to reduce rates pursuant to the price cap formula. RCI argued that, if excess revenues were left with the ILECs, the ILECs could use these revenues to target business local markets and to subsidize rates for services in other related telecommunications markets in which competition already existed.
319. RCI submitted that the price cap index mechanism should be retained, with the modifications outlined below. RCI proposed the following basket structure: (a) a basket composed of Competitor Services and Other capped services sub-baskets; and (b) a basket composed of the Residential services and Business services sub-baskets.

Competitor Services and Other capped services

320. RCI submitted that a price cap index should be applied to the rates for Competitor Services and Other capped services, as currently defined, so that each of the rates in these two sub-baskets would be reduced by the percentage change in the price cap index.
321. Noting that rates for certain Competitor Services included productivity increases in the development of the rates, RCI submitted that it would not necessarily be inappropriate to recognize productivity twice in setting these rates.

Residential and business services

322. RCI proposed that the revenue reductions which would be required for the Residential and Business services basket (the "offset revenues") be calculated as the percentage change in the price cap index times the total capped revenues for these services after deducting residential service costs in respect of HCSAs.
323. RCI proposed that the ILECs apply the offset revenues each year to reduce or eliminate the total subsidy requirement for that year, thereby offsetting rate increases that would otherwise be required to bring rates closer to costs in Bands E, F and G. Once the subsidy has been eliminated, an ILEC should apply any residual offset revenues to residential local services in non-HCSAs and to business local services across the total revenues of the two sub-baskets.
324. Subject to meeting this requirement, RCI submitted that individual service and band rates should be permitted to increase at the rate of inflation. RCI stated that its proposal would permit the ILECs to increase local rates up to the rate of inflation, but that the additional revenue would have to be used to further reduce the total subsidy requirement.
325. RCI noted that, once the subsidy has been eliminated, individual rate increases up to the rate of inflation would be accommodated within the overall requirement to meet the price cap index. RCI noted that its proposal would permit the required rate reductions to be realized exclusively through business rate reductions, with residential rates increasing by as much as inflation.
326. RCI argued that there was not likely to be competitive entry in HCSAs in the near to medium term. Therefore, to achieve some of the objectives of price cap regulation in these areas, RCI recommended that residential local exchange rates should be capped at their current levels in HCSAs, with formal recognition of the implicit amount of subsidies inherent in the rates in more urban areas. RCI argued that its proposal would provide sufficient incentives for the ILECs to achieve productivity improvements and reduce costs in HCSAs, while providing retail customers with some benefit.
327. RCI suggested that under its proposal a pricing link remained between residential and business single and multi-line services, and that this link provided the ILECs with an appropriate level of pricing flexibility.

Optional local services

328. RCI supported the view that the treatment of optional local service revenues in the initial price cap period should be maintained during the next price cap period: specifically, residential optional local services should not be included in a capped service basket. RCI further submitted that the Commission should retain the power to re-assign residential optional local services to capped services without a proceeding to review the entire price cap structure, if sufficient local residential competition did not develop.

Other parties' comments on RCI's proposal

329. ARC et al. and BCOAPO et al. submitted that RCI's proposal, while superficially attractive, had three serious deficiencies: it would favour competitors over ratepayers, would permit anti-competitive pricing, and would result in a potentially unsustainable implicit cross-subsidy within each ILEC.
330. ARC et al. and BCOAPO et al. noted that, while rates for Competitor Services under RCI's proposal would be subject to a productivity offset from the outset of the next price cap period, other rates would not be. In their view, the proposal would result in productivity gains that would normally have flowed to residential or business customers first being applied against the HCSA subsidy; only once the subsidy had been eliminated would residential and business customers experience financial benefit from the price cap regime. ARC et al. and BCOAPO et al. argued that this approach was fundamentally unfair in that it favoured competitors over ratepayers.
331. ARC et al. and BCOAPO et al. also noted that by maintaining the link between business and residential rates that existed under the last price cap regime, RCI's proposal would permit the ILECs to continue to target price reductions to business services, while increasing residential rates by the rate of inflation. In ARC et al.'s and BCOAPO et al.'s view, allowing such pricing flexibility to the ILECs in the context of a highly differentiated market would result in inefficient, anti-competitive and unfair results.
332. ARC et al. and BCOAPO et al. further submitted that RCI's proposal to aggressively eliminate the subsidy to HCSAs (by using productivity gains to which, in their view, ratepayers were entitled) would take the regulatory regime backward to implicit ILEC subsidies. They noted that this was the situation that the explicit, competitively neutral, portable contribution regime had been designed to correct. ARC et al. and BCOAPO et al. argued that RCI's proposal for the rapid elimination of contribution was completely at odds with the Commission's recent establishment of a more competitively neutral and sustainable subsidy regime.
333. While ARC et al. and BCOAPO et al. argued that RCI's proposal was unacceptable for the reasons set out above, they endorsed the argument put forward by RCI that addressed the application of a productivity offset to capped revenues.
334. AT&T Canada submitted that, while RCI's proposal would ensure that the rates for Competitor Services were reduced over the course of the next price cap period to help promote the development of competition, the focus of RCI's price cap proposal appeared to be the elimination of contribution.
335. AT&T Canada submitted that RCI's proposal failed to address the fact that current rates for services relied on by competitors were overstated and must be reduced going into the next price cap period. The company noted that, under RCI's proposal, residential and business rates would be artificially driven down once contribution was eliminated. AT&T Canada argued that this would be detrimental to competition.

336. The Companies and TELUS argued that RCI's proposal would reduce rates and that this would damage the development of local competition. These parties argued that reduced rates for local exchange services would make entry less attractive to potential competitors.

ARC et al.'s and BCOAPO et al.'s proposal

337. ARC et al. and BCOAPO et al. submitted that the initial price cap regime had not balanced the interests of the three main stakeholder groups: ILECs, competitors and consumers. They argued that the ILECs had earned consistently greater than normal rates of return on equity over the last four years, while residential customers had been subject to ever increasing rates for local service and a number of competitors had failed.

338. ARC et al. and BCOAPO et al. argued that the Commission has an opportunity to correct the imbalances inherent to the initial regime and to ensure that some of the productivity gains generated by the industry under price cap regulation accrue to residential customers. ARC et al. and BCOAPO et al. submitted that residential rates were compensatory and provided the ILECs with healthy profit margins once all relevant services and revenue sources were included (e.g., EAS, optional services, and HCSA subsidies).

339. ARC et al. and BCOAPO et al. argued that, if the Commission were to apply a price cap to residential optional local services, these services should be assigned to a separate basket and made subject to a unique pricing constraint. They argued that, if this was not done, the ILECs would be permitted to increase basic residential rates through reductions in optional local service rates. ARC et al. and BCOAPO et al. submitted that this would be contrary to the public interest, insofar as basic local service warranted specific protections given its more essential nature.

340. ARC et al. and BCOAPO et al. proposed the following basket structure and price constraints:

- a) For the Residential service basket, a price cap index (PCI) would be set to equal inflation less productivity. Further, the price of any individual rate element would not be allowed to increase by more than inflation on an annual basis.
- b) For the Business service basket, no price cap formula would apply; instead, an individual rate element would not be allowed to increase by more than 10% per annum.
- c) For the Optional local services basket, a PCI would be set to equal inflation. Further, the price of an individual rate element would not be allowed to increase by more than 10% per annum.

Alternatively, ARC et al. and BCOAPO et al. proposed four baskets if that would be simpler to administer: residential services in HCSAs, residential services in non-HCSAs, business services and optional local services.

341. In their reply argument, ARC et al. and BCOAPO et al. noted that the fact that they had not proposed that a productivity offset should be applied to Competitor Services did not mean that they objected to such a factor being applied to revenues derived from these services.

Comments of other parties on the proposal of ARC et al. and BCOAPO et al.

342. TELUS argued that ARC et al.'s and BCOAPO et al.'s proposal to apply a productivity offset to a basket of basic residential services assumed that the prices were compensatory today. TELUS stated that this assumption appeared to be based on the Commission's primary exchange service (PES) cost determinations in Decision 2001-238. TELUS submitted that those cost estimates did not reflect TELUS' actual costs. It argued that the application of a price cap formula equal to I-X to rates which were below cost would perpetuate implicit subsidies and foreclose efficient entry in the residential services market. TELUS submitted that, while prices for residential service in some bands were compensatory, competitive entry had not yet occurred and regulation should not lower those rates.
343. The Companies submitted that the application of a productivity factor for purposes of reducing prices would be entirely inappropriate, as it would hinder the development of local competition and discourage investment in facilities and other inputs needed to ensure that the benefits of competition can be more widely distributed.
344. The Companies and TELUS argued that residential rate reductions were not needed to ensure fair prices. In their submission, residential prices were already affordable and compared favourably with prices in other countries.
345. AT&T Canada objected to ARC et al.'s and BCOAPO et al.'s proposal that rates for residential services should be reduced over the course of the next price cap period according to a productivity offset. AT&T Canada noted that, since Decision 94-19, significant effort had been put into rebalancing residential rates in order to help reduce barriers to entry into the residential local market and to reduce the subsidy requirement. It argued that it would be a mistake to begin to reverse the significant progress made to date, before competitive entry in this market segment had begun. Arguing that rebalanced rates and a significant reduction in the subsidy requirement had been achieved, AT&T Canada submitted that it would be inappropriate to begin a program of residential local service rate reductions as contemplated in ARC et al.'s and BCOAPO et al.'s proposal.
346. AT&T Canada submitted that the major shortcoming of ARC et al.'s and BCOAPO et al.'s proposal was its failure to include any measures to promote competition. It argued that, if implemented, their proposal would likely severely limit any possibility of competition for the foreseeable future.

347. With respect to residential services, the Commissioner of Competition stated that he understood that average residential rates in non-HCSAs were compensatory. The Commissioner of Competition argued that the focus of price cap regulation in these geographic areas should be to constrain the market power of ILECs until such time as market forces would replace regulation. The Commissioner of Competition submitted that this included maintaining the productivity factor in the price cap formula for residential service rates.
348. The Commissioner of Competition submitted that the roll-out of competition in the residential market was likely to take some time. In his view, in the absence of effective competition, residential customers would pay excessive prices for local service unless protected by the regulator.

AT&T Canada's proposal

349. AT&T Canada proposed that ILECs' capped services should be assigned to three baskets: residential, business and other capped services. Each basket would be subject to a price cap equal to inflation and to a pricing constraint of 10% applied at the rate element level. As discussed in Part III of this Decision, AT&T Canada also proposed special treatment for Competitor Services.
350. ARC et al. argued that AT&T Canada's proposed non-HCSA residential rate increases failed to meet the test of just and reasonable rates, and would merely increase healthy profit margins. ARC et al. further argued that rate rebalancing was unnecessary because new entrants in the local residential market were not interested in serving HCSAs in the near future.

Call-Net's proposal

351. Call-Net argued that a fixed regulatory constraint on prices, such as a price cap index, was a less than perfect substitute for competitive forces. Call-Net argued that the structure of the baskets in the initial price cap period resulted in a number of undesirable effects such as downward pressure on business service prices.
352. Call-Net proposed to replace the pricing constraints imposed on residential and business and other capped services in the initial price cap regime with an approach it called the "Tag Along Mechanism". Call-Net suggested that the Tag Along Mechanism should also be applied to non-forborne services in the Competitive Segment.
353. Call-Net submitted that the Tag Along Mechanism would tie the movement of prices in areas where there was no competition to those in which some competition existed. According to Call-Net, this would better respond to the nature of the evolving competitive marketplace. Call-Net argued that this mechanism would replicate competitive conditions in areas where no competition was available to discipline the ILECs' pricing behaviour and would also encourage competition by restricting the ILECs' ability to cross-subsidize their activities in competitive markets using monopoly rents generated in non-competitive markets.

354. Call-Net noted that the Tag Along Mechanism was based on the notion that sufficient competition existed in competitive bands. Call-Net recognized that competition in the residential market might not be sufficient, at this time, to rely solely on this mechanism. For the residential market, Call-Net proposed to further restrict rate increases that would otherwise be allowed by the mechanism by some overall restriction similar to the 10% increase constraint imposed on individual rate elements in the initial price cap regime.
355. Call-Net stated that requiring uniform rate reductions across an ILEC's territory could result in individual rate elements being driven below the imputation test floor. In this situation, Call-Net proposed that no rate element be required to go below that level.
356. Call-Net submitted that if the Commission were to decide that some retail services should not be subject to the Tag Along Mechanism, such determinations should be made in a follow-up proceeding.

Other parties' comments on Call-Net's proposal

357. The Companies submitted that simultaneously increasing prices in one area and lowering prices in another area could not be considered anti-competitive unless prices were lowered below cost. In their view, the imputation test would ensure that this could not happen. Consequently, they argued that the Tag Along Mechanism was not required to protect against potential anti-competitive pricing.
358. The Companies also argued that the Tag Along Mechanism would reduce an ILEC's ability to compete and react to price changes in the marketplace because it would have to consider the financial impacts of changing prices across its territory before reacting to competitors' price changes or initiating price changes. They submitted that such artificial financial constraints would lessen market-driven price competition and the associated consumer benefits.
359. The Companies submitted that the Tag Along Mechanism would negatively impact much of the telecommunications market because Call-Net proposed to apply this mechanism to a vast majority of Utility services and to non-forborne services in the Competitive Segment.
360. The Companies further argued that the Tag Along Mechanism could compel an ILEC to react to competition by reducing prices in all areas in order to protect market share. The Companies argued this would reduce service margins in all areas, and would particularly lessen incentives for entry into areas where competitors did not currently compete.
361. The Commissioner of Competition argued that the Tag Along Mechanism would reduce an ILEC's incentives to change rates in competitive and non-competitive areas to reflect changes in demand, costs, or competitive conditions. The Commissioner of Competition also submitted that other means less harmful to competition, such as the imputation test, could be used to prevent anti-competitive pricing by the ILECs.

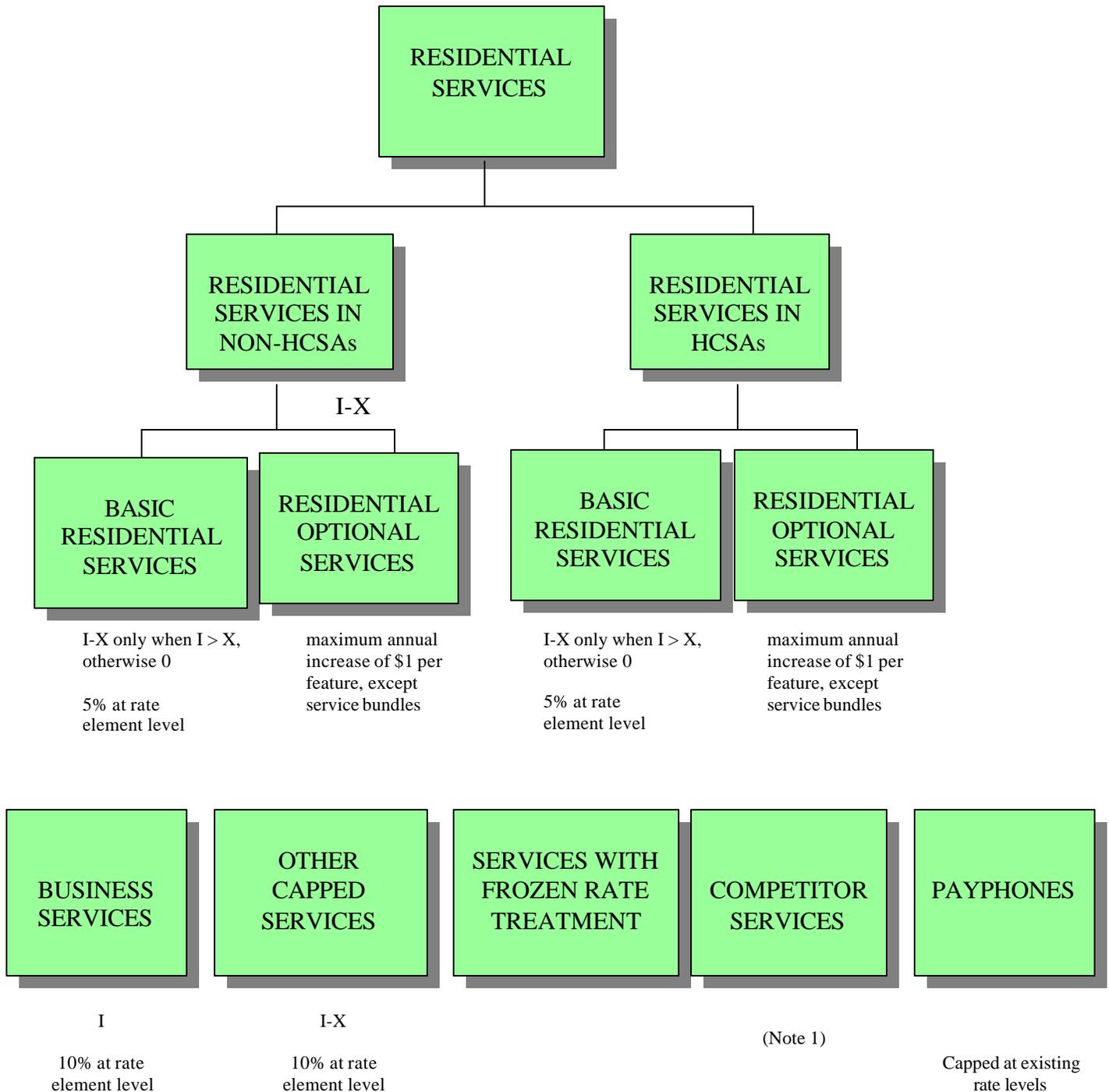
362. The Commissioner of Competition also argued that the Tag Along Mechanism would make it less likely that an ILEC would lower its prices in competitive regions, thus reducing its competitive response to entry. The Commissioner of Competition submitted that while this could be beneficial to the competitors, and perhaps even to the ILECs, the fact that it was likely to reduce competition in competitive regions was harmful to consumers and not favourable to the competitive process. The Commissioner of Competition was of the view that, rather than protecting consumers, the effect of the Tag Along Mechanism would be to maintain collective market power in competitive regions.
363. TELUS supported the positions advanced by the Companies and the Commissioner of Competition. It also submitted that the proposed Tag Along Mechanism was in fact an attempt to use this proceeding to review and vary the Commission's imputation rules.
364. ARC et al. and BCOAPO et al. stated that the problem with the Tag Along Mechanism was that, while it might adequately protect competitors, it would not adequately protect consumers from otherwise unjustified rate increases.

Commission consideration of parties' proposals

365. The Commission notes the wide variety of proposals submitted by parties. While it considers that certain aspects of the different proposals had merit, the Commission is of the view that no party submitted a proposal that adequately balanced the interests of customers, competitors and ILECs.
366. The proposals submitted by the Companies and TELUS requested enhanced pricing flexibility and did not provide for a productivity offset to revenues derived from their services. The Commission does not consider that the markets under consideration are sufficiently competitive that a productivity offset is not required to ensure that productivity and efficiency gains are reflected appropriately in the service rates.
367. The Commission also notes the general consensus among parties commenting on the ILECs' proposals that those proposals would do little to foster competition. As discussed in Part II of this Decision, the Commission considers that while competition is expected to increase gradually, the ILECs are likely to continue to have substantial market power over the next price cap period in most services that are now subject to price regulation. The Commission therefore considers the price cap regulation proposals made by the Companies and TELUS to be unsuitable.
368. The Commission addressed the central elements of the proposals made by AT&T Canada and Call-Net in Part III of this Decision dealing with services used by competitors. As regards Call-Net's proposed Tag Along Mechanism, the Commission considers that it would unduly reduce the pricing flexibility available to the ILECs to respond in a competitive environment. Accordingly, the Commission does not consider it appropriate to adopt the Tag Along Mechanism.

369. RCI proposed to eliminate the subsidy to residential service in HCSAs by applying productivity gains from residential and business services first to the subsidy. Residential and business customers would benefit from ILEC productivity gains applicable to those services only after the subsidy had been eliminated. On the other hand, RCI proposed that rates for services provided to competitors would reflect productivity gains from the outset.
370. The Commission considers that implementing RCI's proposal would reinstate an implicit subsidy from non-HCSAs to HCSAs. This would be contrary to the revisions to the contribution regime introduced in Decision 2000-745, where the Commission made the subsidy to residential service in HCSAs explicit to ensure, among other things, a competitively neutral environment. The Commission notes that the ILECs, competitors, the Commissioner of Competition and ARC et al. and BCOAPO et al. all expressed concerns about this aspect of RCI's proposal. The Commission therefore considers RCI's proposal unsuitable.
371. The Commission notes that the proposal of ARC et al. and BCOAPO et al. focused on ensuring that residential customers derive their "fair share" of benefits in the next price cap period. The Commission also notes that ARC et al. and BCOAPO et al. stated in reply argument that they did not object to a productivity offset being applied to Competitor Service revenues. However, the Commission considers that, if implemented without modification, ARC et al. and BCOAPO et al.'s proposal would not adequately take into account the Commission's objective of fostering facilities-based competition. The Commission therefore declines to adopt the proposal made by ARC et al. and BCOAPO et al.
372. Based on the objectives for the new regime and the record of this proceeding, the Commission has decided to adopt a different structure for the new regime. In particular, the Commission has decided to move away from the single basket structure of the initial price cap framework with its overall price cap constraint. Instead, the next price cap regime will involve multiple baskets and service groups with individualized basket constraints, as well as specific rate element constraints in some cases. The overall scheme of the framework is illustrated in Figure 1:

Figure 1 – Capped Services



Note 1: Most Category I services are subject to I-X at the rate element level. Category II services are capped at existing rate levels.

373. In the Commission's view, this revised structure will more closely focus the required regulatory constraints, while still providing the benefits and incentives of price cap regulation. However, in order to avoid the possibility that the operation of the price cap constraints might force price reductions that would have a negative impact on local competition, the Commission has included a deferral account mechanism. The full rationale for and operation of the deferral account is discussed in the context of the relevant service basket.

General conclusions regarding the basket structure and the application of a productivity offset

374. In a price cap regime, a productivity factor or offset is generally applied to a basket of services if competition in those services is insufficient to ensure that subscribers will benefit from productivity gains. Consequently, a decision to group services into a single basket and apply a productivity factor involves an assessment of whether competition sufficient to discipline prices exists for those services.
375. Part II of this Decision provides an overview of the state of local competition. Based on that analysis, the Commission has reached the following conclusions regarding the general grouping of services into baskets and the need for a productivity offset.

Residential market

376. The record of this proceeding indicates that local competition is developing very slowly in the market for residential local exchange service. In addition, there is virtually no competition for residential optional local services.
377. The Commission does not anticipate that competition will be sufficient to discipline the ILECs' residential local exchange and residential optional local service rates during the next price cap period. Accordingly, the Commission considers it appropriate, with the exception of service provided in HCSAs, to subject these services to a productivity offset. The treatment of these services in non-HCSAs, as well as a full explanation of the basket structure for these services in HCSAs, is set out below.

Business market

378. The Commission agrees with those parties who argued that business service customers in larger metropolitan areas were major beneficiaries of the initial price cap regime. Between 1998 and 2000, business rates in urban areas declined in every province except Saskatchewan. SaskTel was not subject to price cap regulation during the initial price cap period. On average, business rates in urban areas declined by 15% in Ontario and Quebec, 11% in British Columbia, and 5% in Alberta.

379. The Commission notes that no party other than RCI proposed that a productivity offset be applied to business rates. The Commission considers that the ILECs' market power is somewhat limited in areas where competitors have facilities or are otherwise present through the resale of ILEC services, notably through Centrex resale.
380. The Commission is of the view that, given the extent to which market forces are present in the business market and the extent to which business rates were reduced in the initial price cap regime, it is not necessary to subject business services to a productivity offset.

Market for Other capped services

381. The Commission notes that various classes of customers use services that were assigned to the Other capped services sub-basket in the initial price cap regime. For example, many of the services in this basket were on AT&T Canada's and Call-Net's proposed expanded lists of Competitor Services. On the other hand, residential customers use operator services that were also assigned to this sub-basket.
382. The Commission considers that the ILECs retain market power with respect to most services assigned to Other capped services. In the Commission's view, the resale of ILEC services by competitors to provide competitive alternatives to Other capped services is not an option in respect of many of these services. In view of these considerations, the Commission considers that market forces cannot be relied upon in the next price cap period to sufficiently discipline the prices of these services. The Commission also anticipates that the ILECs will continue to achieve productivity and efficiency gains in respect of these services in the next price cap period. Accordingly, the Commission finds it appropriate to subject these services to a productivity offset.

Market for non-forborne Competitive Segment services

383. In *Implementation of regulatory framework – Splitting of the rate base and related issues*, Telecom Decision CRTC 95-21, 31 October 1995 (Decision 95-21), the Commission assigned ILEC services to the Competitive Segment based chiefly on the consideration that competition was permitted in these services at that time. A number of ILEC services assigned to the Competitive Segment, however, are offered in markets that are not sufficiently competitive to support a decision to forbear from regulation of the services pursuant to section 34 of the Act.
384. In the present proceeding, Call-Net proposed that non-forborne Competitive Segment services be included in the price cap framework. The ILECs opposed subjecting these services to a price cap constraint on the grounds that markets for these services are competitive.
385. The Commission notes that it has received few applications from the ILECs to reduce rates for non-forborne Competitive Segment services in the last few years. In the Commission's view, non-forborne Competitive Segment services are offered in markets that, while competitive, are not sufficiently competitive to ensure that customers benefit from the ILECs' productivity and efficiency gains. The Commission therefore concludes

that it is appropriate to include non-forborne Competitive Segment services in the price cap framework for the next price cap period and to subject them to a productivity offset.

386. As determined later in this Decision, the Commission has decided to include non-forborne Competitive Segment services in the other capped services basket.

Market for Competitor Services

387. In Part III of this Decision, the Commission established two categories of Competitor Services. Category I Competitive Services are those services deemed to be in the nature of an essential service. These services will generally be priced on the basis of Phase II costs plus a 15% mark-up.
388. The Commission notes that there are few, if any, competitive alternatives for services that have been assigned to Category I Competitor Services. In view of this, and having regard to its expectation that ILECs will experience productivity and efficiency gains in respect of these services, the Commission considers that rates for Category I Competitor Services should reflect productivity gains on an ongoing basis.
389. Category II Competitor Services include the remainder of Competitor Services (i.e., those not classified as Category I). These services are not in the nature of an essential service. The rates for these services are either mandated or market-based and are based on considerations in addition to or other than Phase II costs. The Commission considers it appropriate not to apply a productivity offset to the rates for these services.

Basket structure and pricing constraints: specific conclusions

General

390. In the initial price cap regime, the ILECs chose not to reduce residential local exchange service rates to meet their price cap commitments. Instead, they chose to decrease rates for business and Other capped services. Consequently, business service customers in major metropolitan areas were the major beneficiaries of the price cap constraints, while all but a few residential customers experienced rate increases.
391. Most parties argued in favour of tailoring specific tailoring specific price cap constraints to individual service baskets rather than establishing an overall price cap constraint in order to reflect the relevant market and policy factors for each group of services.
392. The Commission agrees that it would not be appropriate to continue with an overall price cap constraint, and that it is preferable to design constraints that are more closely matched to the circumstances of individual baskets or groups of services.
393. The Commission notes that, as in the initial price cap regime, two different types of constraints will be in effect in the next regime. First, there will be "basket constraints" which will impose a constraint on the revenues derived from a basket or sub-basket of ILEC services. Basket constraints will apply on an annual basis and operate through

service basket limits, as in the initial price cap regime. The second type of constraint is a "rate element constraint" which will impose a restriction on the price of a specific service. ILEC services that are subject to a basket constraint will, in many cases, also be subject to a rate element constraint.

394. Finally, the Commission notes that the basket structure and constraints adopted in this Decision reflect its view of the state of competition and the degree to which market forces will be sufficient to protect customers by disciplining ILECs' pricing during the next price cap period. They are also designed with a view to fostering facilities-based competition and providing incumbents with incentives to increase efficiencies and innovation.

Basket structure for residential local exchange services and residential optional local services

395. As discussed in Part II of this Decision, the Commission does not anticipate that competition will be sufficient to discipline the ILECs' residential local exchange and residential optional local service rates during the next price cap period. Accordingly, these services will be subject to the basket structure and pricing constraints discussed below.
396. Parties to this proceeding were generally of the view that there should be separate baskets for residential local exchange services in HCSAs and non-HCSAs and that these two baskets should be made subject to different pricing rules.
397. Given the significantly different circumstances in HCSAs and non-HCSAs, the Commission has concluded that it is appropriate to establish two baskets for residential local services: a basket of residential local services in HCSAs and a basket of residential local services in non-HCSAs. The Commission notes that each of these baskets will include both residential local exchange services and residential optional local services.
398. The Commission further notes that the ILECs have introduced services that bundle a residential local exchange service or a residential optional local service with other telecommunication services. The Commission notes that, from the perspective of a residential customer, these service bundles are discretionary. In view of this, the Commission finds it appropriate to consider service bundles that include a residential local exchange service or a residential optional local service as an optional service. Accordingly, the revenues derived from service bundles that include a residential local exchange service or a residential optional local service will be included in calculating revenues for services in each of these baskets.
399. The Commission notes that different pricing policy considerations apply to residential local exchange and residential optional local services, including service bundles that include a residential local exchange service or a residential optional local service. As residential local optional services are discretionary, the Commission considers that less price protection is warranted than for residential local exchange service.

400. In light of these differences, the Commission concludes that each basket of residential services should be divided into two sub-baskets: a sub-basket of residential local exchange services and a sub-basket of residential optional local services which includes service bundles that include a residential local exchange service or a residential optional local service.
401. The constraints applicable to the two residential services baskets and their respective sub-baskets are discussed in the following sections.

Residential local exchange services and residential optional local services in non-HCSAs

402. The Commission concluded above that it does not anticipate that market forces will be sufficient to discipline the ILECs' prices for residential local exchange and optional local services in the next price cap period and that a productivity offset should be applied to these services in non-HCSAs. The productivity offset is established in Part V of this Decision. The Commission therefore considers it appropriate to apply a basket constraint equal to inflation less a productivity factor to the non-HCSA basket of residential local services.
403. The Commission notes, however, that the ILECs and AT&T Canada argued against mandated reductions to residential local service rates on the grounds that such reductions would have a negative impact on competition in the local market. The Commission agrees that there is the potential for adverse effects on local competition as a result of mandated rate reductions. Consequently, the Commission has decided to implement a deferral account mechanism to mitigate these potential effects.
404. In this proceeding, the Commission explored the use of a deferral account in the context of an overall price cap constraint. With a deferral account mechanism, an amount equal to the revenue reduction required by a basket constraint is assigned to the deferral account and retained in that account, instead of reducing the revenues of the basket by means of rate reductions. The monies in the deferral account are then available for other purposes, including possible subscriber rebates.
405. During the proceeding, the Companies opposed the creation of a deferral account within the context of an overall price cap constraint. In their view, a deferral account could create significant uncertainty in the regulatory and financial market environments, increase regulation and have negative revenue consequences for the ILECs and the industry as a whole.
406. TELUS expressed concern that, if a deferral account were implemented, price changes might not reflect market conditions. TELUS was also concerned that productivity gains could be double-counted.
407. The Commission notes that the deferral account mechanism it has chosen to implement applies only to revenues from residential local services in non-HCSAs. In the Commission's view, this approach mitigates any regulatory or financial market uncertainty.

408. With regard to the ILECs' concern that a deferral account could increase regulation, the Commission is of the view that use of a deferral account would be an efficient means of addressing regulatory adjustments. For example, during the initial price cap period there were several significant proceedings that dealt with adjustments to the price cap indices, such as changes arising from approval of exogenous factors. In the Commission's view, the deferral account will provide an appropriate mechanism to deal with such situations.
409. The Commission considers that the creation of a deferral account for residential local services will assist in achieving the objective of balancing the interests of the three main stakeholders in telecommunications markets: customers, competitors and ILECs.
410. The Commission notes that it has implemented rate rebalancing initiatives over the last decade. These initiatives and Commission determinations in other decisions have improved the relationship between residential local service costs and revenues. This, in turn, has fostered competition in the residential long distance market. The Commission considers that residential local rate reductions that flow from market forces would be generally preferable to mandated rate reductions.
411. Accordingly, the Commission concludes that, in non-HCSAs, it is appropriate to create a deferral account in conjunction with the application of a basket constraint equal to inflation less a productivity offset to all revenues from residential local services, including service bundles that include a residential local exchange service or a residential optional local service.
412. The Commission anticipates that an adjustment to the deferral account would be made whenever the Commission approves rate reductions for residential local services that are proposed by the ILECs as a result of competitive pressures. The Commission also anticipates that the deferral account would be drawn down to mitigate rate increases for residential service that could result from the approval of exogenous factors or when inflation exceeds productivity. Other draw downs could occur, for example, through subscriber rebates or the funding of initiatives that would benefit residential customers in other ways.
413. The Commission will review the amount in each ILEC's deferral account on an annual basis, no later than the second year of the next price cap period, at the time of the ILECs' annual price cap filings. Beginning in the second year of this period, it is the Commission's intention to dispose of amounts outstanding in the deferral account that accrued during the previous year. The Commission intends to clear these amounts in a manner that contributes to achieving the Commission's objectives for the next price cap framework, including balancing the interests of the three main stakeholders in the telecommunications markets.
414. Amounts in deferral accounts will bear interest at the ILECs' short-term cost of debt, effective 1 June 2002, and modified annually thereafter.

415. The Commission has concluded in Part V of this Decision that impacts due to the expiry of time-limited exogenous factors from the initial price cap regime should be used to offset some of the reductions to Competitor Services rates set out in this Decision. To the extent that funds corresponding to the time-limited exogenous factors in the non-HCSAs are not sufficient to compensate the ILECs, the deferral account will be drawn down. To the extent that not all amounts due to the expiry of time-limited exogenous factors are utilised, any amount remaining will be added to the deferral account.
416. In addition to the basket constraint applied to the non-HCSA basket of local residential services as a whole, the Commission considers it necessary to impose an additional basket constraint on the sub-basket of basic local exchange services in non-HCSAs. This constraint addresses the concern raised by ARC et al. and BCOAPO et al., that under a price cap constraint that applies to both residential local exchange services and optional local services, the ILECs could decrease rates for residential optional local services and increase rates for residential local exchange services.
417. The Commission has decided that the following basket constraint should apply to this sub-basket of services: ILECs may increase residential local exchange service rates in non-HCSAs, on average, by inflation less the productivity offset in each year in which inflation exceeds the productivity offset. If the productivity offset exceeds inflation in a given year, then the ILECs' average rates for residential local exchange services assigned to the residential local exchange service sub-basket in non-HCSAs may not increase in that year. An ILEC that does not increase residential local exchange service rates in a given year to the extent permitted by this constraint may use any unused "room" to increase residential local exchange service rates in a subsequent year. Rate increases would still be subject to the rate element constraint described below.
418. However, the Commission is of the view that rate element constraints are also required for the services in each of the non-HCSA residential sub-baskets in order to provide additional protection to subscribers.
419. The Commission considers it appropriate to impose a rate element constraint that limits increases in ILECs' rates for residential local exchange services in non-HCSAs to 5% per year on a non-cumulative basis. The Commission considers this 5% limit will provide the ILECs with pricing flexibility while, at the same time, adequately protecting subscribers. Moreover, the Commission considers that residential local exchange services should not generally be de-averaged further within a band. Consistent with the Commission's policy regarding de-averaging of residence local exchange rates, rates for residential optional local services in non-HCSAs, including bundles consisting of residence local exchange services and/or optional local services, should generally not be de-averaged further within a band.
420. As far as local optional services in non-HCSAs are concerned, the Commission is of the view that the discretionary nature of these services justifies a more liberal rate element constraint. The Commission has therefore concluded that rate increases for residential optional local service rates in non-HCSAs should not exceed \$1 per feature per year.

This limit will not apply to the prices of service bundles that include a residential local exchange service or a residential optional local service as these services are generally available on a stand-alone basis and are subject to constraints at the rate element level when sold on that basis.

Residential local exchange services and residential optional local services in HCSAs

421. In Decision 2000-745, the Commission determined that the national subsidy requirement should be reduced over time and noted that further rate increases might be necessary to move rates closer to costs. The Commission indicated in that decision that the issue of further rate rationalization would be addressed in this proceeding.
422. The Commission notes that the size of the national subsidy requirement is now considerably lower than anticipated in Decision 2000-745. Pursuant to Decision 2001-238, there has been a reduction of approximately 70% in the national subsidy requirement from \$1 billion in 2001 to less than \$300 million in 2002.
423. The Commission notes that the ILECs' proposed increases to rates for residential exchange services in HCSAs would, if approved, virtually eliminate the subsidy over the next price cap period. The Commission further notes the RCI view that the level of residential rates has not been a barrier to entry into the residential telephony market for the company.
424. Finally, the Commission notes that residential subscribers in many of the larger ILECs' HCSAs experienced several increases in rates of approximately 10% each during the initial price cap period. The ILECs' proposals to raise rates in HCSAs above rates in non-HCSAs raised considerable protest from subscribers and their elected representatives in Atlantic Canada. Consumers and the associations representing consumers and many rural municipalities in Quebec also opposed the ILECs' proposed increases to residential rates in HCSAs.
425. In light of the above, the Commission is not persuaded that it would be appropriate to permit the ILECs the additional pricing flexibility they requested with respect to rate increases for residential local exchange service rates in HCSAs. In the Commission's view, residential local subscribers in HCSAs should be protected from rate increases in the next price cap period to the same extent as residential local subscribers in non-HCSAs.
426. That being said, the Commission does not consider it appropriate to impose a basket constraint on the HCSA basket of local residential services. Such a constraint could force down local exchange rates in HCSAs which are already set below cost. A basket constraint could significantly impair the ability of the ILECs to achieve the annual implicit contribution target amount of \$60 per residence NAS included in the subsidy calculation for HCSAs. Consequently, there will be no basket constraint on the HCSA basket of local residential services.

427. However, in order to protect subscribers in HCSAs, the Commission considers it appropriate to impose a basket constraint on the sub-basket of residential local exchange services in HCSAs as follows: ILECs may increase residential local exchange service rates, on average, by inflation less the productivity offset in each year in which inflation exceeds the productivity offset. If the productivity offset exceeds inflation in a given year, the ILECs' average rates for residential local exchange services assigned to the residential local exchange service sub-basket in HCSAs may not increase in that year. An ILEC that does not increase residential local exchange service rates in a given year to the extent permitted by this constraint may use any unused "room" to increase residential local exchange service rates in a subsequent year. Rate increases would still be subject to the rate element constraint described below.
428. Consistent with its approach above for non-HCSAs, the Commission also considers it appropriate to impose a rate element constraint that limits increases in ILECs' rates for residential local exchange services in HCSAs to 5% per year on a non-cumulative basis. As noted above, this 5% limit will provide the ILECs with pricing flexibility while, at the same time, adequately protecting subscribers. Moreover, the Commission considers that residential local exchange services should not generally be de-averaged further within a band.
429. Similarly, consistent with its approach in non-HCSAs, the Commission is imposing a rate element constraint on local optional services in HCSAs. Specifically, rate increases for residential optional local service rates in HCSAs should not exceed \$1 per feature per year. This limit will not apply to the prices of service bundles that include a residential local exchange service or a residential optional local service as these services are generally available on a stand-alone basis and are subject to constraints at the rate element level when sold on that basis. Consistent with the policy regarding de-averaging of residential local exchange rates, rates for residential optional local services in HCSAs, including bundles consisting of residential local exchange services and/or optional local services, should generally not be de-averaged further within a band.

Single and multi-line business local exchange services

430. As discussed above, the Commission has concluded that it is not appropriate to apply a productivity offset to business services. However, given that facilities-based competition in the business local exchange service market is not widespread geographically, the Commission concludes that it is appropriate to cap the index of prices for the basket of single and multi-line business local exchange services basket at the rate of inflation to provide broad protection for these customers.
431. The Commission therefore establishes a basket constraint equal to inflation applicable to the basket of single and multi-line business local exchange services.
432. To provide additional protection with respect to rate increases, especially to those customers in areas with limited access to competitive alternatives to the ILEC services, the Commission adopts a rate element constraint to limit increases in the ILECs' rates for single and multi-line business local exchange services to 10% per year.

433. With respect to proposals from ILECs that would decrease rates for single and multi-line business local exchange services in a band's more competitive areas and increase them in less competitive areas of that band, the Commission considers that rates for these services should not generally be de-averaged further within a band.

Other capped services

434. On the basis of its assessment of competition in respect of Other capped services (including non-forborne Competitive Segment services), the Commission has concluded that it is appropriate to apply a productivity offset to these services.
435. The Commission concludes that the Other capped services basket will be subject to a basket constraint equal to the rate of inflation less the productivity offset determined in Part V of this Decision.
436. However, in order to provide customers of these services with additional protection from rate increases, the Commission considers it appropriate to also impose a rate element constraint which limits rate increases for a service in the Other capped services basket to 10% per year.
437. The Commission notes that in *Pricing policy for services subject to price caps*, Telecom Order CRTC 99-494, 1 June 1999 (Order 99-494), it determined that it would not require an ILEC to file a rate reduction for a service below its Phase II costs plus a mark-up of 25% in order to meet the ILEC's price cap commitments. The Commission determines that the pricing policy established in Order 99-494 will continue to apply to Other capped services.
438. With respect to potential proposals from ILECs that would decrease rates for Other capped services in a band's more competitive areas and increase them in less competitive areas of that band, the Commission considers that rates for these services should not generally be de-averaged further within a band.

Competitor Services

439. As noted above, RCI proposed that rates for Competitor Services be subject to a rate element constraint equal to inflation minus a productivity factor. The Companies stated that they were not opposed to such a constraint and that it would be straightforward to apply. However, they argued that, if such a constraint were imposed, periodic reviews of underlying costs should not be undertaken. The Companies submitted that prices subject to this approach would reflect assumed changes in underlying costs on a going-forward basis.
440. TELUS argued that applying a pre-determined productivity offset to individual prices for Competitor Services is certain to have anti-competitive consequences as actual prices diverge over time from competitive prices. TELUS suggested that competitive inefficiencies would result from such an approach being adopted, including inefficient

wholesale and retail entry, the threatened financial viability of ILECs, and incentives for anti-competitive behaviour by the ILECs. TELUS argued that, if such a policy were adopted, it would be necessary to determine a specific offset for each individual service.

441. The Commission notes that revenues derived from services assigned to Competitor Services were not subject to a basket or rate element pricing constraint during the initial price cap period. Consequently, rates for these services have remained unchanged with some exceptions, such as, DC service, unbundled local loops, and 800 database access.
442. The Commission concluded above that the ILECs can be expected to experience productivity gains in respect of Category I Competitor Services. Given that the rate levels for some of these services already reflect productivity gains, the Commission does not consider it appropriate to subject these services to a further productivity offset.
443. The Commission considers that the application of a basket constraint on a basket of Category I Competitor Services would allow the ILECs greater freedom to assign the productivity gains for that basket to particular services, possibly advantaging one competitor over another. The Commission is of the view that it would be impractical to develop and use service-specific productivity as suggested by TELUS. The Commission considers that the approach proposed by RCI provides an acceptable means of reflecting ongoing productivity gains for the Category I Competitor Services rates that do not already explicitly reflect productivity gains.
444. Therefore, with the exception of those Category I Competitor Services whose rates explicitly reflect productivity gains, the Commission adopts a rate element constraint equal to inflation less the productivity offset established in Part V of this Decision. This constraint would apply to all ILEC services assigned to Category I Competitor Services, with the exception of those exempted services identified in Appendix 1 to this Decision. The Commission further considers that, due to these annual I-X adjustments, all usage rates of less than \$1 are to be rounded to the fourth decimal place, with the exception of the DC and Access Tandem service rates which are to be rounded to the fifth decimal place.
445. The Commission directs each ILEC to issue tariff pages by 1 June of each year, beginning in 2003, incorporating adjustments to Category I Competitor Service rates to reflect the application of the I-X constraint.
446. With respect to the Category II Competitor Services, the Commission considers it appropriate to cap rates for these services at existing levels.

Rate changes to Competitor Services

447. Under the initial regime established for Competitor Services, the Commission determined that rates for Competitor Services would be subject to change on application by the ILECs, by competitors or through a proceeding initiated by the Commission. The Commission further determined that the primary rationale for a change in these services' rates would be a change in Phase II costs.

448. As indicated above, the Commission considers that the approach proposed by RCI provides an acceptable means of incorporating ongoing productivity gains for Category I Competitor Services. However, the rates for those services that have not been subject to recent regulatory scrutiny may not be reflective of the costs of providing them.
449. Accordingly, the Commission considers it appropriate to maintain the current process for initiating rate changes, independent of the changes that result from application of the rate element constraint.

Services with frozen rate treatment

450. In Decision 97-9, rates for certain services were frozen. The Commission noted that 9-1-1 Service and Message Relay Service were generally rated on the basis of Phase II costs plus a mark-up which reflects the nature of these services. Given the manner in which the rates for these services have been determined and the importance of these services, the Commission considered it appropriate to freeze the levels of these rates, as approved at 1 January 1998, in the initial price cap period. In addition to the services noted above, the rates for Toll restriction and Call blocking and the Instalment payment plan for residence installation charges were also frozen in Decision 97-9. In *9-1-1 Service – Rates for Wireless Service Providers, Centrex Customers and Multi-Line Customers/Manual Access to the Automatic Location Identification Database*, Telecom Decision CRTC 99-17, 29 October 1999, the Commission changed the method for rating 9-1-1 service such that these rates are now modified on an annual basis.
451. All parties commenting favoured a continuation of the rate treatment applied to services assigned to this group in the initial price cap period.
452. The Commission considers that rates for all services identified above should continue to be frozen over the next price cap period. While the 9-1-1 service rates will be adjusted annually, the Commission considers it appropriate to continue to assign 9-1-1 service to the group of services with frozen rate treatment since it is of a like nature. In addition, as proposed by the Companies, the Commission includes residential unlisted telephone number service in this group as the rate for this service is subject to a maximum of \$2. The services with frozen rate treatment are identified in Appendix 2 to this Decision.
453. The Commission also concludes that, in light of their respective mergers, TELUS and Aliant Telecom are permitted to average rates for these services over their serving territory on a revenue-neutral basis.

Uncapped services

454. The Commission is assigning tariffed services that are not included in any basket or subject to a rate element constraint to a service group entitled Uncapped services. In particular, Centrex, business optional local services and service bundles that include a business local exchange service or a business optional service are classified as Uncapped services.

455. The Commission notes that an important consideration underlying its approach in the initial price cap regime was to provide regulatory protection to customers of primary exchange service where market forces were not sufficient to so do. This remains an important consideration for the next price cap period. In this connection, the Commission notes that Centrex service is a premium business service that is used as a substitute for single-line and multi-line business local exchange services. As this Decision makes these latter services subject to a basket constraint and a rate element constraint, the Commission does not consider it necessary to subject Centrex services to such constraints.
456. Similarly, in view of the substitutes available, the Commission does not consider it necessary to apply constraints to business optional local services or to service bundles that include a business local exchange service or a business optional local service. However, should an ILEC seek to further de-average rates for Uncapped services, it should provide the rationale in its application.
457. Most SFTs or Special Assembly Tariffs (SATs) are assigned to Uncapped services. The Commission notes that these services are generally offered to a limited number of customers and that the rates are often developed having regard to factors such as long-term customer commitments. However, the Commission notes that it has assigned a few services offered by the ILECs, pursuant to a SFT or a SAT, to baskets or service groups other than Uncapped services.
458. The Commission also assigns the ILECs' Late Payment charge to Uncapped services. The Commission considers that it is not necessary to apply a constraint to these charges, given that they are calculated based on a Commission-approved formula.

Specific requests made by Aliant Telecom, MTS, SaskTel and Bell Canada

459. As noted above, Aliant Telecom, MTS, SaskTel and Bell Canada each submitted proposals for specific rate or service changes in addition to the Companies' general price cap proposal.

Aliant Telecom's proposal for a uniform residential local service rate of \$25

460. Aliant Telecom asked to be permitted to raise the rates for residential local individual line service to a common level of \$25 per line across all bands within Aliant Telecom's serving area in 2002. The monthly rate increases necessary to attain a common level of \$25 per month across Aliant Telecom's territory are \$0.55 in Prince Edward Island, \$3 in New Brunswick and \$3.05 in Newfoundland.
461. ARC et al. and BCOAPO et al. noted that the proposed increases for Newfoundland and New Brunswick would exceed 10% and would not comply with the rate element constraint of the initial price cap regime. ARC et al. and BCOAPO et al. submitted that Aliant Telecom's claim that these increases are required in order to achieve various marketing objectives and to bring more standardization throughout the region are not

adequate justification for the proposed increases. ARC et al. and BCOAPO et al. further argued that Aliant Telecom could standardize rates at a level less than \$25. ARC et al. and BCOAPO et al. noted that Aliant Telecom and the other ILECs were invited in PN 2001-37 to propose cost-justified rate increases. ARC et al. submitted that Aliant Telecom and the other ILECs could have provided the required justification in the form of a revenue requirement analysis, but chose not to do so.

462. The Commission notes that Aliant Telecom argued that its proposed rate restructuring did not involve setting going-in rates and did not warrant a revenue requirement assessment. Therefore, the Commission considers that any rate restructuring in Aliant Telecom's territory should be implemented within the constraints of the price cap regime established in this Decision.
463. The Commission has established the basket structure and constraints that it considers appropriate for Aliant Telecom and the other ILECs. The Commission therefore denies Aliant Telecom's request for the flexibility to implement a uniform rate of \$25 for residential local exchange service across its serving territory.

Aliant Telecom's proposal to increase EAS and CCP charges

464. Under the Companies' proposal, services such as EAS and residential installation service would be assigned to the Other residential services basket. As an exception to the Companies' proposal to limit annual rate increases for services assigned to this basket to inflation on average and no more than 10% at the rate element level, Aliant Telecom requested the flexibility to increase the EAS and CCP charges in Newfoundland to a uniform rate of \$5 over the next price cap period.
465. Newfoundland is the only province within Aliant Telecom's serving area that has EAS and CCP charges identified separately. EAS charges for residential services range from \$1.05 to \$3.10, and CCP charges are \$5. Aliant Telecom proposed to move EAS charges to a uniform rate of \$5 over time. Aliant Telecom proposed that the 10% rate element limit should not apply to the services in this basket. However, on average, rates for EAS, CCP and residential installation charges would not be allowed to increase by more than the rate of inflation in a given year.
466. Aliant Telecom submitted that its proposal with respect to EAS and CCP charges would permit it to consolidate the eleven different EAS/CCP rate levels that apply in Newfoundland to a uniform CCP rate.
467. The Commission notes that in those areas of Newfoundland where EAS and CCP services are offered, these services are mandatory services with subscription to local exchange service. Given the mandatory nature of EAS and CCP services, the Commission considers that it is appropriate to apply the same regulatory approach to these services as to the associated local exchange services. Therefore, the Commission assigns Aliant Telecom's EAS and CCP services, as appropriate, to the Residential local exchange services sub-basket in non-HCSAs, to the Residential local exchange sub-basket in HCSAs and to the Single-line and multi-line business services basket. The

Commission further considers that changes to rates for EAS and CCP service should be implemented within the constraints of the price cap regime established for local exchange services in this Decision.

468. Accordingly, the Commission denies Aliant Telecom's request for the flexibility required to increase EAS and CCP rates in Newfoundland to \$5 over the next price cap period.

MTS' request for flexibility to increase Band D residential local rates

469. MTS requested approval for a maximum annual rate increase of \$2 for residential individual line service in Band D in each year of the next price cap period. MTS stated that this proposal would enable the company to move residence rates towards a uniform level of \$30 in rural and northern Manitoba.
470. MTS stated that rates for residential local individual line service rates are the same in Band D, a non-HCSA Band, and most of Band E, a HCSA band. MTS also submitted that these rates are significantly below the average cost of providing service in these bands.
471. No parties commented on this aspect of MTS' proposal.
472. The Commission has not adopted the Companies' proposal to increase monthly rates for residential local service in HCSAs by an annual maximum of \$2. In view of this determination, MTS will not need the pricing flexibility requested for Band D in order to keep rates in the rural areas of Manitoba at comparable levels.
473. Accordingly, the Commission denies MTS' request for additional flexibility to increase monthly residential local exchanges service rates in Band D.

SaskTel's request to raise business rates in HCSAs

474. SaskTel submitted that approximately half of its single-line business customers reside in HCSAs, and that business local exchange service in these areas is provided at rates that do not cover the associated costs of providing the service. The rates currently charged to single-line business customers in HCSAs are \$28.50 for Rate Group 1 and \$34 for Rate Groups 2 and 3; business customers in non-HCSAs pay \$34 for single-line business service.
475. SaskTel requested permission to move single-line business rates in HCSAs to \$38 by 2005, with an initial increase of \$5.50 in 2003 and subsequent maximum annual increases of \$2 in each of 2004 and 2005. As noted earlier, SaskTel also proposed to eliminate excess mileage charges for all individual line customers in 2003.
476. ARC et al. and BCOAPO et al. supported SaskTel's proposal to place below-cost business services in a separate basket, and to move rates for these services closer to cost through a series of price increases.

477. The Commission notes that the price cap framework adopted in this Decision will provide SaskTel with the pricing flexibility to increase single-line business rates in HCSAs.
478. Accordingly, the Commission denies SaskTel's request to increase single-line business rates in HCSAs through the specific rate flexibility requested.

Bell Canada's request to grandfather four-party local exchange service

479. Bell Canada proposed to grandfather four-party access lines that remain in service, effective 1 January 2002. At that time, the company would cease offering four-party line service to new customers.
480. No party commented on this aspect of Bell Canada's proposal.
481. The Commission notes that the basic service objective includes, among other things, the provision of individual line local exchange service. The Commission further notes that existing customers would not be subject to any rate increases as a result of the approval of this particular proposal. Accordingly, the Commission finds Bell Canada's proposal to be acceptable.
482. The Commission approves Bell Canada's proposal to cease offering four-party local exchange service to new customers, effective immediately.

Classification of services

General

483. The Commission's preliminary assignment of services to baskets, sub-baskets or service groupings is contained in Appendix 2 to this Decision. In the sections below, the Commission addresses the classification of extra listings, individual line service surcharges and new services.
484. As discussed below, various issues remain outstanding with respect to local payphone service. In view of this, the Commission assigns local payphone service to its own service group.
485. As discussed earlier, in non-HCSAs, residential local services are assigned to a basket of services. This basket is composed of two sub-baskets: residential local exchange services and residential optional local services, including service bundles that include a residential local exchange service or a residential optional local service. In HCSAs, residential services are assigned to a sub-basket of residential local exchange services and to a sub-basket of residential optional local services, including service bundles that include a residential local exchange service or a residential optional local service.

486. The residential local exchange services sub-baskets contain residential local exchange services, installation charges and non-discretionary services associated with various grades of residential local exchange services but do not include 9-1-1 Service and Message Relay Service.
487. The residential optional local services sub-baskets include services such as voice mail, call display and call waiting, the rates for which were not capped in the initial price cap period. As stated above, bundled services that include a residential local exchange service or a residential optional local service are to be included in this sub-basket.
488. The single and multi-line business services basket includes single-line and multi-line business local exchange services, including contract options, installation charges and non-discretionary services associated with various grades of business services, but excludes 9-1-1 service and Message Relay Service.
489. The group of services, the rates for which will be frozen over the next price cap period, includes 9-1-1 service, Message Relay Service, Toll restriction, Call blocking, the Instalment payment plan and unlisted telephone number service for residential subscribers.
490. The Commission has addressed the assignment of services to the Competitor Services group in Part III of this Decision.
491. The Uncapped services group of services includes Centrex, business optional local services and service bundles that include a business local exchange service or a business optional service. It also includes specific SFTs or SATs that are not assigned to other baskets or groups and the Late Payment Charge.
492. The Other capped services basket includes all tariffed services that are not assigned to another basket or service group.
493. Parties to this proceeding may file comments with the Commission on the service assignment set out in Appendices 1 and 2 to this Decision by 17 July 2002 and may submit reply comments by 29 July 2002. A party filing comments or reply comments must also serve a copy of its submission on all other parties to this proceeding. Documents must be received, not merely sent, by the dates indicated.

Extra listings

494. ARC et al. and BCOAPO et al. noted that, under the current regime, the ILECs' residential extra listings service is assigned to Uncapped services. ARC et al. and BCOAPO et al. submitted that this service is provided on a monopoly basis and is not discretionary because family members do not always share the same surname. They further argued that an extra listing in the directory should be provided free of charge and, if not, that the ILECs' extra listing service should be assigned to a capped services basket.

495. The Companies argued that extra listings are discretionary. They noted that, in Bell Canada's serving area, the penetration rate associated with such listings was just over 1% and argued that the very low penetration rate indicated that the value subscribers place on additional listings is generally low. The Companies argued that the fact that people sharing the same telephone number may not share the same last name did not justify providing this service free of charge or placing a cap on the ILECs' prices for these services. The Companies further argued that providing the extra listings service free of charge would be inappropriate, given that there are costs associated with the provision of this service and that these costs could increase sharply if demand were to increase substantially.
496. The Commission notes that, while rates for the ILECs' extra listings service vary by ILEC, these rates are approximately \$2 per month per extra listing for residential customers and \$3 for business customers. Having regard to the limited market forces which are present in the market for directory services, the Commission considers that it is appropriate to assign the ILECs' extra listings service, for residential and business subscribers, to the Other capped services basket.

TELUS' proposal regarding individual line service surcharges

497. TELUS submitted that ILS charges are additional non-discretionary charges that apply to customers in Alberta located beyond the base rate area who request residential or business local exchange service. TELUS noted that it intends to replace ILS charges during the next price cap period and submitted that ILS charges should be frozen at their current rates, thereby maintaining the affordability of ILS charges, until such time as an alternative service is submitted for the Commission's consideration.
498. No parties commented on this aspect of TELUS' proposal.
499. The Commission considers that it would be inappropriate to assign TELUS' ILS charges to the basket of services whose rates are frozen. ILS surcharges are mandatory and are therefore assigned with residential local exchange services or single-line and multi-line business services, as applicable.

Treatment of new services

500. TELUS submitted that new services are non-essential by definition and proposed that they should not be regulated on the basis that doing so would dampen the ILECs' incentives to innovate. The Companies proposed that new services, unless they were Competitor Services as defined by the Companies, should not be subject to upward pricing constraints.
501. In Decision 98-2, the Commission stated that the ILECs would be required to submit a price cap classification with tariff applications for new services or new service elements. The Commission also determined that parties' comments regarding an ILEC's proposed service classification should be filed within 30 days of the date that the ILEC's application becomes publicly available.

502. The Commission considers that its determinations in Decision 98-2 with respect to the price cap classification of new services remain appropriate. New services will be classified on a case-by-case basis.
503. The Commission therefore concludes that, consistent with its determinations in Decision 98-2, when an ILEC files a tariff application in respect of a new service offering, the ILEC must identify the service basket, sub-basket or service group to which it proposes to assign that service.

Other issues

504. A number of additional issues arose in the present proceeding regarding the pricing of services and related issues. These issues are addressed below.

Imputation test for promotions

505. In Decision 97-8, the Commission determined that promotions offered by an ILEC would be exempt from the application of the imputation test on condition that sufficient information is provided by the ILEC to demonstrate that the offering is a legitimate promotion of limited duration.
506. Call-Net submitted that the ILECs' promotional pricing programs gave the appearance of a vigorously competitive market. Call-Net argued that because of their exemption from the imputation test, the ILECs' promotions undermined the long-term viability of the competitive process, especially in the residential market where competition had yet to develop. Call-Net submitted that the ILECs that had faced competitive entry had been prolific in their use of promotions and submitted that a number of service offerings appeared numerous times on the list, with promotions lasting as long as 12 months. Call-Net therefore submitted that, at a minimum, residential promotions should no longer be exempt from the requirement to pass an imputation test.
507. Group Telecom submitted that temporarily reducing or eliminating the ILECs' flexibility to engage in promotions without filing imputation tests could be one remedy that the Commission could consider against what Group Telecom argued was the ILECs' regulatory non-compliance with the Commission's requirements.
508. In reply argument, the Companies submitted that the use of promotions has been a standard business practice for many years and a method they used to increase service penetration. The Companies noted that imputation tests for promotions were filed if the elapsed time of the promotion, plus any benefit period that would extend beyond the time the promotion was offered in the market, was 12 months or longer. They stated that imputation tests were also filed in situations where the promotion was repeated to the same target market, at any time during the life cycle of the product of service such that the 12-month window was met or exceeded. The Companies submitted that the current practice on promotions provided ample protection against anti-competitive pricing.

509. In *Review of regulatory framework – Targeted pricing, anti-competitive pricing and imputation test for telephone company toll filings*, Telecom Decision CRTC 94-13, 13 July 1994 (Decision 94-13), the Commission stated that it did not consider below-cost pricing in the case of market trials and promotions to be generally anti-competitive. The Commission determined that market trials and promotions would be exempt from the application of the imputation test on the condition that sufficient information was provided by the ILECs to demonstrate that the offering was a legitimate market trial or a promotion of limited duration. In *Tariff filings relating to promotions*, Telecom Decision CRTC 96-7, 18 September 1996, the Commission confirmed its position that below-cost pricing in the case of legitimate promotions of limited duration was generally not anti-competitive.
510. The Commission stated in Decision 97-8 that, consistent with the treatment of market trials and promotions in Decision 94-13, market trials and promotions were exempt from the application of the imputation test as long as sufficient information was provided by the ILECs to demonstrate that the offering was a legitimate market trial or a promotion of limited duration. The Commission is not persuaded that it is necessary to alter its approach to the application of the imputation test to ILEC promotions. Accordingly, the Commission denies the requests made by Call-Net and Group Telecom.

Basic toll constraints

511. In *Forbearance – Regulation of toll services provided by incumbent telephone companies*, Telecom Decision CRTC 97-19, 18 December 1997 (Decision 97-19), the Commission forbore from regulating ILEC-provided toll and toll-free services, subject to certain conditions. The Commission required, among other things, that the ILECs provide to the Commission, and make publicly available, rate schedules setting out the rates for basic toll service. The ILECs were also required to update their respective schedules within 14 days of any change to the rates for basic toll service. The Commission also required that reasonable advance notice of rate changes be provided directly to subscribers; it prohibited route de-averaging; and it required that any increases to basic toll rates be offset by corresponding rate decreases that would ensure no change to the basic toll schedule's weighted average rate.
512. Pursuant to Decision 94-19, the rates used to calculate the average price of calls in the basic toll schedule include any surcharges for credit card calls. Approved credit card surcharges are applied to pay telephone-originated long distance calls where credit cards are used.
513. The Companies applied to the Commission to remove the pricing constraint on the basic toll schedule. In the alternative, the Companies requested that the Commission exclude credit card surcharges when calculating the average price of basic toll services.
514. The Companies submitted that interexchange competition was well established; customers had access to alternative service providers; and only a small portion of customers made calls rated under the basic toll schedule. Further, the Companies argued

that the present constraint prevented passing on the costs of credit card usage to customers, which is what other businesses could do, including the Companies' payphone competitors.

515. TELUS supported the Companies' application, stating that customers had competitive alternatives, and that only a small percentage of customers made basic toll schedule calls exclusively.
516. ARC et al. and BCOAPO et al. argued that the pricing constraint on basic toll services should not be removed. ARC et al. and BCOAPO et al. observed that: (i) there have been no significant changes in competitive conditions in toll markets since 1997; (ii) competition may have lessened, since the ILECs appeared to be regaining market share; (iii) the ILECs have not reduced basic toll schedule rates since 1997; and (iv) the ILECs obtained significant revenues from basic toll schedule rated calls. They submitted that basic toll users needed protection from unjustified rate increases, since they made basic toll calls either because they had not switched off basic toll, or because they were subscribers to discount toll plans that apply basic toll rates to calls made outside the hours of the discount toll plan. ARC et al. and BCOAPO et al. also argued that the credit card surcharges should not be uncapped, since pay telephone users may not have access to alternatives when they place a call at a pay telephone.
517. AT&T Canada supported ARC et al.'s and BCOAPO et al.'s views, stating that there was no compelling reason to eliminate the current price constraints on the ILECs' basic toll schedule service.
518. The Commission notes that the ILECs obtain substantial revenues from calls charged at basic toll rates. For example, such calls account for nearly 30% of Bell Canada's toll revenue. The percentages for other ILECs range from about 10% to 20%. As parties noted, some of these calls are made by customers who use discount toll plans that apply basic toll rates at certain times of the day.
519. The Commission agrees with ARC et al. and BCOAPO et al. that toll market conditions have not changed significantly since 1997. Accordingly, the Commission considers it appropriate to maintain the conditions on the basic toll schedule established in Decision 97-19. Further, in view of these considerations, the Commission is of the view that the proposed changes in respect of credit card surcharges would not be appropriate. Accordingly, the Commission determines that credit card surcharges should continue to be included in the calculations of the average basic toll schedule price.

Pay telephone rates

The Companies' proposal

520. The Companies submitted that demand for local payphone service was declining due to the availability of alternative services including cellular telephones and two-way paging services. They noted that, as a result, revenues available to support payphone service were also declining.

521. The Companies proposed that local payphone service should be treated outside the price cap framework and that current payphone rates should remain in effect until such time as specific proposals are made to and approved by the Commission. The Companies submitted that applications for future rate changes for local payphone service would be made on a company-specific basis.

Bell Canada's proposal

522. Bell Canada submitted that after three years of payphone competition, competitors had not made significant inroads into the payphone market in Ontario and Quebec.
523. Bell Canada submitted that the current rate of \$0.25 for a local payphone call was a critical factor in the slow growth of competitors' market share. The company argued that the current local payphone rate, which had been in place for approximately 20 years, was a barrier to entry in the payphone industry in that it was insufficient to provide payphone operators with an adequate return on their investment.
524. Bell Canada further submitted that, without the pricing flexibility to increase its local payphone rates, it would need to remove a significant number of its payphones by the end of 2006. Bell Canada stated that the remaining payphones would be concentrated in high-traffic, low-cost locations (i.e., malls and airports). Bell Canada argued that, as the financial returns diminish, there would be a considerable risk that Bell Canada could be forced to close down its pay telephone operations entirely at some point in the future.
525. Bell Canada proposed that it be permitted to increase the rate to a maximum of \$0.50 for a local call placed from an indoor payphone. Bell Canada requested the flexibility to introduce a \$0.50 charge per call for local directory assistance provided in respect of calls placed from payphones located indoors. To address concerns regarding accessibility, Bell Canada stated that the rate for a local call placed from an outdoor payphone would remain at \$0.25 and directory assistance would continue to be provided at no charge.
526. Bell Canada noted that outdoor payphones in Ontario and Quebec represented 23% of its payphone base, that the number of outdoor payphones had only dropped by about 100 since 1998, and that the number of payphones in HCSAs had increased.
527. Bell Canada noted that it had eliminated about 9,200 payphones from its service base since the beginning of 1998. The company submitted that the rate at which payphones would be removed from service would be slowed under its proposal, as lower traffic levels would be required to justify the continued maintenance of a payphone station. Bell Canada anticipated that, if its proposal were approved, the number of payphones in service at the end of 2005 would be about 50% higher than would otherwise be the case. Bell Canada also undertook not to remove from service more than 5% of the previous year's payphone base in any year of the next price cap period, if its requested pricing flexibility were granted.

528. Bell Canada submitted that its proposal would offer all payphone competitors more pricing room and an opportunity to improve their profit margins. Bell Canada also argued that its proposal would provide a simple balance between the objectives of fairness and the incentive to invest.

TELUS' proposal

529. TELUS proposed that the local message rate (paid by coin or prepaid card) for public telephone service in bands where there was no evidence of competitive entry in the local pay telephone market should be limited to a maximum of \$0.50 per call.

Other parties' positions and proposals

530. Paytel submitted that the Commission should approve a local calling rate of \$0.50 for all payphones. Paytel argued that there should be no flexibility with respect to the rate for a local call. It further argued that raising this rate to \$0.50 on all payphones would keep the service as affordable today as it was when the Commission approved the current rate of \$0.25 in 1981.
531. Paytel submitted that granting the ILECs the flexibility requested in their proposals would have anti-competitive results. Paytel argued that the ILECs would raise the rate for local calls to \$0.50 immediately where they had an adequate degree of exclusivity and that they would leave the rate unchanged where they faced competition.
532. However, Paytel submitted that the ILECs should not be permitted to offer payphone service on a below-cost basis, since doing so would be incompatible with the development of a competitive industry. Paytel argued that maintaining a rate of \$0.25 per call or mandating a smaller increase would not be viable in the long run.
533. Paytel submitted that Bell Canada's proposal contravened the provisions of the Act since the proposed rate differential was not based on substantiated cost differential considerations, rate band differences, income of user, specific geographical location or specific industry considerations.
534. Paytel submitted that TELUS' proposal to allow the company the flexibility to increase rates to up to \$0.50 per call in areas where there was no evidence of competition is not in the public interest. Competitive pay telephone service providers would be obliged to maintain the \$0.25 rate wherever they currently operate, since TELUS would presumably not be permitted to increase its rate above that level in areas where there was competition.
535. Paytel supported a three-year interim period for a mandated rate of \$0.50 for a local cash call made from any ILEC payphone. Paytel submitted that at the end of the interim period, the Commission should initiate a review of the industry to determine whether it should forbear from regulating the ILECs' payphone services, and if so under what conditions.

536. ARC et al. and BCOAPO et al. submitted that the payphone rate proposals made by Bell Canada and TELUS had significant implications for low-income consumers and had not been the subject of a thorough examination in this proceeding. ARC et al. and BCOAPO et al. submitted that people who could afford rate increases were increasingly less likely to use payphones. They argued that it would be more appropriate to focus on the affordability of the service for persons who were still relying on payphone service and who did not have alternatives to that service.
537. ARC et al. and BCOAPO et al. submitted that low-income consumers used payphones for two significant purposes; for some, it was the dominant form of public communication, for others, it was their only access to phone service.
538. Paytel submitted that it would be a mistake for the Commission to accept the notion that appeared to be advanced by ARC et al. and BCOAPO et al. that the only rate at which a payphone call would be considered fair or affordable was \$0.25. Paytel also submitted that ARC et al. and BCOAPO et al. had not provided any link between the income levels of their constituents and their use of any form of telecommunications. Paytel noted that in *Local pay telephone competition*, Telecom Decision CRTC 98-8, 30 June 1998, the Commission stated that the vast majority of people who used pay telephones did so as a matter of convenience or emergency and not as a substitute for basic telephone service.
539. ARC et al. and BCOAPO et al. submitted that, based on the information publicly available, they could not assess whether access to pay telephones for low-income people was threatened by the general decline in the industry itself. ARC et al. and BCOAPO et al. argued that issues relating to the affordability of payphones for low-income consumers, and the implications of Bell Canada's proposal, raised policy issues that had not been adequately canvassed in this proceeding. ARC et al. and BCOAPO et al. further submitted that, if Bell Canada's and TELUS' proposals were adopted, consumers would see prices increase without service improvement while the ILECs and competitors would increase their revenues.
540. ARC et al. and BCOAPO et al. submitted that profound changes to the rating structure for payphones should be studied in a separate proceeding so as to consider more fully the appropriate rate treatment and the impact that any rate increase would have on low-income consumers. ARC et al. and BCOAPO et al. submitted that the Commission should issue a public notice on the date that a decision is issued in this proceeding to address the payphone issues raised in this proceeding.

Conclusions

541. The Commission agrees with ARC et al. and BCOAPO et al. and Paytel that issues raised in this proceeding with respect to payphones should be addressed. As noted by interveners, Bell Canada stated that, even with a \$0.50 rate for local calls, payphones would continue to be decommissioned, although at a slower rate than otherwise. The Commission also agrees with Paytel that the competitive implications of the pricing

flexibility that Bell Canada and TELUS have requested must be considered. The Commission considers that it would be premature to address pricing policy issues with respect to payphones before more general policy issues relating to payphones are addressed.

542. In light of the foregoing, the Commission considers that the ILECs' public and semi-public pay telephone services should be assigned to a separate category in the next price cap regime. The Commission also considers that rates for public and semi-public payphones should remain at current levels until the Commission considers policy issues related to payphone service, in a forthcoming proceeding.
543. Accordingly, the Commission rejects the pricing flexibility proposals made by Bell Canada and TELUS in respect of public and semi-public payphones.

Competitiveness tests

544. The Companies proposed that the Commission should remove the upward pricing constraint, i.e., not limit rate increases, for a service once competitors could serve 30% of the market for that service and once competitors actually serve 5% of the customers in that market. The Companies noted that these criteria are similar to the rate deregulation criteria applicable to Class 1 cable distribution undertakings. The Companies submitted that their proposed test is a simple objective measure of the extent of competitive penetration in the relevant market.
545. The Companies stated that the relevant market for the test could be the entire territory, a rate band, or a smaller geographic area. The Companies proposed that prices in the relevant geographic market would not be de-averaged.
546. The Companies argued that removal of the upward pricing constraint would give the ILECs pricing flexibility to respond to market conditions more quickly than would be possible through the forbearance process. The Companies argued that the removal of the upward pricing constraint would not be equivalent to forbearance, since the ILEC would continue to file tariffs for the relevant services and the imputation test would continue to apply to these services.
547. The Companies submitted that CLECs are quickly growing their market share in major urban centres, and are expected to serve 20% of customers in Bell Canada's Band A by year end 2001. The Companies also suggested that more than 30% of customers in Bell Canada's Band A could be served by competitors, and that competitive conditions in Band A satisfy the proposed test for removal of the upward pricing constraint.
548. TELUS proposed a competitiveness test for business services only. TELUS proposed that the upward pricing constraints could be removed no sooner than one year after there has been actual entry in a given rate band, i.e., a service provider has served or actively sought customers for at least one year. TELUS concurred with the Companies' view that

the concept of relevant geographic market may require further refinement, and could be larger or smaller than a rate band. TELUS stated that the test was not a forbearance test and should be applied to markets not ready for forbearance.

549. Most parties were opposed to the competitiveness tests proposed by the ILECs, arguing that, if adopted, the tests would permit the ILECs to use their market power to increase rates in areas where they were not subject to competition and reduce rates in areas where there was competition. The Commissioner of Competition submitted that to avoid this, it was essential to identify the relevant market for the tests, and stated that the relevant market could be smaller than a rate band. The Commissioner of Competition also argued that removal of the upward pricing constraint would be equivalent to forbearance, and that the Commission should continue to apply the forbearance test developed in Decision 94-19.
550. Group Telecom, the Commissioner of Competition, and ARC et al. stated that the test developed for cable distribution was not appropriate for telecommunications, because telecommunications was an essential service. The Commissioner of Competition also noted that in cable distribution, satellite service was an effective substitute for many users, and that no equivalent telecommunications service substitute was available.
551. As discussed in Part II of this Decision, local competition is developing slowly, and CLECs have significant start-up and ongoing costs. CLECs must lease services or facilities from the ILECs to serve many of their customers. In addition, CLECs may also face difficulties accessing tenants in multi-dwelling buildings, and in accessing municipal rights-of-way and non-carrier support structures. All of these considerations can limit the size of the market an entrant can serve, thus, in essence, becoming barriers to entry.
552. While all parties accepted that competition in the business market would increase in the next few years, the Commission is not persuaded, at this stage, that there will be substantial competitive entry in the residence market during the next price cap period.
553. The removal of upward pricing constraints as proposed by the Companies and TELUS would provide the ILECs with the flexibility to increase prices beyond the price cap constraints. The ILECs already have the flexibility to price below the price cap constraints, as long as the prices comply with an imputation test.
554. In light of the above, the Commission considers that the increased flexibility proposed by the Companies is not appropriate. The Commission is of the view that consideration of any increased pricing flexibility beyond the pricing constraints approved in this Decision should continue to take place within the context of the criteria for forbearance developed in Decision 94-19.
555. For these reasons, the Commission is also not persuaded that approval of the test proposed by TELUS would be in the public interest. The Commission's view on this proposed test takes into account the considerations regarding limited competitiveness

and the presence of non-regulatory entry barriers. The Commission considers that a necessary pre-condition to loosening restrictions as proposed by TELUS and the Companies would be the existence of appreciably more competitive markets than is the case at present.

Long-term contracts

556. Group Telecom argued that long-term contracts limit entry by reducing the market that competitors can address. Group Telecom proposed that long-term contracts in multi-dwelling buildings should be terminated one year after a CLEC builds facilities that could serve such multi-dwelling buildings.
557. The Companies argued that all service providers can sign customers to multi-year contracts. Customers are well informed and know the alternatives open to them. Further, long-term contracts do expire. TELUS noted that long-term contracts benefit both the customer and the carrier by permitting the sharing of risks between the carrier and the customer, and by permitting the ILEC to pass on cost savings to its customers. TELUS also observed that Decision 97-8 did not limit the use of long-term contracts.
558. TELUS submitted that only 5% of its business customers have long-term contracts. TELUS submitted that it would lose pricing flexibility if it were not permitted to enter into long-term contracts. TELUS also argued that Group Telecom does not know whether, or how often, prior contracts have prevented entry into a building.
559. In Decision 97-8, the Commission noted that it had approved long-term contracts for a number of services, but that in some cases it had not permitted such contracts where inconsistent with Subsection 27(2) of the Act. The Commission also noted that parties could submit comments on any filing by the ILECs for approval of changes to their tariffed contract terms. The Commission considers that this approach continues to be appropriate.
560. However, the Commission also notes that the issue of automatic renewals of long-term contracts arose during Group Telecom's cross-examination of Bell Canada.
561. The Commission notes that Bell Canada, General Tariff CRTC 6716, Item 70 provides that:
- At the end of the commitment period, the MCP [the minimum contract period] will automatically be renewed with a new MCP of the same duration unless customers notify the Company of their intention to terminate this option during the last 30 days of the MCP.
562. Thus, under the terms of the tariff, the onus is on the customer to terminate the contract. Unless the customer takes action as stated in the tariff, Bell Canada is entitled to renew the contract automatically. No positive consent is required for renewal.

563. Pursuant to the tariff, the customer must be made aware of all the terms and conditions of the contract, which would include the renewal mechanism. Bell Canada's methods to satisfy itself that the customer understands the terms and conditions are:
- a) receipt of a signed document as customer confirmation;
 - b) oral confirmation verified by an independent third party;
 - c) electronic confirmation through the use of a toll-free number; and
 - d) electronic confirmation via the Internet.
564. Similar mechanisms are set out in TELUS Communications (B.C.) Inc. General Tariff CRTC 1005, Item 32 and TELUS Communications Inc., General Tariff CRTC 18001, Item 425.
565. The Commission is not persuaded that these tariffs adequately ensure that all customers are specifically aware of the automatic renewal provisions. Accordingly, Bell Canada and TELUS are directed to show cause, within 17 July 2002, why the tariffs referenced above, as applicable, should not be amended to remove the automatic renewal provision, and to add a provision requiring that positive consent to renew be obtained from customers no less than 30 days before expiry, such as the positive consent provision approved in *Optel Communications Corporation vs. Bell Canada – CRTC clarifies contract requirements for local link service*, Order CRTC 2000-250, 30 March 2000.

Carrier Services Group and the role of an ILEC's in-territory affiliate

566. Bell Canada testified that it had moved its Carrier Services Group to Bell Nexxia, an affiliated Canadian carrier that offers services as a non-dominant competitor nation-wide, including Bell Canada's territory.
567. Group Telecom submitted that the ILECs have incentives not to comply with Commission rules related to building access, tariff filings, the imputation test and the local affiliate rule implemented in *Affiliate rule for primary local exchange services*, Telecom Order CRTC 99-972, 8 October 1999. Group Telecom stated that the ILECs have many opportunities to use affiliates to circumvent the regulatory safeguards developed by the Commission. Call-Net argued that the ILECs may use their in-territory affiliates to price services below levels required by the imputation test. Call-Net submitted that Bell Nexxia's activities in reselling Bell Canada's services to Bell Canada's competitors and to end-users present many opportunities to avoid Bell Canada's pricing obligations.
568. On 31 January 2002, the Commission received an application from Group Telecom that addresses issues similar to those noted above. The Commission will consider these issues in the proceeding initiated by that application.

Implementation issues

Amalgamation of price cap indices

569. In *CRTC denies TELUS Communications Inc.'s application to merge price cap models*, Telecom Decision CRTC 2002-6, 12 February 2002 and *CRTC directs Aliant Telecom Inc. to submit individual-company price cap summaries in tariff notices*, Telecom Decision CRTC 2002-9, 12 February 2002, the Commission denied requests by TELUS and Aliant Telecom, respectively, to merge the price cap indices of their predecessor companies. At that time, the Commission stated that the amalgamation of the individual indices would provide greater pricing flexibility than that permitted under the initial price cap regime. The Commission further stated that it would address the issue of the amalgamation of these ILECs' price cap indices in the context of this proceeding.
570. In this proceeding, the Commission is establishing a price cap regime that is specific to each of Aliant Telecom and TELUS. The Commission therefore considers it is appropriate that the price cap indices should also be specific to these ILECs.
571. Accordingly, the Commission concludes that Aliant Telecom and TELUS are no longer required to file separate price cap indices for their predecessor companies. Instead, they should submit filings that reflect their respective mergers.

Timing of annual price cap filings

572. The Companies noted that, under their proposals, specific services or groups of services would be subject to pricing constraints and that with each tariff filing, the ILECs would be required to demonstrate that these constraints were being met.
573. The Companies also noted that, for service groups subject to upward pricing constraints, compliance with the applicable overall upward pricing constraint would be demonstrated by comparing a price index of actual price changes with a price index of allowable price changes. The allowable average price changes would be indicated by a service band limit (SBL) while the actual average price changes would be indicated by a service band index (SBI).
574. The Companies submitted that the SBL and SBI should be set at 100 at the start of the new regime for each service category. They proposed that the SBL be updated each year, by 31 March, based on the average annual rate of change in the inflation factor in the previous calendar year, and that the SBLs would apply for the twelve-month period from 1 May to 30 April of the following year.
575. The Companies further submitted that, as in the initial price cap period, the base period for determining the revenue weights for the SBI updates in any twelve-month period should be the last full calendar year prior to these updates.

576. The Companies put forward two reasons for selecting 31 March for the annual SBL updates. First, the total subsidy requirement for each year would be updated on 31 March, in accordance with the Commission's determinations in Decision 2000-745. Second, Statistics Canada releases data on the inflation factor for a particular calendar year at the end of February of the following year.
577. The Commission considers that the Companies' proposal to continue with 31 March for the annual update of the price indices is reasonable. The Commission would normally expect to dispose of the ILECs' annual price cap filings by 1 June. In view of the date that this Decision is being issued, the Commission modifies the date of the ILECs' 2002 annual price cap filings to 1 August 2002.
578. To ensure that the annual price cap period for 2002 reflects a full year, the Commission determines that all ILECs' tariffed rates are to be made interim, effective 1 June 2002. The Commission expects that any rate changes approved by the Commission to meet the 2002 price cap commitment would be effective as of 1 June 2002.
579. The Commission concludes that the SBLs and SBIs should be set at 100 effective 31 May 2002.

Directions

580. The Commission therefore directs:
- each ILEC to file the SBL and SBI with supporting calculations, formulae and spreadsheets, for each basket/sub-basket of capped services, as applicable, on 1 August 2002; and
 - on an annual basis on 31 March for the remainder of the price cap period, each ILEC to file updates to the SBL and SBI, with supporting calculations, formulae and spreadsheets, for each basket/sub-basket of capped services, as applicable.

V Components of the price cap formula

Background

581. In Decision 97-9, the Commission established a price cap formula that consisted of three basic components: an inflation factor, a productivity offset (the X-factor) and an exogenous factor (the Z-factor).
582. These three components were used to determine the maximum allowable annual price changes for the basket of capped services. The inflation factor allowed for cost increases in keeping with changes in the national economy. The X-factor imposed a downward constraint to reflect productivity improvements. The Z-factor permitted adjustments required by certain unanticipated events beyond the control of the ILECs.

583. In Decision 2000-745, the Commission determined that residence PES costs would be one of the components of the total subsidy requirement (TSR). The Commission further determined that these PES costs would be adjusted, annually, using a pre-determined productivity offset, to be determined in the present proceeding. In Decision 2001-238, the Commission determined that the base PES costs in the TSR calculation would also be adjusted annually for an inflation factor, also to be determined in the present proceeding. The TSR is discussed in more detail in Part IX of this Decision.
584. In PN 2001-37, the Commission sought comments on the use and value of these components in the next price cap regime, as well as in the TSR calculation.

Inflation index

585. With regard to the inflation factor, the Companies and TELUS proposed to continue to use the same basic measure of inflation as in the initial price cap regime – the national Gross Domestic Product - Price Index (GDP-PI). The GDP-PI is a measure of the national output price change published by Statistics Canada.
586. Other parties who commented on the inflation factor also supported the continued use of the GDP-PI.
587. Until recently, there were two forms of GDP-PI produced by Statistics Canada: a chain-weighted index and a fixed-weighted index. The chain-weighted index reflects changes in the price of a basket of goods and is updated to reflect actual expenditures on a quarterly basis. The fixed-weighted index also tracked price changes for a basket of goods but was updated less frequently. In Decision 97-9, the Commission used the fixed-weighted index in the price cap formula.
588. In their submissions, the Companies and TELUS pointed out that, effective 31 May 2001, Statistics Canada had adopted the chain-weighted GDP-PI as the official measure of the economy-wide inflation rate. The fixed-weighted GDP-PI is no longer published by Statistics Canada.
589. TELUS and the Companies provided tables illustrating minor differences between the two indices in the past. Given that the fixed-weighted index is no longer available, they recommended the Commission use the chain-weighted GDP-PI for the next price cap formula.
590. The Commission agrees, and accordingly directs Aliant Telecom, Bell Canada, MTS, SaskTel and TELUS to use the annual chain-weighted GDP-PI published by Statistics Canada as the measure of inflation for the price cap indices and pricing constraints, and in the calculation of the TSR.

Productivity offset (X-factor)

Background

591. In Decision 97-9, the Commission concluded that the productivity offset should be calculated using the following components:
- a) the industry total factor productivity (TFP) defined as the measure of efficiency of the telephone companies taking into consideration all the inputs (labour, material, and capital) and outputs (revenues);
 - b) the economy-wide TFP defined as the productivity index for the business sector of the economy as a whole, produced by Statistics Canada;
 - c) the input price differential defined as the difference between the industry and economy-wide input price growth rates; and
 - d) the consumer productivity dividend (stretch factor).
592. The first three components comprised the basic offset. The stretch factor was included in order to ensure that consumers shared in the benefits resulting from the streamlining of regulation and the increased incentives for efficiency for the telephone companies under price cap regulation.
593. In determining the level of the basic offset, the Commission relied on time periods that were long enough to capture the sustained effects of productivity growth and to mitigate the effect of one-time events and short-term fluctuations. In Decision 97-9, the Commission approved a basic productivity offset of 3.5% along with a stretch factor of 1.0% for an annual X-factor of 4.5% for the initial price cap period.
594. In PN 2001-37, the Commission invited parties to provide proposals and evidence on the appropriate productivity offset, if any, for the next price cap regime, as well as the offset to be used in the calculation of the TSR.
595. In determining the appropriate level of the X-factor, the following issues were addressed:
- a) whether the productivity offset should be industry-wide or company-specific;
 - b) the methodology that should be used to determine the basic productivity offset for the TSR calculation;
 - c) the methodology that should be used to determine the basic productivity offset for the price cap formula;

- d) the actual level of the basic productivity offset; and
- e) whether there should be a stretch factor.

The Commission's determinations on each of these issues are set out below.

Industry-wide versus company-specific X-factors

- 596. The Companies submitted that, in theory, the X-factor should be set on an industry-wide basis in order to provide incentives to the ILECs to increase efficiency. In their view, the use of an industry-wide X-factor would provide the right incentives to ILECs to achieve productivity gains at least as high as this target.
- 597. At the same time, the Companies suggested that company-specific offsets could be considered in circumstances where operating characteristics such as terrain, density, demography or network characteristics might prevent a particular ILEC from being able to achieve the same level of productivity gains as others.
- 598. TELUS argued in favour of a company-specific X-factor. In TELUS' view, the operating characteristics of Bell Canada and TELUS were too different to allow for the use of an industry-wide offset.
- 599. SaskTel proposed that there be no X-factor used either in the price cap regime or in the TSR calculation. In the alternative, SaskTel supported company-specific offsets with its own offset fixed at 0%. In its view, a 0% offset was justified for a number of reasons, including the minimal opportunity to achieve productivity gains within HCSAs in its territory.
- 600. Call-Net, AT&T Canada, ARC et al., Calgary and RCI did not directly address the issue of industry-wide versus company-specific X-factors. However, these interveners provided data in their evidence on an industry-wide basis.
- 601. In addition, RCI submitted that SaskTel had achieved TFP gains that were comparable to those of the other telephone companies over the past four years. Consequently, RCI argued that there was no need for a SaskTel specific X-factor.
- 602. Group Telecom submitted that, contrary to SaskTel's suggestion, it was appropriate to apply a productivity adjustment in the TSR calculation and that such an adjustment was necessary to ensure that the TSR remained cost-based.
- 603. In the Commission's view, neither SaskTel nor TELUS have demonstrated that their operating characteristics differ sufficiently from the other ILECs to warrant a company-specific X-factor.

604. In Decision 97-9, the Commission stated that an industry-wide X-factor rewards those companies that have achieved higher-than-average productivity results and forces those companies with lower productivity results to become more efficient. The Commission continues to be of that view.
605. Accordingly, the Commission has concluded that it is appropriate to continue to use an industry-wide X-factor in the next price cap period for the TSR calculation and for the pricing constraints, as applicable.

Methodology for deriving the X-factor for the TSR calculation

606. With the exception of SaskTel, the ILECs argued in favour of applying a marginal cost approach to determine the basic productivity offset for the TSR calculation.
607. The Companies (except SaskTel) submitted that the productivity offset should be set based on the expected reductions in marginal costs for HCSAs. According to the Companies, an analysis of historical marginal cost changes for basic residential local service would provide a reasonable basis for determining the productivity target with a strong link to widely-used productivity concepts.
608. The Companies noted that no historical cost data was available for HCSAs, since the current band structure relating to HCSAs had only been established as of April 2001 in Decision 2001-238. The Companies proposed to approximate the marginal cost trend data in the HCSA bands using the marginal cost data observed in residence PES as a whole.
609. The Companies submitted that it was reasonable to expect that there would not be large differences in the marginal cost trends between the HCSA bands and the residence PES as a whole, since the underlying technologies and business operations were essentially the same across all bands.
610. TELUS submitted that the current X-factor approach applied to an environment in which all services provided by a regulated firm fell under the price cap regime. TELUS submitted that the manner of establishing the offset must be modified to determine an X-factor for capped services in a way that would preserve the ideal incentive properties of a price cap regime.
611. TELUS submitted that prices in competitive markets grew at long-run rates equal to marginal cost growth rates. Thus, an X-factor that preserved the ideal incentive properties of a price cap regime would set the average growth rate of prices for capped services equal to the average marginal cost growth rate for those services.
612. The interveners who commented on this issue argued that TFP was the most comprehensive measure of productivity and should be used for the TSR calculation.

613. In AT&T Canada's view, the ILECs' more recent productivity performance under price caps should be taken into account in setting the productivity offset for the cost component of the TSR.
614. The Commission notes that applying a company-wide TFP-based productivity offset to the cost of local residential service in HCSAs could overestimate the productivity gains that could reasonably be expected for such areas. This would, in turn, result in an understatement of the TSR.
615. In any event, the calculation of the TSR includes only revenues and costs associated with local residential service in HCSAs. Consequently, the productivity offset to be applied to the cost component of the TSR should be based on the expected reductions in marginal costs for local residential services in HCSAs. The Commission considers that it would not be appropriate to use a TFP-based company-wide measure in the TSR calculation.
616. Finally, the Commission is of the view that SaskTel has not presented any substantial evidence to demonstrate that productivity adjustments have already been incorporated into the subsidy requirement outlined in Decision 2001-238.
617. In light of the above, the Commission concludes that marginal cost trend data for basic residential local service in HCSAs provides an appropriate basis for determining the basic productivity offset for the TSR calculation.
618. The Commission also agrees with the Companies that it is reasonable to expect there would not be large differences in the marginal cost trends between residence PES costs in HCSA bands and residence PES costs as a whole. The Commission therefore considers that it would be appropriate to use residence PES cost data as a proxy for the purposes of setting the basic productivity offset for the TSR calculation.

Methodology for deriving the X-factor for price cap baskets

619. Both the Companies and TELUS opposed the inclusion of a basic productivity factor in a price cap formula applied to capped services.
620. In the alternative, the Companies argued against an X-factor based on TFP. They noted that TFP provides a measure of company-wide productivity improvement. They claimed that significant productivity gains have been achieved in their Competitive Segment and, in their view, it would be inappropriate to rely on those gains when determining an X-factor for the Utility Segment's capped services.
621. Instead, the Companies proposed that basket-specific marginal costs, derived using the Phase II methodology, should be used to determine a basic productivity offset for capped services.

622. TELUS submitted that prices in competitive markets grew at long-run rates equal to marginal cost growth rates. It followed in TELUS' view that an X-factor that preserved the ideal incentive properties of a price cap regime would set the average growth rate of prices for capped services equal to the average marginal cost growth rate for those services.
623. RCI, Call-Net and ARC et al. argued that an X-factor based on Phase II data was not appropriate.
624. ARC et al. submitted that company-wide TFP results offered a good indicator of Utility productivity gains in the absence of clear evidence to the contrary. ARC et al. argued that TFP was a more comprehensive, and hence a more realistic measure of productivity gains than the marginal cost approach.
625. RCI argued that it would be inappropriate to determine a productivity offset using Phase II studies since these studies did not measure actual marginal costs. Rather, they relied on yearly forecasts of demand and cost levels. Specifically, they incorporated certain cost data into models that were then used to generate forecasts based on demand predictions.
626. RCI was of the view that the Commission should continue to calculate the productivity offset using the TFP-based methodology established in Decision 97-9. RCI stated that this would capture the efficiencies achieved across all ILEC services, including all of the capped services. In this regard, RCI observed that this methodology relied on actual achieved output and input figures, rather than estimates of costs and forecasts of productivity.
627. Call-Net submitted that it supported the continued use of the TFP-based formula from Decision 97-9, with one key difference: industry TFP should be restricted to the ILECs' productivity achievements over the initial price cap regime. Call-Net argued that with the adoption of the initial price cap regime, the ILECs were given the incentive to increase their productivity. Call-Net submitted that the Commission now has data as to the ILECs' TFP for the period during which they were subject to the incentives of the price cap regime, and should use this measure as the industry TFP component in the X-factor calculation.
628. Group Telecom argued that using TFP in the PCI would not provide a reliable proxy for the change in marginal costs over time on either a rate-element-specific, service-specific or a sub-basket-specific basis. Group Telecom noted that a PCI based on TFP was essentially a measure of how unit costs changed over time for a company as a whole. Group Telecom submitted that Phase II was a fundamentally sound methodology for estimating forward-looking causal costs.

629. In Part IV of this Decision, the Commission determined that the productivity offset will be applied directly to certain baskets of services and individual rate elements. The Commission notes that this is significantly different from the initial price cap regime, in which a productivity offset was imposed on capped services overall.
630. The Commission considers that, in applying an X-factor to certain baskets of services and individual rate elements, a TFP-based approach would be more comprehensive than a marginal cost-based approach. However, the Commission notes that the ILECs were not able to calculate a TFP-based X-factor on a service-specific basis.
631. In these circumstances, the Commission does not consider the continued use of a TFP-based X-factor to be appropriate. In the Commission's view, the basic productivity offset for the next price cap regime should be based on service-specific marginal costs in order to reflect the actual productivity gains that are likely to be achieved for individual capped baskets.

The level of the offset

632. In light of the above determinations, it is necessary to calculate an industry-wide basic productivity offset for the TSR calculation based on the marginal cost of local residential service in HCSAs. It is also necessary to calculate an industry-wide basic productivity offset for the baskets of capped services and individual rate elements based on the relevant marginal costs.
633. With respect to the TSR calculation, the Companies filed a detailed analysis that measured the marginal cost trend of residence PES as a whole, using data extracted from cost studies conducted by Bell Canada over the period 1988 to 2001. The Companies proposed to use this Bell Canada data as a proxy for Aliant Telecom and MTS since PES marginal costs were not available on a consistent year-to-year basis for these two companies. Based on this data, the Companies proposed a 3.5% basic productivity offset.
634. In its original submission, TELUS proposed an X-factor of 3.0%. TELUS based this proposal on the marginal cost data of Bell Canada for the period 1989 to 1995, as well as the marginal cost data of Bell Canada and TELUS (Alberta) combined over the period 1996 to 2001. In its final argument, TELUS proposed a basic productivity offset of 2.2% based on TELUS (Alberta) marginal cost data for the period 1996 to 2001.
635. ARC et al. and Call-Net separately proposed TFP-based offsets relying on the methodology used by the Commission in the initial price cap regime.
636. The Commission notes that only TELUS and Bell Canada provided marginal cost data during the course of the proceeding. The Commission also notes that TELUS' marginal cost data for its residential service was based on a very limited number of data points. TELUS also relied, to some extent, on Bell Canada marginal cost data in its original proposal. The Commission is of the view that the low number of data points and the

short time period underlying TELUS' final proposal makes it less reliable than Bell Canada's. The Commission accordingly concludes that Bell Canada's residence PES marginal cost data provides the best basis on which to calculate the productivity offset for the TSR.

637. With respect to the productivity for services and rate elements, the Commission notes that Bell Canada's marginal cost data for residential services do not relate specifically to services such as Competitor Services and Other capped services. Nonetheless, the Commission is of the view that the residential PES marginal cost data would better approximate marginal cost trends than other data available in this proceeding. The Commission therefore concludes that the basic productivity offset for the price cap constraints should also be calculated using this data.
638. In light of the above, the Commission concludes that the basic productivity offset should be 3.5% for the TSR calculation and for the pricing constraints, as applicable.

Stretch factor

639. In Decision 97-9, a 1.0% stretch factor was added to the basic offset to ensure that the benefits of moving from rate of return regulation to price cap regulation would be shared with consumers in the form of price reductions.
640. The Companies noted that the stretch factor was intended to reflect the additional productivity gains that a company might experience as a result of the change in regulatory regime. In the Companies' view, consumers had already benefited from these changes, given that current prices reflected the impact of the stretch factor over the past four years. Consequently, the Companies argued that a stretch factor was not appropriate in the next price cap regime.
641. TELUS submitted that any cost reductions resulting from the transition to price cap regulation were one time and transitory by their very nature. It would therefore, in TELUS' view, be inappropriate to include a stretch factor in the next price cap formula.
642. AT&T Canada submitted that a stretch factor should be added to establish a reasonable and challenging target productivity offset.
643. Call-Net and RCI argued that it was reasonable to add a stretch factor to the productivity offset since the time period used to calculate the offset, viz. 1998 to 2001, had for the most part been characterized by rate of return regulation, when ILECs had little incentive to be productive. A stretch factor would, therefore, counterbalance the negative effects on productivity attributable to the previous form of regulation.
644. The Commission agrees with the Companies' view that current prices already reflect the impact of the stretch factor established in the initial regime. In addition, the Commission considers that additional productivity gains due to the further streamlining of regulation would be difficult to achieve in the next price cap regime. The Commission is also of the view that the basic productivity offset of 3.5%, based on the marginal cost approach,

indirectly incorporates a limited stretch factor. This implicit stretch factor results from the fact that the marginal cost growth for the years 1998 to 2001 included the productivity gains achieved under price cap regulation.

645. Accordingly, the Commission concludes that no stretch factor should be applied to the productivity offset.

The value of the X-factor

646. Based on the above, the Commission determines that an annual X-factor of 3.5% will be used in the TSR calculation and in the price cap indices and pricing constraints, as applicable, in the next price cap regime. The Commission notes that its determinations in Part IV of this Decision, regarding the capped services to which a productivity offset will apply, result in a broader base of services being subject to the productivity offset than under the initial price cap regime.

Exogenous factor

647. In Decision 97-9, the Commission established an exogenous factor (Z-factor) as a component of the price cap formula for the initial price cap regime. The Z-factor flows through the impact associated with events not captured by other elements of the price cap formula. Adjustments were considered for events or initiatives which satisfied the following criteria:
- a) they are legislative, judicial or administrative actions which are beyond the control of the company;
 - b) they are addressed specifically to the telecommunications industry; and
 - c) they have a material impact on the Utility Segment of the company.
648. The Commission also directed that the impact of an exogenous event be determined on a company-wide basis and assigned between the Capped and Uncapped Services on a cost-causal basis. In addition, the Commission considered that, in general, actual data should be used to determine the impact.
649. Further, the Commission required the ILECs to file any proposed Z-factor adjustments to the PCI with their annual price cap filings.
650. In PN 2001-37, the Commission invited comments on whether a Z-factor should be included in the next price cap formula and, if so, how it should be treated.

The need for exogenous factors

651. Both the Companies and TELUS submitted that it would be appropriate to continue to allow for exogenous adjustments in the next price cap regime. The Companies indicated that there were some circumstances under which exogenous factors may be justified and

may prove necessary to preserve the integrity of the price cap regime. TELUS submitted that a company subject to price regulation should not unduly benefit from nor be unduly penalized for events beyond its control, and that certain types of events were not accurately captured by other elements of the price cap formula.

652. AT&T Canada was the only party who argued that there was no longer a requirement for exogenous adjustments. AT&T Canada's position on this point was based on its proposal to eliminate the overall constraints on the PCI.
653. The Commission has determined that there is a continued requirement for exogenous adjustments. If there were no adjustments for exogenous events, the ILECs would unfairly be required to bear the risk associated with events beyond their control that increase their costs to a significant extent. At the same time, consumers and competitors using the ILECs' services would not benefit from cost savings that could be passed on to them through these adjustments.
654. In the Commission's view, the most appropriate way to capture an exogenous event continues to be as a component of the price cap formula that is triggered when that event occurs. Accordingly, the Commission determines that the next price cap regime will include exogenous adjustments.

Criteria for exogenous treatment

655. The Companies submitted that a material impact on the ILECs' costs of an unforeseen event should not necessarily trigger an exogenous adjustment. Retail prices should not generally be regulated with reference to the companies' costs, but rather with reference to market conditions and the policy objectives relating to affordability and competition. As a result, the Companies proposed that an exogenous adjustment would only be necessary if the event were to materially change the nature of the Utility services, or be inconsistent with the predefined pricing flexibility. The Companies indicated that, under these conditions, it was likely that only decisions made by the Commission would qualify.
656. The Companies also indicated that their proposal is symmetric as it encompasses upward and downward adjustments. The Companies did not propose to change the basis for the assignment of exogenous adjustments to Capped Services from the current practice.
657. TELUS submitted that an exogenous adjustment should be defined by the following characteristics:
- a) legislative, judicial or administrative actions which are beyond the control of the telephone company;
 - b) addressed specifically to the telecommunications industry;
 - c) having a material impact on the firm; and
 - d) otherwise recoverable in the absence of price regulation.

658. TELUS submitted that its proposal was symmetric; that any exogenous adjustment should be assigned to services on a revenue-weighted basis; and that exceptions should be granted only in rare circumstances. TELUS further submitted that a firm should be entitled to an exogenous adjustment for a significant natural disaster, the imposition of fees for access to public rights-of-way and the imposition of building access fees in certain circumstances.
659. RCI submitted that public interest programs such as SIPs should be included in the price cap formula as an exogenous factor. RCI believed that SIPs met the existing criteria and were best included in the price cap formula as exogenous factors in order that their impact not be maintained in the rate levels indefinitely.
660. The Commission notes that the criteria proposed by the Companies differ significantly from the existing criteria and considers that they would unduly narrow the definition of an exogenous factor. In the Commission's view, these proposed criteria do not ensure recognition of all potential exogenous events. As such, the Commission considers that the Companies' proposed criteria for exogenous treatment is not appropriate.
661. The Commission notes that TELUS' proposed criteria are similar to the existing criteria. The first two criteria cited by TELUS are identical to the existing criteria established in Decision 97-9. TELUS has indicated that its fourth criterion simply summarizes the purpose for an exogenous adjustment. With respect to TELUS' third criterion, since the Commission has determined in Part X of this Decision that the ILECs will no longer be required to produce Phase III/split rate base (SRB) results, no separate financial reporting of their Utility Segments will be available in the next price cap regime. The Commission accordingly agrees with TELUS that an exogenous event should be defined to be material measured against the total company.
662. The Commission considers that exogenous events should continue to be events of a material impact beyond the control of the ILECs that are not otherwise accounted for in the price cap parameters. It concludes that the criteria for exogenous events set out in Decision 97-9, modified to measure materiality in relation to the total company, remain appropriate.
663. As each exogenous adjustment proposed in the next price cap regime will be reviewed on an individual basis, taking into consideration the particular circumstances of each event, the Commission is of the view that the basis of assigning the exogenous adjustment should be determined on a case-by-case basis. This will provide the flexibility needed to ensure that the amounts are properly assigned to the appropriate baskets. Accordingly, Aliant Telecom, Bell Canada, MTS, SaskTel and TELUS will be expected to file a proposal, with supporting rationale, with each application for an exogenous adjustment stating the preferred basis of assignment.

664. The Commission is also of the view that exogenous factors should not be assigned to the Frozen Rates and the Competitor Services baskets. If it is determined that all or part of an exogenous adjustment should be assigned to the Competitor Services basket, the Commission considers that this event may, for Category I Competitor Services, affect the Phase II costs directly, which may require the revised rates to be filed using the Phase II costing methodology. With respect to Category II Competitor Services, the Commission has determined in Part IV of this Decision that the rates for these services are to be capped at existing levels.
665. With respect to RCI's proposal that SIPs be included in the price cap formula as exogenous factors, the Commission notes that the recovery of SIP costs is addressed in Part VIII of this Decision.

Identification of exogenous events

666. The Companies submitted that they and other interested parties should be required to notify the Commission of any exogenous adjustments, either positive or negative, within 30 days of the event's occurrence. During the proceeding, TELUS expressed the view that a 30-day window was unfair to interested parties as it was unlikely that there would be enough time to identify and analyze the impacts of any potential exogenous adjustments.
667. The Commission is of the view that in order to ensure fairness to all stakeholders, the ILECs should be required to notify the Commission of all proposed exogenous adjustments as soon as possible after they have been identified. The Commission shares the concern voiced by TELUS that 30 days may not allow enough time to identify and analyze the impacts of any potential exogenous adjustments. Therefore, Aliant Telecom, Bell Canada, MTS, SaskTel and TELUS are required to notify the Commission of any proposed exogenous adjustment within 60 days of the event's occurrence. Other parties who believe an exogenous adjustment is required should notify the Commission as soon as possible after they learn of the relevant facts.
668. The Commission also concludes that the impact of any proposed exogenous adjustment should be initially captured in a separate deferral account pending a ruling from the Commission as to its applicability. The impact of any proposed adjustment is to be measured from the time the event occurred. The disposition of the deferral account would follow the Commission's ruling on the proposed exogenous adjustment.

Exogenous adjustments carried through from the initial price cap period

669. The Companies and TELUS submitted that they were subject to a number of exogenous adjustments during the initial price cap period, relating to:
- a) certain one-time start-up costs associated with local competition and local number portability (LNP);
 - b) a reduction in DC rates; and
 - c) the contribution revenue-percent charge.

670. Other ILEC-specific exogenous adjustments that the Companies were subject to during the initial price cap period stemmed from:
- a) a reduction to Bell Canada's Ontario Gross Receipts Tax (GRT);
 - b) the mechanism to recover MTS' income tax expense;
 - c) an adjustment to NBTel's 1999 contribution rate; and
 - d) an adjustment to MTT's 2001 9-1-1 service rate.
671. TELUS also identified an exogenous adjustment made during the initial price cap period relating to the Greater Vancouver Region common local calling area.
672. The Companies opposed the view that exogenous adjustments made in the initial price cap period should automatically carry through to the next price cap plan. They indicated that such a process would overlook the potential impact of these events on future prices and objectives. During the hearing, the Companies indicated that they did not propose to reduce the PCI when the amounts for local competition start-up and LNP were recovered. The Companies also noted that they were not planning to adjust prices for the reduction in the revenue-percent charge in 2002 or for the additional impact of the GRT savings.
673. TELUS submitted that exogenous adjustments should be carried through from one price regulation plan to the next without a revenue requirement determination. TELUS submitted that the fact that an event entitling exogenous treatment occurs late in the regime ought not to result in the company recovering only a portion of what they would otherwise be entitled to. TELUS also indicated that it planned no reduction to rates as a result of the reduction in the contribution revenue-percent charge.
674. AT&T Canada submitted that the ILECs had benefited significantly at the expense of competitors and consumers as a result of the exogenous factor adjustments granted to them during the initial price cap period. In AT&T Canada's view, this amount, along with the other impacts of additional pricing flexibility, had combined to give the ILECs "supra-normal" profits that would more than offset any discounts given on Competitor Services.
675. Call-Net submitted that the Commission should ensure that once the ILECs had recovered the money that an exogenous factor was meant to address, the Z-factor should be eliminated. Call-Net further stated that rather than implementing rate reductions, the Commission should ensure that this pool of gains was used to offset the financial impact to the ILECs of changes that Call-Net had proposed to promote competition.
676. RCI indicated that it expected that the PCI would be adjusted, where necessary, in the next price cap regime to reflect changes to, or the expiration of, exogenous factors applied during the initial price cap regime. RCI stated that it was appropriate for the ILECs to adjust for the impact of carried-over exogenous factors to ensure that customers benefited from the price reductions that they were entitled to receive.

677. ARC et al. and BCOAPO et al. submitted that time-limited exogenous impacts should be reflected in time-limited exogenous adjustments. They stated that once the total dollar amount in question had been recovered, the PCI should be reduced accordingly. Group Telecom, Calgary and Shaw also agreed that the carry-through impact of time-limited exogenous factors should be adjusted for in the next price cap period.
678. The Commission notes that it allowed the ILECs certain exogenous factors in the initial price cap period. Most of these allowed the ILECs to recover costs by increasing rates to subscribers or mitigating required rate decreases. While most of the adjustments were intended to be ongoing, portions of two of these adjustments were time-limited. These two adjustments relate to the expected reduction in 2002 of the contribution revenue-percent charge and the costs, that were one-time in nature, related to the start-up costs associated with local competition and LNP.
679. The Commission is of the view that an adjustment should be made to recognize the expiry of these two time-limited exogenous events, and hence the expiration of the requirement for the original adjustment.
680. The Commission notes that these time-limited exogenous adjustments were applied to rates in both non-HCSAs and HCSAs. The Commission has concluded that the treatment of the time-limited exogenous adjustments should be different for non-HCSAs and HCSAs.
681. The Commission has determined that the adjustment to be made for these two time-limited exogenous factors associated with non-HCSAs should be accomplished through the deferral account discussed in Part IV of this Decision. The value of the exogenous factors to be carried forward in the deferral account would be used to offset:
- a) the reduction in revenue caused by the reduction of both the mark-up on Competitor Services and the price of DNA services to competitors (discussed in Part III of this Decision); and
 - b) the recovery of SIP costs in non-HCSAs (discussed in Part VIII of this Decision).
682. The Commission considers that the expired portion of the exogenous factors relating to non-HCSAs and the other amounts in the deferral account, where required, will be sufficient to offset these lost revenues and additional costs. The Commission notes that the disposition of the deferral account is addressed in Part IV of this Decision.
683. As outlined in Part VIII of this Decision, the time-limited exogenous adjustments in HCSAs will be used to offset costs related to the SIP through the mechanism of the subsidy calculation.

684. The Commission directs Aliant Telecom, Bell Canada, MTS, SaskTel and TELUS to file by 6 August 2002, their estimates, along with supporting calculations, of the amounts of the expected reductions in 2002, for non-HCSAs and HCSAs, of (i) the contribution revenue-percent charge, and (ii) the one-time start-up costs associated with local competition and LNP.

Other matters

685. The Commission notes that the Ontario government has been reducing the 5% GRT by 1% per year since 1999. The GRT will be completely eliminated in 2003. In *Bell Canada's savings from gross receipts tax reductions*, Order CRTC 2001-100, 2 February 2001 (Order 2001-100), the Commission directed Bell Canada to include a downward exogenous adjustment to its price cap formula to recognize certain savings resulting from the reduction in the GRT rate. The Commission directed that an adjustment be made for 2001 to the pricing limits for each of the Residence Local Services and the other Capped Services sub-baskets and the overall PCI. The Commission also directed that a one-time adjustment be made for the capped services' GRT savings in 2000, and that these savings were to be amortized over a two-year period starting in 2001. This Order also stated that the regulatory treatment of the GRT savings related to the years 2002 and 2003 should be in compliance with the regulatory framework established in this proceeding.
686. In light of the criteria established for exogenous factors in the next price cap regime, the reduction in the GRT would qualify as an exogenous adjustment in 2002 and 2003. The Commission considers that one final adjustment is required at the beginning of the next price cap regime to account for the additional reductions in the GRT. The Commission directs Bell Canada, in its 1 August 2002 price cap filing, to include these savings as an exogenous adjustment to the appropriate service baskets for 2002, and to include the portion related to residence services in non-HCSAs in the deferral account discussed in Part IV of this Decision.
687. The Quebec government has proposed to reduce the rate of the telecommunications, gas and electric (TGE) tax to harmonize the thresholds and tax rates on telecommunications, gas distribution and electric power networks, effective 1 January 2001. Bell Canada has implemented the tax reduction for 2001 and is awaiting the Quebec Government's passage of this proposal into law.
688. The Commission notes that, in *Harmonization of thresholds and tax rates on telecommunications networks in the Province of Quebec*, Decision CRTC 2001-773, 21 December 2001 (Decision 2001-773), Bell Canada was directed to record any TGE savings pertaining to Capped Services in a separate deferral account, effective 1 January 2001, and to advise the Commission when the status of the proposed TGE thresholds and rates is resolved by the Quebec legislature. The Commission also directed Bell Canada at that time to propose a plan for the disposition of any amounts in the deferral account and propose how any ongoing savings should be reflected.

689. This item qualifies as an exogenous event under the criteria established for the next price cap period.

VI Quality of service

The current regime

690. The Commission has had a quality of service monitoring regime in place since 1982. In Decision 94-19, the Commission decided it was necessary to review that regime in light of the introduction of facilities-based competition and the proposed shift to a price cap regulatory regime for the ILECs.
691. In Decision 97-16, the Commission set out its revised regime for the monitoring and reporting of quality of service by the ILECs (except SaskTel). Under this regime, ILECs must file quarterly reports on performance of approved quality of service indicators. An ILEC that does not meet the approved standard for a particular indicator for three consecutive months or seven out of twelve consecutive months is required to report that indicator's performance monthly, rather than quarterly until such time as performance has met or exceeded the approved standard for three consecutive months. In addition, the ILEC is required to explain the reasons for non-compliance and provide a detailed plan describing how it intends to rectify the situation and prevent it from recurring.
692. During the initial price cap period, the ILECs filed quality of service reports as required by Decision 97-16. Those reports indicated that quality of service problems occurred during much of the period for each of the ILECs.
693. In PN 2001-37, parties were invited to comment on the appropriateness of implementing a quality of service component or other regulatory mechanisms in the price cap regime (e.g., targeted refunds) in order to address quality of service issues.
694. The Commission notes that SaskTel is not currently subject to the Commission's monitoring regime for quality of service, and will not be subject, at this time, to the determinations set out below.

Positions of parties on the need for changes to the regime

695. The ILECs acknowledged that there had been quality of service problems during the course of the initial price cap period. However, the ILECs expressed the view that the current monitoring regime was sufficient to ensure quality of service.
696. TELUS stated that while its service quality had degraded temporarily during the price cap period, overall it had actually improved. TELUS described any degradation as a transitory effect resulting from its mergers with Edmonton Telephones and BC TEL. TELUS claimed that it did not provide superior levels of service to its own customers in comparison to the level of service provided to competitors, and noted that from 1998 to 2000, the number of below-standard months had declined for both services provided to

its own customers and services provided to competitors. TELUS also stated that actual quality of service results for competitor services had exceeded standards.

697. TELUS submitted that the existing monitoring regime and the publication of quality of service results continue to be appropriate because they encourage ILECs to take the necessary steps to improve results that are below standard. TELUS argued that there was no conclusive evidence linking price cap regulation with a degradation of service quality. TELUS was of the view that the need for operational efficiency and the ILECs' growth objectives provided an adequate incentive for ILECs to establish and maintain service quality.
698. TELUS also argued that a service quality guarantee for competitor services would be premature since, in its view, there was no evidence that any new standards would not be met. TELUS argued that ILECs had an incentive to maintain a high quality of service to competitors in order to convince them to purchase non-essential services which might otherwise be obtained from other sources.
699. The Companies acknowledged that their quality of service was substandard at times, but argued that proper remedial steps had been taken. Like TELUS, the Companies also argued that the current monitoring regime was adequate in light of the incentives under which the ILECs operated.
700. Aliant Telecom submitted that the service problems it had experienced were attributable, to a large extent, to an employee retirement program. Aliant Telecom indicated that it had taken significant steps to remedy the staffing problem in order to ensure that service standards would be met.
701. MTS acknowledged that it had failed to meet service standards for a number of indicators during the initial price cap period. MTS attributed its difficulties to staff losses resulting from a departure incentive program and also to labour difficulties in 1999.
702. Most interveners who commented on the quality of service issue expressed concern at the ILECs' failure to consistently meet the Commission's quality of service standards. Accordingly, a number of interveners proposed that the Commission introduce changes to the quality of service regime.
703. AT&T Canada argued that the absence of competition had resulted in a degradation of service quality during the first three years of the initial price cap regime. In support, AT&T Canada provided the results for the years 1998 to 2000 with respect to the indicators reported, noting that even as of 2000, the percentage of misses was as high as 44 %.
704. AT&T Canada also argued that, in almost all cases, the quality of service provided by ILECs to competitors was inferior to that provided by ILECs to their own retail customers for like services. In particular, the service intervals associated with competitor services often exceeded ILECs' provisioning cycles to their own customers.

705. ARC et al., Call-Net, Calgary, the Commissioner of Competition and Group Telecom agreed with AT&T Canada that there is inadequate competition for local services to ensure ILEC compliance with quality of service performance standards. Consequently, they submitted, that the Commission should establish new incentive mechanisms for quality of service.

The Commission's conclusions regarding the need for change

706. The quality of service standards established by the Commission are intended to be the minimum level of performance for each associated indicator. The Commission notes that the ILECs' performance on quality of service indicators shows ongoing and, for the most part, uninterrupted substandard performance in the years 1998 to 2000. For example, in 2000, Bell Canada failed to meet the required monthly standards 48 times across all indicators, while TELUS (BC) and TELUS (Alberta) each had substandard performance 42 times. NBTel reported substandard performance 78 times in that year. In 2001, only Bell Canada consistently met all indicators.
707. The Commission is not persuaded that competitive pressures in either the retail or competitor services markets are sufficient to ensure that ILECs meet approved service quality standards. Moreover, as discussed in Part II of this Decision, the Commission notes that there has been only limited competitive entry in the local exchange market and that entry has primarily occurred in the business sector in urban areas. In addition, many competitors have not yet constructed their own facilities, but instead rely on the resale of ILEC services, especially Centrex service, in order to provide local service to end users. In these circumstances, the drive to improve earnings at the expense of quality of service is not adequately checked by competitive pressures.
708. In light of the above, the Commission considers that the existing monitoring regime is not sufficient to ensure that ILECs' service quality performance meets the Commission's approved standards. In the Commission's view, it is necessary to establish incentives to ensure ILEC compliance with quality of service performance standards for services provided to the ILEC's own customers, as well as services provided by the ILEC to competitors.

Classification of services for a quality of service mechanism

709. The Companies argued in favour of retaining the current monitoring regime, but also provided comments on possible modifications in the event the Commission concluded that changes were necessary.
710. The Companies were of the view that it would be appropriate to have the same quality of service component for residential and business customers. They submitted that, given the far greater number of residential subscribers, ILECs would be unable to provide

substandard quality of service to residential subscribers and yet still meet approved standards. They also suggested that to establish separate processes, one for residential and another for business customers, would be costly.

711. The Companies suggested that it would be appropriate to have a separate quality of service component for competitor services.
712. TELUS maintained its view that no change to the current regime was required. However, TELUS argued that if the Commission deemed a new quality of service mechanism to be necessary, it should be in the form of direct rebates to customers who actually suffered substandard quality of service.
713. Group Telecom and AT&T Canada argued that a mechanism for competitors must be kept separate from any mechanism related to non-competitor quality of service, in order to prevent ILECs from offsetting below-standard service to competitors with above-standard service to other customers.
714. Group Telecom argued that quality of service performance should be measured separately for residential and business customers. Group Telecom submitted that establishing a quality of service mechanism applicable to business and residence in common would provide an incentive for the ILECs to avoid penalties by improving the quality of service for business customers at the expense of residential customers.
715. The Commission notes that the current retail quality of service indicators are not reported by customer type. The Commission also notes that establishing separate quality of service components for business and residential services would require separate monitoring and reporting of indicator results.
716. The Commission accepts the Companies' argument that the number of residential customers sufficiently outweighs the number of business customers so as to render ineffective any ILEC attempts to "game" the system.
717. The Commission believes that the costs associated with establishing separate business and residential mechanisms outweigh the potential benefits. The Commission has therefore determined that a single quality of service mechanism should be established to cover both residence and business services.
718. As far as competitor services are concerned, the Commission notes that most of the competitor indicators are reported by customer. The Commission is of the view that the current monitoring and reporting regime for competitor services should continue. Accordingly, the Commission has decided to establish a separate quality of service mechanism for competitors, using the current competitor indicators that have final approval.

Form of quality of service mechanism

Q-factor

719. One of the issues in this proceeding was whether there should be a quality of service component (or Q-factor) incorporated in the price cap formula. A Q-factor is a numerical factor which reflects the compliance (or non-compliance) of the regulated company with quality of service standards. The inclusion of a Q-factor in a price cap formula permits quality of service performance to have a direct effect on the pricing constraints.
720. Parties did not support the use of a Q-factor as the remedy for substandard quality of service. ARC et al., AT&T Canada and TELUS were generally of the view that a Q-factor in the price cap formula would be too complex to create, administer and amend. The Companies submitted that the disadvantages of a Q-factor in the price cap formula would outweigh its advantages.
721. ARC et al., noting that substandard performance would lead to a one-year rate reduction, submitted that this could give rise to an inter-generational inequity: customers suffering the substandard service would not necessarily be those who would enjoy the reduced rates. ARC et al. also noted that customers would experience a rate increase as a result of the correction of a service quality problem. In ARC et al.'s view, such a rate increase would be confusing to customers.
722. Group Telecom noted that substandard performance would result in an ILEC rate reduction if a Q-factor were in place. In Group Telecom's view, this would hurt competition since an ILEC rate reduction would likely force competitors to make a corresponding reduction. In Group Telecom's view, if competitors matched the ILEC's rate reductions, they would effectively be funding part of the remedy for an ILEC's substandard quality of service. Group Telecom also argued that customers might delay or refrain from moving to competitors while awaiting, and obtaining, the benefits of reduced rates over the year.
723. In the Commission's view, a Q-factor could have a distorting effect on competition and, therefore, would be less suitable for use as a quality of service component than other possible mechanisms. The Commission also notes that a Q-factor would not provide a competitor-specific remedy for non-compliance with competitor indicators. In light of these considerations, the Commission has decided not to include a Q-factor in the next price cap regime.

Approaches to rate adjustments for residential and business customers

724. Parties to the proceeding suggested two forms of rate adjustments for residential and business customers as possible alternatives to a Q-factor. The first would involve customer-specific rate adjustments and would be structured to provide compensation only to each customer actually affected by a service quality failure. The second approach

would not be customer-specific but instead would provide for rate adjustments either to the aggregated class of residential and business customers or separately to residential and business customers as distinct classes.

725. TELUS was the only party that supported a customer-specific rate rebate approach for business and residential customers. Under TELUS' approach, an ILEC would provide rebates solely to those customers that suffered quality of service degradation as measured by certain specific indicators. Only indicators that could measure effects on individual customers would be included. TELUS submitted that its approach would be appropriate because it would constitute, in effect, a market response rather than a regulatory penalty.
726. Group Telecom opposed TELUS' approach on the grounds that it would create opportunities for anti-competitive behaviour. For example, ILECs might reduce or waive charges for future services rather than grant rebates, thus requiring the customer to remain with the ILEC in order to gain the benefit of the remedy.
727. ARC et al. opposed TELUS' approach on the grounds that this approach could unjustly discriminate between business customers and residential customers.
728. The Companies were of the view that a customer-specific plan would be difficult and costly to administer due to the complexities of the ILECs' administrative systems, including their billing systems. The Companies argued that customer non-specific rate adjustments would be better suited to current ILEC systems and would be suitable for all non-competitor quality of service indicators. Under this latter approach, ILECs would be subject to financial penalties if they consistently provided below-standard service quality, regardless of whether or not individual customers could be identified. The Companies stated that these penalties would provide ILECs with incentives to meet or exceed the service quality standards, as well as to fix any underlying problems, rather than simply paying the penalty.
729. The Commission notes that a customer-specific plan would not be compatible with several of the established indicators for business and residential customers. The Commission also considers that it would be highly impractical, in light of the administrative burden, to track an indicator's results customer by customer. The current Commission-approved indicator results are reported in aggregate for non-competitor customers. As a result, adopting the TELUS approach would require changes to the definition and application of most, if not all, of the non-competitor service quality indicators.
730. In light of the above, the Commission considers that a customer non-specific rate adjustment approach is the most appropriate quality of service mechanism for ILEC business and residential customers.

Rate adjustment plan for residential and business customers

731. The Companies proposed a "Service Quality Guarantee" (SQG) for residential and business customers. Under the Companies' proposal, a penalty would be assessed against an ILEC, on an indicator by indicator basis, when the ILEC has not met the standard for an indicator for all "countable months". Countable months would be determined on a basis similar to that of the current monitoring regime.
732. The Companies proposed that the monthly penalty for each indicator attracting an adjustment would be \$0.05 times the number of year-end residential NAS for the previous year. The total annual penalty payable would be the lesser of the sum of the penalty amounts for each indicator, or 1.5% of the total annual revenues for both residential basic exchange service and capped business basic exchange services, for the previous year. The total annual penalty would be paid to residential customers of record in February of each year, commencing in year 2003, with one rebate per residential basic exchange service.
733. The Companies argued that the amount of the penalty should provide a sufficient incentive for an ILEC to attain the quality standards, while not being so high as to cause the ILEC to over-provision the network and operational processes in order to avoid the penalty.
734. AT&T Canada supported the plan proposed by the Companies, subject to certain modifications. Regarding an appropriate penalty, AT&T Canada argued that the penalty proposed by the Companies would amount to a relatively insignificant percentage of revenues and would therefore be ineffective. AT&T Canada submitted that if a penalty were too low, an ILEC could opt to pay the penalty and ignore the service quality problem. AT&T Canada submitted that the penalty should be sufficient to encourage corrective behaviour, and submitted that a much larger penalty than that proposed by the Companies would be appropriate.
735. AT&T Canada also submitted that the trigger mechanism in the Companies' plan should be strengthened so that penalties are incurred whenever a service indicator is missed for 3 months in a 12 month consecutive time period. It added that the methodology for calculating quality of service indicators should be made uniform for all ILECs to the extent practicable and that results should be audited.
736. ARC et al. proposed that the Commission adopt a service quality incentive plan that would take as its starting point the methodology of the Companies' SQG. The mechanics, however, would have to be substantially modified. ARC et al. submitted that the size of the penalty should ideally meet two criteria. First, the loss to customers from a failure to meet the standard for a particular indicator should be measured by the amount that customers would be willing to pay for the incremental benefit of that increased level of service quality. Second, there should be a floor amount greater than the costs that the ILEC could avoid through permitting the quality of service to degrade to any given

substandard level for any indicator. Noting that, in practice, both these amounts would be too difficult to calculate, ARC et al. submitted that the Commission must select an amount that is high enough to ensure that, at the very least, the second criterion was met at all times.

737. ARC et al. argued that the most sophisticated approach to the selection of the quantum would be to express it in terms of impact on the return on equity (ROE) of the ILEC. ARC et al. noted that the proposal of the Companies would only put 0.3% ROE at risk for Bell Canada.
738. ARC et al. also argued that the consequences of selecting an incorrect quantum would be asymmetric. Should the figure selected be too low, the ILECs would be presented with the incentive to pay the penalty as one more cost of doing business. Should the Commission select a figure that is too high, the ILECs would consistently deliver high quality service. ARC et al. proposed that the Commission follow the recommendation of its witness, Ms. Alexander, and set the target penalty at 4% to 5% of total local revenues, which it stated would translate into 2.2% to 2.8% ROE for Bell Canada for 2000.
739. ARC et al. proposed that the trigger mechanism employ annual average results, instead of using the Companies' methodology, since, among other things, it would be much simpler to explain to customers. ARC et al. argued that, contrary to the fears of the Companies, the use of annual average results would not necessarily lead to a larger rebate to consumers at the end of any given year. On the contrary, in ARC et al.'s view, the use of annual average results would smooth the data more effectively than the Companies' mechanism.
740. ARC et al. also proposed that the results be audited by Commission staff or an outside firm on a frequency that balances the cost of auditing against the need to have confidence in the data where significant financial consequences are at stake. It also proposed that the Commission require each ILEC to report the results of its service quality performance annually in a billing insert.
741. As indicated above, the Commission has concluded that it is necessary to modify the current quality of service regime. However, the Commission considers it necessary to explore certain aspects of a rate adjustment mechanism in greater detail before establishing a plan on a final basis. The Commission has therefore decided to implement a new regime on an interim basis while it conducts a proceeding to gather further input from parties on a final quality of service regime. The Commission will issue a public notice in the near future, initiating this process.
742. For the reasons that follow, the Commission's interim quality of service regime is based primarily on the proposals advanced by ARC et al.

743. The Commission considers that ARC et al.'s proposed trigger mechanism would be less administratively burdensome than the one proposed by the Companies. The methodology would also be clearer to all stakeholders and, as a result, there is likely to be greater confidence that the results reflect performance reality.
744. The Commission agrees with ARC et al.'s analysis of the effects which would flow from a level of the rate adjustment that is too low. The Commission does not accept the Companies' contention that a high rate adjustment could provide incentives for the Companies to over-provision the network and operational processes in an attempt to avoid the penalty. ILEC provisioning to meet approved quality of service standards does not amount to over-provisioning.
745. The Commission also believes that the Companies' proposed rate adjustment is unlikely to create sufficient incentives for maintenance of quality of service and could instead be merely treated as a cost of doing business.
746. In the Commission's view, the \$0.05 rate adjustment proposed by the Companies was not supported by sufficient rationale. In contrast, the Commission considers that ARC et al. developed a useful methodology for establishing the amount of rate adjustment based on percentage of revenues. The basis for calculating the adjustment would be objective and transparent, since the rate adjustment formula would be based on clearly measured results reported by the ILEC. The Commission also believes that ARC et al.'s proposal is more likely to create appropriate incentives to meet the quality of service standards.
747. Accordingly, the Commission approves on an interim basis, effective 1 July 2002, the rate adjustment mechanism proposed by ARC et al. for business and residential customers. The mechanism is to be based on a maximum annual adjustment of 5% of total annual business and residential local revenues. This revenue base is not to be restricted to local exchange services; it is to include revenues from all other local retail business and residential services that are not forborne. Worksheets for the calculation of rate adjustments are presented in Appendix 3 to this Decision. Sample calculations are also included. Any rate adjustments flowing from this interim regime will be addressed in the follow-up proceeding.
748. The Commission agrees that periodic audits of quality of service results would enhance the effectiveness of the rate adjustment plan. The Commission will gather input from parties on the methodology of an audit process, in the proceeding to establish a final retail quality of service regime.

Rate adjustment plan for competitors

749. The Companies argued that there had not been sufficient experience with the current competitor quality of service indicators to assess whether the current interim standards were appropriate and to structure a penalty mechanism accordingly. They noted that the Commission had established 19 competitor quality of service indicators, several of which were interim and would not be finalized until after December 2002 (see Decision 97-16;

CRTC creates new quality of service indicators for telephone companies, Decision 2001-217, 9 April 2001; and *CISC recommended competition-related Quality of Service indicators – Follow-up to Decision CRTC 2001-217*, Decision CRTC 2001-366, 20 June 2001). They also noted that results for 15 of these indicators were reported for the first time, on 15 November 2001.

750. The Companies suggested the Commission direct the CRTC Interconnection Steering Committee (the CISC) to examine and make recommendations on principles for and implementation of a rate adjustment plan for competitor services.
751. The Companies also argued that the following principles, which underlay their proposed residential SQG, should apply to a quality of service regime for competitor services:
- a) the quality of service mechanism should provide sufficient incentive to the Companies to meet the indicators, but not to deploy resources in an inefficient manner. There should not be penalties for every breach and the penalties should not be so large as to encourage inefficient operations;
 - b) the program should follow the quality of service standards and reporting requirements that have been established by the Commission;
 - c) penalties should apply for the period of persistent problems and should continue to apply until the problem has been corrected; and
 - d) penalties should apply where a failure to meet a quality of service standard relates solely to the actions of the ILEC. The penalties should not apply where a failure to meet a quality of service standard is caused by events beyond the reasonable control of the Companies.
752. The Companies argued that the current trigger mechanism, whereby three months of substandard performance makes the indicator "penalty-ready", should continue to apply.
753. Group Telecom argued that a remedial plan for quality of service on competitor services is essential. Group Telecom submitted that competitors depend on certain ILEC services and their ability to offer service is critically reliant on the ILECs' regulatory compliance. However, in Group Telecom's view, the ILECs have little financial or strategic incentive to comply.
754. Group Telecom acknowledged that *Altering terms of service for competitors that are customers*, Order CRTC 2000-397, 12 May 2000, had eliminated ILECs' liability limitations in cases of anti-competitive conduct. However, Group Telecom was of the view that the courts would not provide timely or cost effective relief. Accordingly, Group Telecom submitted that a quality of service regime must incorporate penalties which would provide sufficient incentive for regulatory compliance.

755. Group Telecom argued that there was a direct causal link between poor service quality that the ILECs provide to competitors and the rebates and remedies that competitors may have to provide their own customers as a result. Therefore, where a competitor must provide remedies to its own customers owing to poor ILEC-provided quality of service, the ILEC should have to provide remedies to the competitor. Group Telecom submitted that the size of remedy must be great enough to provide the ILECs with incentives to comply with service quality standards. Further, the amount of the remedy should provide an incentive for compliance, which would increase with the duration of the problem, thereby giving the ILECs an incentive to restore quality quickly.
756. Group Telecom proposed a competitor rate adjustment plan in which the six competitor-specific indicators for competitor services that have final approval would attract rate adjustments for substandard performance. Group Telecom pointed out that the CISC has already endorsed the intervals and standards associated with these six indicators. In Group Telecom's view, the ILECs have had more than adequate operational experience with them.
757. Group Telecom indicated that its plan would include any new competitor-specific indicators that may be established by the Commission on a final basis. Its plan would exclude the indicators established on an interim basis in Decision 2001-366 until finalized, as well as the indicators established in Decision 97-16, which are not reported on a competitor-specific basis.
758. Under Group Telecom's proposal, penalties would be triggered as soon as service falls below acceptable levels. There would be no provision for a "grace period", or any requirement that penalties be applied only after service has been substandard for a prolonged period. Thus, a penalty would apply for an indicator that had been substandard for one month. Group Telecom added that, to limit complexity, penalty payments should be made quarterly but be calculated on the basis of monthly data for the given indicator.
759. Group Telecom's position was that a rate adjustment plan should be based on the following criteria, as applicable:
- 1) the rate a CLEC is paying for the service that does not meet the indicator's standard;
or
 - 2) the rate a CLEC is paying for the service that is affected by an indicator whose standard is not met; or
 - 3) ILEC prices for business exchange services, as a proxy for the market advantage to the ILEC of the substandard indicator, where the indicator whose standard is not met does not apply to or affect a particular competitor service.

760. The specific formulae for the penalties would be:

For case (1) above: $(\text{mandated percentage standard} - \text{achieved percentage}) \times (\text{CLEC-specific total tariffed charges applied for the month for the specific rate element(s) in question}) \times (\text{monthly multiplier \#1})$

For case (2) above: $(\text{mandated percentage standard} - \text{achieved percentage}) \times (\text{CLEC-specific total tariffed charges applied for the month for the service in question}) \times (\text{monthly multiplier \#2})$

For case (3) above: $(\text{mandated percentage standard} - \text{achieved percentage}) \times (\text{CLEC's specific demand for the month for the activity in question}) \times (\text{CRTC mandated penalty amount per event}) \times (\text{monthly multiplier \#2})$.

761. Multiplier #1 would equal two (2) for the first three months, consecutive or not, of non-compliance. Multiplier #2 would equal one (1) for the first three months, consecutive or not, of non-compliance.

762. Group Telecom stated that Multiplier #1 would reflect the negative competitive effect of non-compliance: additional CLEC costs, lost CLEC revenue and damage to the CLEC's competitive position. It would also reflect disruption to the end-customer. Multiplier #2 would reflect a weaker link between the penalty amount and the activity covered by the indicator. The price on which the penalty is based could cover several activities including that covered by the indicator. The penalty could also be based on a monthly charge rather than a per-event charge.

763. The multiplier would double for each succeeding three month period, consecutive or not, of non-compliance unless the quality of service had met the standard for nine consecutive months in the intervening period. That is, the ILEC would be compliant only after the indicator showed the standard being met for nine consecutive months.

764. Group Telecom argued that doubling the multiplier over time would ensure that the incentive to quickly restore acceptable service levels would increase with the duration of poor service. It would also reflect the cumulative negative impact of such non-compliance on the marketplace position of entrants. Group Telecom submitted that neither its nor Call-Net's proposals amounted to punitive damages and, as such, were within the Commission's power to mandate. Group Telecom argued that remedies must provide a meaningful incentive for compliance and that their quanta should be related to the duration of non-compliance.

765. Group Telecom agreed with the Companies' proposal that any quality of service regime that included rebates or penalties should include an exception for situations where an ILEC failed to meet the quality of service standards because of events beyond its control. Group Telecom agreed with the list of such events put forward by the Companies, with the exception of the exemption for strikes.

766. In response to the Companies' proposal to delegate to the CISC the development of a system of penalties, Group Telecom argued that it is unreasonable to expect discussions in the CISC to yield agreement within a reasonable period of time. Group Telecom submitted that the ILECs would have no incentive to agree to legitimate penalties or to see that negotiations come to a timely conclusion.
767. The Companies argued that Group Telecom's proposed regime could provide an incentive to the Companies to deploy resources in an inefficient manner so as to avoid payment of penalties. They noted that Group Telecom's proposed multipliers could result in the Companies paying penalties many times in excess of the revenues for the services being measured.
768. AT&T Canada supported a competitor-specific quality of service plan which would include the following elements:
- a) incentives for ILECs to improve quality of service, as well as a mechanism to flow through to competitors the benefits from such productivity improvements, so that they can be passed along to retail customers;
 - b) penalties payable to each CLEC on an individual basis;
 - c) a mechanism for setting penalties based on the total billing by the ILEC to the CLEC for services directly associated with supporting the CLEC's local service offering, in amounts that guarantee appropriate ILEC behaviour, so that an ILEC does not decide that paying the penalty is less expensive than maintaining good service quality; and
 - d) additional quality of service indicators that directly reflect the importance of certain services used by CLECs providing local access facilities (e.g., co-location, repair of A5 loops, etc.).
769. AT&T Canada opposed the Companies' proposed use of the CISC to establish a competitor-specific rate adjustment plan. In AT&T Canada's view, such a task would be beyond the mandate of the CISC.
770. Call-Net also opposed the Companies' suggestion to rely on the CISC to develop a rate adjustment plan. Call-Net argued that such an approach would unreasonably delay the development and implementation of a regime. Instead, Call-Net proposed its own rate adjustment plan.
771. As part of its plan, Call-Net proposed that the penalty should be tied to the revenues the ILEC receives for the relevant service. In the case of non-revenue generating services, the penalty would relate to the revenues forgone by the CLEC. For indicators that measured a mixture of service levels, such as local service requests to order both local loops and LNP, a reasonable flat fee would apply for each violation.

772. Call-Net agreed with Group Telecom that all competitor indicators should always be penalty-ready. Call-Net noted that the indicators themselves are already generally designed to exclude any violations where due dates were missed "for reasons attributable to an end-customer or a CLEC". It also agreed with Group Telecom that the measure and application of penalties should be CLEC-specific and that the amounts of penalties should grow with the duration of the non-compliance.
773. Call-Net submitted that the ILEC's indicator data should be audited by third parties if there were any disagreement between a competitor and an ILEC over the data presented. Where the auditor confirmed the general acceptability of the ILEC's reports (within a pre-determined level of variance), the competitor would pay for the audit. If the auditor challenged the ILEC's reports (beyond the pre-determined level of variance), then the ILEC would pay for the audit.
774. The Companies argued that Call-Net's proposal would effectively raise the quality of service standard to 100% for the indicator that was missed. If approved, they argued, Call-Net's proposal would provide incentives to the Companies to deploy resources in an inefficient manner since even a single miss would be subject to payment of penalties once an indicator was breached.
775. In the Commission's view, the record of this proceeding demonstrates clearly that competitors depend significantly on the use of ILEC services. For competition to succeed, competitors must be able to provide service to their customers of a quality that is comparable to that which the ILECs provide to their own customers. If a CLEC cannot provide comparable quality of service, it will not be able to compete effectively. Further, CLECs must be able to quickly correct substandard service to their customers if they are to be able to retain customers and minimize any possible customer rebates.
776. The Commission agrees with the competitors that a successful rate adjustment plan for ILEC competitor services must include incentives that encourage ILECs to correct problems as quickly as possible. Accordingly, the Commission concludes that the trigger for rate adjustments on ILEC competitor services should apply as soon as the quality of service indicator shows a substandard result for one month.
777. The Commission considers that quality of service rate adjustments should not apply to indicators that have only interim approval. However, the Commission disagrees with the view that ILECs must gain experience with indicators that have been given final approval before adjustments are made for substandard service. In granting final approval to an indicator, the Commission has concluded that the indicator is appropriate and that an ILEC is obliged to meet the associated standard.
778. As already indicated, the Commission disagrees with the Companies' contention that the amount of a rate adjustment must not be so large as to provide incentives for ILECs to over-provision the network and associated processes. The Commission considers that provisioning to meet approved quality of service standards, thus avoiding rate adjustments, does not amount to over-provisioning.

779. The Commission notes that only Call-Net and Group Telecom proposed a specific structure for a competitor rate adjustment plan. The Companies and AT&T Canada provided a list of matters on which determinations would be required to create a rate adjustment plan, but did not provide particulars of any plan.
780. The Commission is of the view that neither the Call-Net nor the Group Telecom plan warrant approval on a final basis. While both approaches use approved service rates as departure points, neither provides a sufficient explanation as to how final remedies would result in just and reasonable rates. The Commission is especially concerned by the use of multipliers in the Group Telecom proposal. In the Commission's view, rate adjustments under that plan might become punitive.
781. Given the importance of ILEC quality of service to the development of local competition, the Commission considers it necessary to implement a rate adjustment mechanism for competitor services immediately. However, the Commission also believes it is necessary to explore certain aspects of a rate adjustment mechanism in greater detail before establishing a plan on a final basis. Consequently, the Commission will initiate a follow-up proceeding for this purpose in the near future. In the meantime, the Commission considers that an interim mechanism is required.
782. As between the Group Telecom and Call-Net proposals, the Commission is of the view that Group Telecom's plan has a more direct link to service rates. This is an important consideration for a competitor-specific rate adjustment plan. The Commission considers that Group Telecom's proposal provides a better starting point for an interim rate adjustment mechanism. However, given the Commission's concerns regarding the monthly multipliers, this aspect of Group Telecom's proposal has not been included in the interim regime. The Commission is of the view that the other components of the proposed formulae remain applicable. In the case (1) formula, the adjustment will be calculated based on the loop service charges including fixed and variable components combined. In the case (2) formula, the adjustment will be calculated based on loop monthly lease rates. Adjustments where the case (3) formula applies cannot be identified without further development on the amount per event it refers to. The adjustment formula for indicators associated with services involving a non-rated activity will be reviewed in the follow-up proceeding referred to earlier.
783. Accordingly, the Commission approves on an interim basis, effective 1 July 2002, the competitor-specific rate adjustment mechanism proposed by Group Telecom solely as it pertains to competitor service indicators having final approval, but without the monthly multipliers. A description of the interim rate adjustment plan, including worksheets, is set out in Appendix 4 to this Decision.
784. As provided for under the retail quality of service regime, the Commission is of the view that an audit process should be incorporated into the rate adjustment plan for competitors. The Commission will consider proposals for the methodology of an audit process, in the proceeding to establish a final competitor quality of service regime.

785. In Part III of this Decision, the Commission has directed that new ILEC-provided services be created for use by the CLECs. The Commission considers that such services may require additional quality of service indicators and associated standards where existing indicators for competitor services are either unsuitable or insufficient. Accordingly, the Commission directs the CISC Business Process Working Group (BPWG), by 15 October 2002, to examine and report to the Commission on whether additional indicators and associated standards are required for the new competitor services and, if so, to provide to the Commission proposed indicators and standards.

VII Consumer service issues

786. In PN 2001-37, the Commission invited comments on the extent to which ILECs' adherence to benchmarks for consumer service, such as billing policies or a consumer bill of rights (CBOR), should be linked to the price regulation regime and what form any such benchmarks might take.

Consumer bill of rights

787. ARC et al. submitted that the current presentation of consumer rights in the introductory pages of ILEC telephone directories was inadequate. According to ARC et al., consumers often have difficulty understanding the ILEC Terms of Service which are included in these pages. In addition, ARC et al. stated that the introductory pages often lack complete information. Alternatively, information about a topic may be scattered throughout the introductory pages thereby confusing and frustrating customers.
788. ARC et al. also argued that there was an asymmetric situation between consumers and ILECs with respect to information. In particular, the ILECs were better informed than consumers about consumers' legal rights and market alternatives. In ARC et al.'s view, both consumer education and access to information were required to overcome this asymmetry so that consumers could properly assess the value of competitive offers, understand their rights and advocate these rights to their telephone services provider. ARC et al. suggested that a CBOR would contribute significantly to achieving this goal.
789. ARC et al. proposed that the CBOR take the form of a published brochure. This publication would contain key customer rights and remedies, presented in plain language and a customer-friendly format. ARC et al. submitted that this information should be written so as to reflect both the minimum standards approved by the Commission, as well as an ILEC's individual policies. Noting that different ILECs had different Terms of Service, ARC et al. submitted that there should be consistency in the Terms of Service among the ILECs.

790. In ARC et al.'s view, the CBOR should also contain information on services that are available from alternative providers and on how to shop and compare rates for competitive services. While acknowledging that CLECs' regulatory obligations were outside the scope of this proceeding, ARC et al. submitted that the CBOR should apply to both ILECs and CLECs.
791. ARC et al. submitted that a proceeding would be required to identify consumer rights and to create a CBOR. ARC et al. requested that this consumer rights proceeding, in addition to defining the CBOR and its content, also review the ILECs' Terms of Service. In ARC et al.'s view, a review of the Terms of Service should examine the extent to which the Terms of Service could be rewritten in plain language, without technical terms and in a customer-friendly format. In addition, ARC et al. submitted that the Terms of Service should be amended to reflect changes required as a result of the consumer rights proceeding and other changes in the industry. ARC et al. also suggested that the consumer rights proceeding could explore the issue of possible links between a CBOR and the framework for price regulation.
792. CAC (Alta) supported the publication of a clear statement of customer rights and obligations.
793. The Companies stated that the Terms of Service together with the information on customers' rights currently found in the introductory pages of the Companies' telephone directories constituted an existing CBOR. While in their view this information was accessible, they indicated their willingness to implement a CBOR to ensure that all consumers would be aware of their rights and obligations.
794. As far as "competitive information" was concerned, the Companies submitted that in a market where all services were competitive and many of them forborne, it would be unreasonable to expect the Companies to provide information to their customers in a CBOR on how to obtain services from competitors.
795. The Companies advocated a co-operative approach on this matter, in order to gain a variety of perspectives and quickly arrive at a useful CBOR. They submitted that a committee, such as the Committee on Bill Management Tools and Access to Telephone Service (the BMTS Committee), established by *Commission modifies reporting requirements for affordability*, Order CRTC 2000-393, 10 May 2000, (Order 2000-393) would be an appropriate forum.
796. With respect to a possible link between the CBOR and price cap regulation, the Companies stated that a position on this was premature until the CBOR was defined. The Companies submitted that monitoring of CBOR compliance and of the performance of ILECs in their handling and resolution of customer complaints was already encompassed in their reporting on quality of service indicator 5.1.

797. TELUS submitted that its Terms of Service, together with other information included in the TELUS White Pages directory, already met the requirements of a CBOR. TELUS also argued that an indicator or related penalties should not be constructed to deal with "violations" of the CBOR. TELUS stated that its preferred approach to customer complaints was to treat customers as individuals and address quality of service issues in a timely and efficient manner.
798. In the Commission's view, ARC et al. has demonstrated that the Terms of Service and introductory pages of the ILECs' telephone directories are difficult to understand in some places. In addition, in some cases they may not contain all the information necessary for an accurate understanding of consumer rights. Consequently, the Commission agrees that it would be useful to develop a CBOR.
799. The Commission considers that a CBOR should be a comprehensive and concise statement of consumer rights. At the same time, the Commission notes that parties' views varied as to what should be included in a CBOR, and is of the view that the current proceeding did not produce sufficient information to establish a precise, unambiguous, and readily publishable CBOR at this time. Consequently, the Commission intends to initiate a further proceeding in which it will consider detailed submissions on CBOR content and related issues.
800. As far as a review of the Terms of Service is concerned, the Commission considers it appropriate to await the completion of the proceeding on the CBOR before deciding on the need for such a review. At that time, the Commission will be able to consider in the context of the new CBOR whether there is a need for greater clarity of the Terms of Service.

Billing policy issues

801. The Companies indicated that billing practices were being addressed by the BMT Committee established by Order 2000-393. While stating that their subscribers were generally satisfied with current billing policies, the Companies reported focus group results indicating a preference for "consolidated" statements, similar to those sent annually.
802. ARC et al. suggested that billing policy issues should be reviewed in the CBOR proceeding. For example, that proceeding could look at issues such as the level of detail and the information that customers want on their bills, as well as the monthly itemizing of optional services that customers were paying for.
803. The Commission considers that there are two separate issues regarding billing policy: the content of a billing statement, and the frequency of sending itemized, detailed statements to customers.
804. The Commission notes that ILECs have varying policies with respect to the frequency with which itemized statements are sent to customers. As prescribed in *Review of the General Regulations of the federally regulated common terrestrial telecommunications*

common carriers, Telecom Decision CRTC 86-7, 26 March 1986, and subsequent rulings, ILECs must provide their single-line customers with a detailed itemization of service and equipment charges at service commencement, after any rate or service and equipment changes and, at a minimum, once a year.

805. However, the Commission notes that TELUS and MTS send itemized statements to their customers monthly, while SaskTel has begun implementing monthly itemized statements to its subscribers. The Commission is of the preliminary view that such a policy should be extended to all ILECs subject to this Decision. Accordingly, the Commission directs Bell Canada and Aliant Telecom to show cause, by 2 July 2002, why they should not be directed to send their customers monthly itemized billing statements at the same level of detail as is currently provided on an annual basis, copying parties to the proceeding leading to Order 2000-393. Any interested parties may file comments on Bell Canada's and Aliant Telecom's responses to this direction to show cause by 12 July 2002, copying parties to the proceeding leading to Order 2000-393. Bell Canada and Aliant Telecom may file reply comments by 22 July 2002, copying those interested parties who filed comments. All material must be received, not merely sent, by these dates.
806. In the Commission's view, it may be appropriate that the manner in which charges and services are identified in billing statements be modified. The Commission concludes that it would be appropriate for these issues of content and related issues to be considered by the BMT Committee. As is the case with other working committees, such as the CISC working groups, the BMT Committee's consensus or other conclusions will be submitted to the Commission for approval.

VIII Service improvement plans

Background

807. In Decision 99-16, the Commission examined the level of telecommunications service in Canada and concluded that it was, in general, very high. The noted exceptions were the HCSAs which are generally found in remote, rural regions and in the far north. Telephone service to these areas generally costs more to provide and is often of lower quality than service in other regions.
808. In light of the lower service levels in some areas, the Commission decided it was appropriate to define a basic service objective (BSO) which set a basic level of telephone service that the Commission would attempt to ensure is available to the public throughout Canada.
809. In Decision 99-16, the Commission defined the BSO as comprising:
- a) individual line local service with Touch-Tone dialling, provided by a digital switch with capability to connect via low-speed data transmission to the Internet at local rates;

- b) enhanced calling features, including access to emergency services, Voice Message Relay service, and privacy protection features [included in call management services (CMS)];
- c) access to operator and directory assistance services;
- d) access to the long distance network; and
- e) a copy of a current local telephone directory.

810. The Commission then set three goals for service improvement in HCSAs:

- i) to extend service to the few areas that are unserved;
- ii) to upgrade service levels in those areas where customers do not have access to telecommunications services which meet the BSO (i.e., underserved areas); and
- iii) to maintain service levels, and ensure that existing levels do not erode under competition.

811. In order to implement these goals, the Commission directed all ILECs to file SIPs for approval, or to demonstrate that the BSO has been and will continue to be achieved in their territory. ILECs were required to consult stakeholders prior to preparing their SIPs.

812. The Commission also stated that it would require the ILECs to provide a tracking plan to monitor SIPs as they are implemented.

813. In connection with the design of a SIP, the Commission decided that where construction is taking place in a specific area pursuant to the SIP, the customer's contribution to the costs should not exceed \$1,000 per customer premises. Furthermore, where payment instalment plans are not available in a company's tariffs, the Commission directed the ILECs to file with their SIPs, proposed tariffs giving customers the option to pay for extensions on a reasonable basis.

814. The Commission also required the SIPs to incorporate least-cost technology, target larger communities or areas first, serve unserved areas prior to providing upgrades, and serve permanent dwellings before seasonal ones.

815. In PN 2001-37, the Commission indicated that it would review the various SIPs filed by the ILECs to ensure that the telephone companies meet the BSO and other key elements of Decision 99-16.

816. The Commission's determinations with respect to the ILECs' SIPs, both unserved and underserved areas, are set out below, except for MTS. In *Public Notice CRTC 2001-37 – Price cap review and related issues – Disposition of the MTS service improvement plan*, Decision CRTC 2001-767, 19 December 2001 (Decision 2001-767), the Commission

considered that prior consultation with stakeholders (including MKO) regarding MTS' proposed SIP was inadequate. The Commission disposed of MTS' SIP on an expedited basis given the importance of deploying the SIP as soon as possible to the benefit of customers.

817. The Commission approved MTS' projected SIP expenditures for 2000 to 2002 inclusive and denied projected expenditures for 2003 to 2009 inclusive. The Commission required MTS to file a revised SIP by 30 June 2002, as well as a new roll-out plan for a reduced five-year period from 2003 to 2007.

Unserviced premises

Bell Canada

818. Bell Canada proposed \$31.2 million of capital expenditures to provide service to unserved premises in its territory. Bell Canada stated that its proposed SIP would make service available over two years (2002 and 2003) to 5,366 premises, comprised of 2,148 permanent and 3,218 seasonal premises. The 5,366 potential subscribers represent 15% of Bell Canada's 36,302 identified total unserved premises.
819. Bell Canada explained that its SIP distinguished between permanent and seasonal premises by occupancy and applied different cost limits to these two types of premises (\$25,000 per permanent and \$5,000 per seasonal premises). Bell Canada argued that this approach was supported by stakeholder feedback that there should be a higher cost limit for permanent premises and a lower cost limit for seasonal premises. Bell Canada stated that it would be reasonable to expect that permanent premises would take service year-round, while seasonal premises would take service for only part of the year.
820. Bell Canada's approach was to determine average "take rates" for all of its unserved localities based on a survey of unserved residential premises undertaken by an outside market research agency. The resulting take rates were different for Ontario and Quebec, as well as for permanent and seasonal premises. Specifically, the take rates for unserved permanent premises were 64% in Ontario and 55% in Quebec, and for unserved seasonal premises 24% in Ontario and 13% in Quebec.
821. Based on these take rates, and the \$25,000/\$5,000 cost criteria noted above, the company calculated an aggregate cost allowance for each locality. If the aggregate cost allowance was equal to or greater than the capital expenditure to serve that locality, Bell Canada included the locality in its SIP.
822. Bell Canada submitted that it used the least-cost wireline or fixed wireless technology in estimating the up-front cost of serving each locality. Wireline technologies were used where the unserved locality was close to existing wireline facilities. Fixed wireless technologies were used where the unserved locality was close to an existing radio tower, or where the locality was remote and could not be served in a cost-effective way by wireline facilities.

823. Bell Canada noted that localities that did not qualify for service under its proposal nonetheless had service alternatives available to them. Approximately 16% of the localities that did not qualify for service had cellular service available to them. As well, satellite service was available everywhere in Ontario and Quebec from various suppliers, while high frequency radio service was available in some unserved localities from other suppliers.
824. Pursuant to the Commission's request, Bell Canada filed two alternative SIPs, using a \$25,000/\$25,000 cost criteria (i.e., a \$25,000 cost threshold for both permanent and seasonal premises). These two alternatives resulted in the following cost estimates:
- a) Alternative 1 (Bell Canada take rates): \$75.3 million
 - b) Alternative 2 (100% take rate): \$137.2 million
825. With respect to the \$1,000 customer contribution, Bell Canada proposed to charge a non-refundable deposit of \$200 in the first month of the instalment payment plan. The remaining balance (\$800) would be payable in equal instalments over the next 12 months with no interest charges.

TELUS

826. TELUS proposed \$8.2 million in capital expenditures for unserved premises in British Columbia and \$0.7 million in capital expenditures for unserved premises in Alberta.
827. TELUS proposed that its SIP would apply to those communities with 10 or more principal dwellings, where the average capital cost per permanent dwelling did not exceed \$26,000. TELUS proposed not to serve seasonal dwellings.
828. The list of unserved communities was based largely on information contained in the Service Extension Program database in British Columbia, and on an internal canvassing of access planners and other company experts in British Columbia and Alberta. As well, TELUS indicated that it planned to try to identify additional unserved communities.
829. TELUS used a take rate of 100% to calculate the cost of each locality. TELUS estimated that, if it applied the \$25,000/\$25,000 cost criteria and a 100% take rate, its SIP for unserved premises would cost \$10.6 million in total capital expenditures.
830. TELUS proposed a payment instalment plan for the \$1,000 customer contribution. TELUS considered that its current practice, whereby the customer would pay 50% of the amount up-front, with the remainder over 36 months, would be fair and reasonable.

Aliant Telecom

831. Aliant Telecom indicated that there were no unserved premises in Prince Edward Island or New Brunswick, but that there were a limited number of unserved premises in Nova Scotia and Newfoundland. Aliant Telecom proposed a SIP of \$2.28 million in capital expenditures to serve 265 unserved premises and stated that its SIP would satisfy

approximately 77% of the unserved requests in the territories mentioned above. Aliant Telecom stated that it did not propose to provide service to meet the remaining unserved requests because of the excessive costs that would be involved.

832. Aliant Telecom carried out a detailed survey and determined which customers would be willing to take service, assuming that they would have to contribute \$1,000 towards the capital cost of providing service. Aliant Telecom then included each locality in its SIP with customers that had requested service, provided that the aggregate cost allowance assigned to the locality, based on capital cost limits of \$25,000 for permanent premises and \$5,000 for seasonal premises, was equal to or greater than the up-front cost to serve the location.
833. Aliant Telecom estimated that, if it applied the \$25,000/\$25,000 cost criteria and a 100% take rate, its SIP for unserved premises would cost \$2.33 million in capital expenditures.
834. Aliant Telecom proposed an instalment plan for the \$1,000 customer charge similar to Bell Canada's proposal.

SaskTel

835. SaskTel stated that it has no unserved premises in its territory. Accordingly, there were no expenditures included in its proposed SIP.

Comments from interested parties

836. MKO was the only intervener that commented on the ILECs' proposed SIPs and specifically on MTS' SIP.
837. TELUS received 360 letters that disagreed with the approach used with the TELUS SIP and the possibility of existing customers having to pay higher rates to provide service to those who chose to live in remote areas.
838. Bell Canada received 55 letters relating to unserved or underserved situations or claiming that Bell Canada's SIP was inaccurate. As well, a number of persons wrote to Bell Canada during the period March 2001 to February 2002 requesting service. In a number of cases, Bell Canada denied service, stating that the cost to serve did not meet the criteria set out in its proposed SIP.

Commission's determinations – Unserved premises

Conclusions on common issues

839. Based on its examination of the Aliant Telecom, Bell Canada and TELUS SIPs, the Commission finds that, as required by Decision 99-16, they: (i) use least-cost technology; (ii) provide a tracking plan; and (iii) generally comply with the BSO, subject to the modifications discussed below relating to Internet access and/or CMS.

840. The Commission has identified four issues which are common to all of the ILEC SIPs as they relate to unserved premises:
- i) the capital cost criteria;
 - ii) the take rates used when estimating the cost of a SIP;
 - iii) the terms of an appropriate instalment plan for the \$1,000 customer contribution;
and
 - iv) the requirement for an instalment plan for large construction charges.
841. The Commission's determinations on each of these issues are set out in the following paragraphs.
- a) Capital cost criteria*
842. Bell Canada and Aliant Telecom proposed capital cost limits of \$25,000 for permanent and \$5,000 for seasonal premises. TELUS proposed a \$26,000 limit for permanent premises. TELUS did not propose to serve seasonal premises. Each company required the customer to contribute \$1,000 towards construction as set out in Decision 99-16.
843. The Commission notes that it is often difficult to differentiate between permanent and seasonal premises. In addition, the status of a particular dwelling could change. Accordingly, the Commission is of the view that the capital criteria should be the same for seasonal and permanent premises.
844. In *Long distance competition and improved service for Northwestel customers*, Decision CRTC 2000-746, 30 November 2000 (Decision 2000-746), the Commission approved a capital cost limit of \$25,000 for unserved premises, with no distinction between permanent and seasonal premises.
845. In the Commission's view, it would be appropriate to approve capital cost criteria which would ensure that service is provided to as many unserved premises as is reasonably possible over the next four years. The Commission notes that, as discussed below, monies will be available from other sources to offset the costs of the SIPs.
846. In light of the above, the Commission approves capital cost criteria for Aliant Telecom, Bell Canada, and TELUS of \$25,000 for both permanent and seasonal premises, including a \$1,000 customer contribution.
- b) Take rates*
847. Aliant Telecom, Bell Canada and TELUS used various take rates when estimating the cost of their SIPs. The Commission considers that it would be appropriate to assume a

take rate which reflects the maximum extension of service, thereby ensuring that funding is available for the maximum number of unserved premises which meet the capital cost criteria.

848. Accordingly, the Commission concludes that the total cost of each of the SIPs is to be calculated using a 100% take rate in each locality.

c) Instalment plan for \$1,000 customer contribution

849. The Commission is of the view that the requirement for a new customer to pay the \$1,000 contribution in an up-front lump-sum payment could be a disincentive to take service. Accordingly, in Decision 99-16, the Commission directed the ILECs to file an instalment payment plan with their SIPs, unless such plans were already available in the company's tariffs.
850. Bell Canada filed an instalment plan in its SIP, which the company stated was similar to the plan approved for the smaller ILECs. Aliant Telecom filed a similar plan. The Commission considers these proposals to be appropriate.
851. TELUS proposed a different instalment plan which required a greater up-front payment and spread the remaining payments over a longer period. The Commission is concerned that the magnitude of the up-front payment proposed by TELUS might discourage some potential customers from signing up for service. In light of its objective to capture as many unserved premises as possible, the Commission considers that TELUS' instalment plan should mirror the proposals of Bell Canada and Aliant Telecom.
852. Accordingly, the Commission directs Aliant Telecom, Bell Canada and TELUS to institute an instalment plan for the \$1,000 payment that is the same as the plan approved in *Northern Telephone Limited - Service improvement plan*, Order CRTC 2000-1096, 4 December 2000. The Commission notes that the ILECs would be allowed to charge their tariffed late payment interest rate for late payment of instalments that are due each month. Each of these companies should file their instalment plan with the Commission for approval.

d) Instalment plan for large construction charges

853. The Commission notes that even with the approved capital cost limit, a number of unserved premises would still not qualify for service. The Commission is of the view that it would be appropriate for the ILECs to offer a plan whereby the customer could pay an amount over and above the \$1,000 customer contribution whenever the cost of a service extension exceeds the \$25,000 capital cost limit. For example, if the cost to serve a premises were \$34,000 then the cost to the customer would be \$10,000 (i.e., \$1,000 + [\$34,000-\$25,000]).

854. Accordingly, the Commission directs Aliant Telecom, Bell Canada and TELUS to notify any premises that do not currently qualify for service under the SIP that the occupants of the premises can pay the additional costs to obtain service. These costs would be described as large construction charges.
855. In the Commission's view, it would also be appropriate to institute an additional instalment plan that would enable customers to pay for large construction charges over a reasonable period of time. This would mitigate the disincentive to take service because of a high up-front cost.
856. The Commission notes that Bell Canada currently has such an instalment plan in its tariff. The Commission approved that plan in *Bell Canada Instalment Payment Plan*, Order CRTC 2000-980, 26 October 2000. Specifically, the conditions in Bell Canada's tariff are:
- a) instalments may be spread over a period of up to 36 months;
 - b) interest is charged on the unpaid balance of construction charges at a rate of the company's cost of capital;
 - c) a minimum deposit of 20% of the construction charge is to be paid prior to the start of the construction;
 - d) maximum construction charges of \$10,000 per customer premise are eligible for the instalment payment plan; and
 - e) the instalment plan is available to residence customers only.
857. The Commission directs Aliant Telecom, Bell Canada and TELUS to adopt this instalment plan for the period of the SIP roll-out, with condition d) above modified to state that maximum construction charges of \$10,000 per customer premise are to be calculated in accordance with this Decision when determining eligibility for the instalment payment plan. Each of these companies should file their large construction instalment plan with the Commission for approval.
858. The Commission also wishes to explore an instalment payment plan for large construction charges greater than \$10,000 per customer premise. Accordingly, Aliant Telecom, Bell Canada and TELUS are directed to file such a plan for Commission consideration by 2 July 2002.

Conclusions on company-specific issues

a) *Bell Canada*

859. Based on its determinations above, the Commission approves a SIP for Bell Canada based on capital cost allowances of \$25,000 for both permanent and seasonal premises and assuming 100% take rates for both permanent and seasonal premises. However, the

Commission is of the view that, depending on the circumstances, the actual cost of the SIP will vary between \$75.3 million and \$137.2 million. Therefore, the Commission approves an initial amount of \$75.3 million in up-front capital costs, pending the filing of a revised SIP as directed below. The Commission intends to review Bell Canada's progress in implementing its SIP on a yearly basis, as reported in its tracking plan, to determine whether additional capital and funding are required.

860. The Commission directs Bell Canada to commence rolling out its SIP in 2002. The Commission further directs Bell Canada to start a project in a locality if it meets the following criteria: (a) the maximum average cost per premises is \$25,000 using a 100% take rate, and (b) at least one customer requests service and is willing to contribute \$1,000. The Commission directs Bell Canada to start with those localities that have the highest demand. Bell Canada may report new expenditures in the annual tracking report and request approval for those additional capital expenditures and funding at that time.
861. The Commission notes that new premises will be built during the roll-out period. The Commission is of the view that these new premises should be included in the roll-out plan if they meet the capital cost criteria set out above. Accordingly, the Commission directs Bell Canada to: (i) assess applications for service from these new premises to determine whether they qualify for service; (ii) provide service if the customer is willing to contribute \$1,000; and (iii) report the results in the annual filing of the tracking report.
862. The Commission notes that there have been a number of past requests for service since Decision 99-16 was issued, where service has been denied because of high costs. The Commission directs Bell Canada to reassess these applications in the same manner as the new premises referred to above to determine if they qualify for service, and provide service if the applicants are willing to contribute \$1,000. The Commission further directs Bell Canada to notify those applicants that qualify by mail, and report the results in the annual filing of the tracking report.
863. During the next four years, for localities where the company has already installed outside plant before the commencement of the SIP, each new customer that requests service in that locality is to have a choice between the lesser of a contribution cost calculated pursuant to the current tariff, or \$1,000, assuming a capital cost limit of \$25,000.

b) TELUS

864. The Commission approves a SIP for unserved premises for TELUS of \$10.6 million in capital expenditures. The Commission intends to review TELUS' progress in implementing its SIP on a yearly basis, as reported in its tracking plan, to determine whether additional capital and funding are required.
865. The Commission directs TELUS to commence rolling out its SIP in 2002. The Commission further directs TELUS to start a project in a locality if it meets the following criteria: (a) the maximum average cost per premises is \$25,000 using a 100%

take rate, and (b) at least one customer requests service and is willing to contribute \$1,000. The Commission directs TELUS to start with those localities that have the highest demand.

866. The Commission also directs TELUS to assess applications and reassess past requests for service in the same manner as Bell Canada, as set out above, including requests for service from premises in localities where the company has already installed outside plant before the commencement of the SIP.

c) Aliant Telecom

867. The Commission approves, as an initial amount, the up-front capital amount of \$2.33 million. The Commission intends to review Aliant Telecom's progress in implementing its SIP on a yearly basis, as reported in its tracking plan, to determine whether additional capital and funding are required.
868. The Commission directs Aliant Telecom to commence rolling out its SIP in 2002. The Commission further directs Aliant Telecom to start a project in a locality if it meets the following criteria: (a) the maximum average cost per premises is \$25,000 using a 100% take rate, and (b) at least one customer requests service and is willing to contribute \$1,000. The Commission directs Aliant Telecom to start with those localities that have the highest demand.
869. The Commission also directs Aliant Telecom to assess applications and reassess past requests for service in the same manner as Bell Canada, as set out above, including requests for service from premises in localities where the company has already installed outside plant before the commencement of the SIP.

Underserved customers

870. The ILECs proposed various plans to provide additional services to their underserved customers in order to meet the BSO. Specifically, those plans included the provision of Internet access, Internet access via a local call, and CMS. In assessing the reasonableness of the proposals, the Commission has examined the cost of equipping the small exchanges, the total number of customers to be served, and the expected penetration rate within the exchange.

Bell Canada

871. Bell Canada submitted that, in 2001, all existing customers in its territory met the BSO with the exception of customers served by Code Division Multiple Access (CDMA), a wireless technology.
872. Bell Canada indicated that it had approximately 175 CDMA-served customers. CDMA does not currently provide Call Trace functionality. Bell Canada noted that CDMA provides other privacy features, such as per-line and per-call display blocking.

873. Bell Canada proposed to make Call Trace available to all new and existing CDMA-served customers in 2002 as part of its current SIP proposal. As well, at present CDMA technology does not support low-speed data transmission to the Internet. Bell Canada stated that every effort was being made to overcome, in a timely fashion, technical difficulties encountered in provisioning low-speed data transmission to the Internet using CDMA technology.
874. In response to Commission interrogatories, Bell Canada indicated that 4,600 customers currently did not have access to the Internet via a local call. Bell Canada noted that 901 out of a total of 942 exchanges had access to at least one ISP via a local call. Bell Canada stated that there were 41 exchanges where residents must make a long distance call to reach an ISP, and proposed a plan to connect residents via a local call. The 41 exchanges were in HCSAs and were separated into Bands E and G.
875. For the six Band E exchanges, Bell Canada proposed to expand the local calling area of each exchange as an exception to the extended area service criteria for Internet access only, creating a Natural Calling Centre at a cost of \$300,000.
876. For the 35 Band G exchanges, Bell Canada proposed a solution costing \$9.1 million in up-front capital. This would provide access to the Internet for the 10 exchanges served by analogue and digital radio and for the 25 exchanges served by satellite. However, Bell Canada stated that there was no guarantee that ISPs would actually avail themselves of this opportunity.
877. Accordingly, Bell Canada proposed to spend a total of \$9.4 million for 2,593 NAS.
878. Bell Canada requested that, should the Commission direct it to offer local access to the Internet to residents in the six Band E exchanges and to provide at a non-compensatory rate end-to-end facilities to make it more attractive for an ISP to serve each of the 35 Band G exchanges, the Commission should establish an appropriate cost recovery plan.
879. Bell Canada submitted that it was currently meeting the BSO with respect to Internet access, since an ISP would connect to any of its switches on a local basis. Bell Canada submitted that the BSO does not require that residents in an exchange be able to access the Internet without making a long distance call.
880. The Commission disagrees with Bell Canada's position regarding Internet access pursuant to the BSO. The Commission notes that customers in 41 exchanges are currently unable to access the Internet via a local call. The Commission has determined that Bell Canada must provide the necessary toll-free links for the exchanges indicated below.
881. The 41 exchanges are broken down as follows: 25 Band G Satellite Exchanges; 10 Band G Analogue and Digital Radio Exchanges; and six Band E Digital Radio Exchanges.

882. With respect to the 25 Band G exchanges, Bell Canada proposed a plan costing \$4.2 million. The Commission is concerned with the slow data transmission speed for the proposed plan to provide toll-free Internet access by satellite (9.6-14.4 kbps). Also, the Commission finds that, as set out above, the plan is not reasonable due to the high cost and the expected low penetration rate. In light of the foregoing, the Commission denies the plan for the 25 Band G exchanges.
883. The Commission notes that Bell Canada has proposed a plan costing \$3.6 million for 136 customers in one Band G analogue exchange. Again, the Commission finds that the plan is not reasonable due to the high cost and the expected low penetration rate. Accordingly, the Commission denies this part of the Bell Canada SIP.
884. The Commission notes that Bell Canada has proposed a plan costing \$1.3 million for 688 customers in nine Band G digital radio exchanges. Again, the Commission finds that the plan is not reasonable due to the high cost and the expected low penetration rate. Accordingly, the Commission denies this part of the Bell Canada SIP.
885. The Commission notes that Bell Canada has proposed a plan costing \$0.3 million for six Band E digital radio exchanges. The Commission approves the plans for Pickle Lake, Gull Bay and Armstrong, since the average cost per prospective subscriber, even with a low penetration rate, is reasonable. The plans for Savant Lake, Oba, and Chute-des-Passes are denied due to the high cost and the expected low penetration rate.
886. The Commission directs Bell Canada to add the costs related to upgrading underserved premises in Pickle Lake, Gull Bay, and Armstrong to its funding requirement and to commence this portion of its SIP in 2002. These costs are identified in Table 2 of the response to interrogatory Bell(CRTC)26Jun01-1600.
887. The Commission is of the view that Pickle Lake, Gull Bay, and Armstrong should have toll-free access to the Internet in 2003. Accordingly, the Commission directs Bell Canada to track the status of Internet service in these communities and include this information in its tracking reports.

TELUS

888. In response to interrogatory TELUS(CRTC)27Apr01-613, TELUS stated that there were a number of exchanges in British Columbia where customers had to access an ISP via a toll call. TELUS provided a plan to provide these exchanges with Internet access via a local call.
889. The Commission has reviewed TELUS' plan on an exchange-by-exchange basis, and has determined that the costs are reasonable in the following exchanges: Bella Bella, Granisle, Greenville, Hemlock Valley, Kitkatla, Kitwanga, Klemtu, Stewart and Zeballos. The Commission approves these portions of the TELUS SIP, and directs TELUS to carry out those projects that it has approved. The Commission denies TELUS' plan regarding Internet access for the remaining exchanges.

890. TELUS stated that the cost to upgrade the network in Alberta for Internet access would be \$20.6 million in capital expenditures for 3,302 NAS. The Commission finds that the plan is not reasonable due to the high cost and the expected low penetration rate. Accordingly, the Commission denies this part of the TELUS SIP.
891. TELUS stated that the cost to upgrade the network in British Columbia for additional CMS features on a stand-alone basis would be \$26.8 million in capital expenditures for 25,096 NAS. The Commission finds that the plan is not reasonable due to the high cost and the expected low penetration rate. Accordingly, the Commission denies this part of the TELUS SIP.
892. TELUS also stated that the cost to upgrade a portion of the network in British Columbia to allow toll-free Internet access would be \$18.1 million in capital expenditures for 5,288 NAS. The Commission finds that the plan is not reasonable due to the high cost and the expected low penetration rate. Accordingly, the Commission denies this part of the TELUS SIP.
893. The Commission is of the view that the exchanges identified above should have toll-free access to the Internet in 2003. Accordingly, the Commission directs TELUS to track the status of Internet service in these exchanges and include this information in its tracking reports.

Aliant Telecom

894. In a 17 March 2000 letter, the Commission directed Aliant Telecom to implement a Network Enhancement Plan (NEP) in Newfoundland and provide quarterly progress reports to the Commission. The Commission ordered the implementation of the NEP to relieve toll traffic congestion on certain routes to allow the carriage of emergency service calls during busy periods.
895. Aliant Telecom stated in its proposed SIP that upon completion of its NEP in Newfoundland, the standard service throughout its serving territory would be individual line local service with Touch-Tone dialling, provided by a digital switch with capability to connect via low speed data transmission to the Internet at local rates. However, Aliant Telecom stated that seven party-line customers had asked that their service be upgraded to individual line. Aliant Telecom stated that the proposed SIP included upgrading these customers.
896. Aliant Telecom indicated that upon completion of the NEP, almost all customers will be provided with some enhanced calling features. Only two exchanges (Wild Cove and Rigolet) would have no enhanced calling features. There are fewer than 200 NAS in total in these exchanges.
897. Aliant Telecom stated that, while all other customers in Aliant Telecom's territory would have access to some enhanced calling features, they would not have access to all of them. However, Aliant Telecom noted that customers who do not have access to

enhanced features requiring CCS7 signalling would still have their privacy protected since their name and number would not be available to other customers. Therefore, Aliant Telecom submitted that its enhanced calling features offering still meets the requirement of the BSO.

898. Aliant Telecom stated that its practice had been to provide expanded enhanced calling features in areas where the expected revenue flow would justify the capital expenditures. Aliant Telecom submitted that the smaller communities in its serving area were very similar to these smaller communities in Northwestel's serving area. Aliant Telecom submitted that the roll-out of the enhanced calling features to communities with low-line sizes should remain part of the normal provisioning process and should not be included as part of the SIP. Aliant Telecom submitted that this was consistent with the Commission's determination in paragraph 25 of Decision 2000-746.
899. Aliant Telecom indicated that a plan to provide CMS features to underserved customers would cost \$12.13 million in capital expenditures. Aliant Telecom stated that the estimated expenditures cover 56 exchanges (46 in Newfoundland, nine in Nova Scotia, and one in New Brunswick). Given the significant cost involved, Aliant Telecom submitted that it should not be required to provide a full suite of enhanced calling features to these locations.
900. The Commission agrees with Aliant Telecom's submission that the cost to provide CMS is significant. Accordingly, due to the high cost and the expected low penetration rate, the Commission finds that the plan is not reasonable and denies that part of the Aliant Telecom SIP.
901. Aliant Telecom stated that there were 26 exchanges where a customer must make a toll call to access an ISP. The Commission finds that the costs are reasonable for 18 of the exchanges and approves this portion of the plan. The Commission denies the portion of the plan for the remaining eight exchanges since the costs are high and the expected penetration is low.
902. The eight communities whose projects are denied are: Black Tickle, Fairhaven, Great Harbour Deep, Nipper's Harbour, Norman's Bay, Paradise River, Pinset's Arm, and Williams Harbour.
903. The 18 communities whose projects are approved are: English Harbour West, Makkovik, Port Hope Simpson, Churchill Falls, Belleoram, Burlington, Charlottetown Labrador, Coomb's Cove, Cottrell's Cove, Davis Inlet, Grey River, Ladle Cove, Leading Ticks, Little Bay Islands, Millertown, Rigolet, Terrenceville, and Wild Cove.
904. In light of the foregoing, the Commission has reduced the net cost of the approved plan by the aggregate amount of capital costs identified in response to interrogatory Aliant(CRTC)27Apr01-609 for the denied exchanges indicated above. Aliant Telecom is directed to commence the plan in 2002.

905. The Commission is of the view that, where approved, the exchanges identified above should have toll-free access to the Internet in 2003. Accordingly, the Commission directs Aliant Telecom to track the status of Internet service in these exchanges and include this information in its tracking reports.

SaskTel

906. SaskTel proposed \$4.0 million in capital expenditures for underserved premises, an amount that included both up-front capital and installation costs. SaskTel stated that it had no unserved premises, but that there were approximately 200 underserved residence customers in its territory. SaskTel stated that it must plan to upgrade services to these underserved customers not only to meet the BSO, but also more generally because the technology supporting current radio telephone services was antiquated and not feasible to sustain in the longer term.
907. SaskTel's proposal provides for the deployment of satellite earth station technology to serve approximately 30 residence subscribers of Garson Lake and Descharme, in addition to approximately 175 residence subscribers to SaskTel's Northern Radio Telephone Service (NRTS) and Exchange Radio Telephone Service (ERTS) services in areas generally north of the 54th parallel. SaskTel submitted that deployment of satellite earth station technology would result in the use of the most cost-effective technology to meet the BSO requirement for Descharme, Garson Lake and current fixed station ERTS and NRTS applications.
908. SaskTel estimated that the total capital cost for deployment of Telesat's rural Anikom Access service would be approximately \$2.1 million. Additional costs of approximately \$1.9 million were expected to be incurred for installation, maintenance, satellite space rental, and other expenses during the roll-out period, assuming 200 customers subscribe to the service.
909. Accordingly, under SaskTel's proposed plan, it would cost \$20,000 per line to upgrade the network for the provision of CMS and Internet access.
910. SaskTel noted that it was open to the Commission to postpone implementation of SaskTel's SIP in anticipation of the development of more cost-effective technologies.
911. The Commission finds that SaskTel's proposed cost of \$20,000 per line to improve service to underserved subscribers is too high and denies SaskTel's SIP. The Commission is of the view that faster and less expensive products will likely be available in the near future. The Commission directs SaskTel to monitor the marketplace for these new products and to submit a new plan for Commission approval when appropriate.

Conclusions regarding Internet access

912. As noted above, the Commission disagrees with Bell Canada's interpretation of the BSO as it relates to making Internet access available at local rates. The BSO is not intended to describe a theoretical level of service which might be available if other facts existed. The BSO describes an actual level of service which should be available to subscribers.
913. In the sections above, the Commission has required Aliant Telecom, Bell Canada and TELUS to implement upgrades to ensure that customers in certain exchanges have toll-free Internet access available to them. However, the Commission notes that, if there is no ISP providing toll-free Internet access to these exchanges by the first quarter of 2003, it will consider whether the ILECs' obligation to serve includes an obligation to provide toll-free access to the Internet.
914. In order to assess the feasibility of providing toll-free Internet access, the Commission also directs Aliant Telecom, Bell Canada, SaskTel and TELUS to monitor the marketplace for faster, less expensive satellite products, or other serving methodologies, to report the results; and to submit a new plan to serve any exchanges currently without access to the Internet via a local call, when appropriate, for Commission consideration.

Implementation

Roll-out plans

915. Bell Canada originally proposed a two-year roll-out plan, from 2002 to 2003. However, Bell Canada stated that it would require up to a four-year roll-out plan, from 2002 to 2005, if the Commission decided to expand the scope of the SIP.
916. The Commission has expanded the scope of the Bell Canada SIP to include more unserved premises, as well as provision access to the Internet via a local call in a small number of switching centres. The Commission has determined that a new four-year roll-out plan is reasonable. Accordingly, the Commission approves a four-year plan from 2002 to 2005, and directs Bell Canada to file a revised plan on this basis by 13 September 2002.
917. The Commission further directs Bell Canada to file at the same time detailed reports in a spreadsheet format (including information on number and types of premises, upfront cost to serve and aggregated cost allowance, for the unserved localities in its territory), that support the estimated up-front costs for: (a) \$75.3 million; and (b) the plan as approved in this Decision.
918. TELUS proposed a five-year roll-out period for its SIP, from 2002 to 2006, based on resource constraints. TELUS stated that this schedule would also allow some flexibility for communities to formally enroll in the SIP in a timeframe that suits the ability of residents to pay the amounts involved. The Commission has determined that TELUS'

proposed roll-out plan should be reduced to four years, as the Commission has significantly reduced the scope of the plan. Accordingly, the Commission approves a four-year plan, from 2002 to 2005, and directs TELUS to file a revised plan on this basis by 13 September 2002.

919. In accordance with the Commission's direction in Decision 99-16, Aliant Telecom stated that the proposed roll-out schedule targets larger communities first, serves permanent customers before seasonal customers, and serves unserved areas prior to providing service upgrades. Aliant Telecom's proposed roll-out schedule is four years, from 2002 to 2005. Since the Commission has not significantly increased the scope of the SIP, the Commission finds that Aliant Telecom's plan is reasonable and approves it.

Tracking plans

920. Bell Canada proposed a tracking plan similar to the one approved by the Commission for the small ILECs in Ontario and Quebec. Bell Canada proposed to file tracking reports on 31 March of each year, which would provide the following information:
- a list of localities scheduled for completion in the previous year and those actually completed;
 - the forecasted and actual number of premises to which service was made available in the previous year;
 - the total capital investment for the previous year;
 - the projected service extensions for the upcoming year; and
 - any changes to the yearly program with supporting reasons.
921. TELUS proposed to file a tracking report for its SIP on 31 March of each year, but provided few details of what the report would encompass. SaskTel proposed a tracking plan that was somewhat similar to Bell Canada's plan, although it was directed towards underserved premises.
922. Aliant Telecom stated that it proposed to file an annual tracking plan with the Commission by 31 March of each year throughout the life of the SIP. Aliant Telecom's proposed plan was similar to Bell Canada's, but had the additional requirement of tracking the incremental operating expense causal to the SIP.
923. The Commission notes that the tracking plans of Aliant Telecom and Bell Canada are similar to the plans approved for the small ILECs. The Commission considers that these plans would be suitable for SaskTel and TELUS.

924. However, the Commission considers it appropriate to add a number of reporting requirements to track the efficiency and effectiveness of the roll-out as well as to track additional premises that will be added to the SIPs. This information would support a request for additional capital funding.
925. The Commission therefore directs Aliant Telecom, Bell Canada, SaskTel and TELUS to adopt Bell Canada's tracking plan, modified to include the following requirements:
- operating expenses for the previous year related to the SIP;
 - the number and location of new customers requesting service;
 - the number of customers whose past requests have been reassessed and now qualify for service;
 - the number of customers requesting service who do not qualify because of cost;
 - the number of customers who have been offered service but refused because of cost;
 - the status of new ISPs locating in upgraded exchanges; and
 - the status of a new plan to serve residents in those remaining exchanges that currently do not have access to the Internet via a local call, using new or alternative technologies.
926. Further to Bell Canada's description of planned improvements to CDMA technology in its proposed SIP, the Commission directs only Bell Canada to report on its progress in its annual tracking report.

Tariff pages

927. The Commission directs Aliant Telecom, Bell Canada, and TELUS to file tariff pages to implement the Commission's determinations related to unserved premises in its SIP. These tariff pages must be filed for approval by 2 July 2002 and should include:
- a) the SIP period;
 - b) conditions for a project start up (\$25,000 capital criterion, 100% take rate, and one customer service request);
 - c) the installment plan for the \$1,000 customer contribution;
 - d) the treatment of new premises built during the roll-out period;
 - e) the reassessment of premises denied in the past;

- f) the opportunity for customers to pay additional charges in the case of large construction projects;
- g) the installment plans for large construction charges; and
- h) the treatment of service requests in localities where the company has already installed outside plant before the commencement of the SIP.

SIP cost recovery

- 928. In Decision 99-16, the Commission determined that SIPs must also include proposals to fund service improvements. The Commission noted that ILECs could fund SIPs in a number of ways, including through rate increases. The Commission stated that when funding proposals include rate increases, a reasonable balance should be achieved between the speed and cost of implementation and the need to maintain affordable rates.
- 929. The Companies and TELUS submitted that the recovery of proposed SIP costs was built into their respective pricing flexibility proposals, which would allow them to increase rates for various services up to specified maximum limits.
- 930. TELUS proposed that, in HCSAs, its SIP costs be recovered through a combination of rate increases and increased subsidy requirement. In non-HCSA bands, TELUS stated that a portion of its proposed rate increases would be used to fund SIP initiatives in those areas.
- 931. The Companies made the following proposals for explicit recovery of SIP costs in the event that their pricing flexibility proposals were denied.
- 932. Bell Canada proposed rate increases to recover SIP costs in HCSAs, but did not propose any rate increases to recover SIP costs in non-HCSAs. Aliant Telecom proposed to recover its SIP costs in both HCSAs and non-HCSAs by means of rate increases.
- 933. MTS and SaskTel indicated that their proposed service improvements impacted HCSAs only. MTS did not propose any specific rate increases for SIP costs. MTS was of the view that its subsidy requirement already reflected the costs of the upgraded equipment that would be installed under its proposed SIP. SaskTel submitted that the costs of the ILECs' proposed SIPs that could be recovered by acceptable increases to rates in HCSAs should be recovered by means of the National Contribution Fund.
- 934. The Commission has determined in Part IV of this Decision that it would not be appropriate to provide the ILECs with their proposed level of pricing flexibility and rate increases. The Commission has also decided to establish a deferral account for each ILEC as discussed in Part IV of this Decision. In the Commission's view, the deferral account should be drawn down for costs associated with the implementation of SIPs in

non-HCSAs, and it will accordingly allow the explicit recovery by the ILECs of the Phase II costs associated with their SIPs in non-HCSAs, by means of a draw-down on their respective deferral accounts.

935. For HCSAs, the Commission notes that the expiry of certain time-limited exogenous factors permitted in the initial price cap period, as discussed in Part V of this Decision, would lower the level of the subsidy requirement since rates would be higher than otherwise. Since residence rates in HCSAs do not recover their associated Phase II costs, the Commission is of the view that it would be inappropriate to reduce these rates.
936. On the other hand, the addition of SIP-related costs to the TSR calculation will increase the subsidy requirement. The net impact of these two changes will be a reduction in the overall subsidy requirement. Consequently, the Commission considers that it would not be appropriate to increase residence rates in HCSAs to recover SIP costs, but rather to use the time-limited exogenous adjustments in HCSAs to offset the costs of the SIPs in these areas.
937. Accordingly, the Commission directs each company to add its Phase II SIP costs for HCSAs to the costs that flow into its TSR calculation.
938. The Commission also directs each of the companies to identify, at the time that it files its revised SIP proposal, pursuant to the determinations in this Decision, the related Phase II SIP costs. These Phase II costs should be separated by band.
939. With respect to the revised SIP for 2003 to 2007 that MTS will be submitting by 30 June 2002, the Commission has determined that MTS will be allowed to recover any additional expenditures that are mandated by the Commission with respect to the revised SIP, in a manner consistent with the SIP recovery approved in this Decision for the other ILECs.

IX Contribution issues

Background

940. In Decision 2000-745, the Commission introduced a new national contribution collection mechanism to subsidize the high cost of local service in rural and remote areas. Under the new mechanism, effective 1 January 2001, a revenue-percent charge is levied on revenues from eligible telecommunications service providers (TSPs).
941. In Decision 2000-745, the Commission also introduced a new subsidy requirement calculation that would establish the appropriate amount of subsidy payable to LECs which provide service in HCSAs. In brief, the subsidy requirement consists of the sum of the average annual residential PES revenue and an annual implicit contribution target amount of \$60 less the average annual PES costs, established on the basis of Phase II

costs with an approved mark-up, per residence NAS in each high-cost band. The TSR for each ILEC territory is the total of the annual subsidy requirements for all residential NAS in all high-cost bands. This TSR calculation methodology became effective 1 January 2002.

942. In PN 2001-37, the Commission invited comments on any remaining implementation issues for 2002, such as changes to the basis for the distribution of the subsidy. The Commission also requested that the ILECs submit their proposed 2002 TSR calculations, based on their proposals for adjustments to residential rates and costs. Other implementation issues addressed included the reduction of the subsidy requirement during the price cap period, a change in the effective date of the annual revenue-percent charge, and consideration of quarterly adjustments to the revenue-percent charge when the actual revenue collected varies from the forecast.

The calculation of the TSR

943. In Decision 2000-745, the Commission outlined the various components of the TSR for HCSAs, and determined that the TSR calculation would be updated annually. Each year, each ILEC is to modify its average cost component using a pre-determined productivity adjustment and to ensure that the average revenue component reflects realized changes to the PES rates that occurred in the previous year. The Commission further determined that the specific timing of the annual TSR updates would depend on the nature of the regulatory mechanism after 1 January 2002, and would be established during this proceeding.
944. In Decision 2001-238, the Commission defined the areas that would be considered high cost for purposes of receiving subsidies. The HCSAs were identified as specific costing bands in each ILEC territory.

Appropriate revenues

945. The Companies noted that under the current subsidy arrangement the subsidy available from the National Contribution Fund compensates ILECs for the shortfall between costs and revenues. Accordingly, there may be an incentive for ILECs to forego revenues from allowable price increases and instead draw on the equivalent subsidy revenues from the National Contribution Fund, which would be paid by all TSPs. The Companies submitted that calculating the subsidy requirement based on the maximum allowable rates, rather than the actual rates in effect at the time, would eliminate this incentive and would reduce each ILEC's TSR.
946. In its evidence, TELUS argued that the actual rates approved for the period should be used to calculate the average revenue per NAS per band. TELUS stated that artificially reducing the subsidy requirement could undermine the Commission's objective to provide competitive choices for customers in HCSAs. The subsidy collected may be insufficient to make it viable to provide service in that area at prevailing rates.

947. TELUS noted that the ILECs have an obligation to provide service and must absorb the costs. TELUS submitted that there would be no incentive to encourage new entry since the subsidy would almost certainly be insufficient for a CLEC to recover the costs it will incur to provide service.
948. AT&T Canada submitted that the maximum allowable rate level for each HCSA band should be the rate used when updating the TSR each year to ensure that the TSR would be reduced in a predictable manner over the course of the next price cap period.
949. The Commission recognizes that there may be, in some cases, an incentive for ILECs to forego rate increases, which would have the effect of maintaining the subsidy at a higher level than necessary. However, the Commission is also concerned that if the maximum allowable rates proposed by the parties were used for the subsidy calculation but not actually implemented, the available subsidy per NAS would be significantly reduced. The Commission agrees with TELUS that this, in turn, would impair the ability of new entrants to provide service in that area at the prevailing rates since they may not be able to recover their costs. The Commission is also of the view that the use of rates other than those in effect would break the direct link between revenues, costs and subsidies. This, in turn, would undermine the effectiveness of the subsidy mechanism.
950. The Commission notes that in Decision 2000-745, it determined that the average revenue component of the TSR is to reflect realized changes to residential PES rates occurring in the previous year as well as any known rate changes that have been determined for the upcoming year.
951. Accordingly, the Commission continues to be of the view that the average revenue component of the TSR should be based on actual residential PES rates.

Adjusting the PES costs

952. In Decision 2001-238, the Commission applied uniform costing methods and assumptions to the Phase II PES cost studies submitted by the ILECs. The Commission employed a uniform process to establish the base average PES costs for each high-cost band in each ILEC territory. These base average PES costs are to be used as the base costs in the determination of each ILEC's TSR.
953. The base average PES costs established in Decision 2001-238 excluded the adjustments for the inflation factor, the annual productivity offset, and the costs associated with the revenue-percent charge established in Decision 2000-745.
954. In Part V of this Decision, the Commission directed the ILECs to apply a 3.5% productivity factor and an inflation factor based on the chain-weighted GDP-PI annually in the TSR formula.

955. With regard to the adjustment for the impact of the revenue-percent charge, the Companies proposed that the cost of the revenue-percent charge should be added directly to the base average PES costs. They estimated these costs on the basis of the rates in each band.
956. In calculating the appropriate cost adjustments for the TSR, the Commission considers that the adjustment for the revenue-percent charge should be the net change in the revenue-percent charge from year to year. The Commission notes that this will eliminate the cumulative effect of adding the annual revenue-percent charge directly to the base average PES cost each year.
957. In Decision 2000-745, the Commission allowed an exogenous factor adjustment of 4.5% in the 2001 price cap filings for the ILECs to recover the revenue-percent charge applicable to their capped services. The Commission notes that the ILECs generally adjusted the rates in each high-cost band for the 4.5% revenue-percent charge implemented in 2001.
958. In *Interim 2002 revenue-percent charge, national subsidy requirement and procedures for the revenue-based contribution regime*, Order CRTC 2001-876, 14 December 2001 (Order 2001-876), the Commission approved an interim revenue-percent charge of 1.4%, effective 1 January 2002.
959. Based on the foregoing, the adjustment to the 2002 TSR calculation should reflect the change to the revenue-percent charge from 4.5% to 1.4%. In order to put this into effect, the average PES cost will be adjusted for each band for 2002 as follows:
- assume a 4.5% reduction in the average revenue per NAS;
 - calculate 1.4% of the reduced revenue; and
 - add that amount to the average PES cost per NAS.

A similar approach is to be used in subsequent year adjustments.

960. In the TSR formula, the PES costs are to be adjusted in the following sequence:
- the base average PES costs will be adjusted by inflation minus the annual productivity offset of 3.5%;
 - the 15% mark-up, established in Decision 2000-745, will then be applied to the adjusted average PES costs; and
 - the net cost adjustment related to the revenue-percent charge will be included.

Distribution of the subsidy

961. The Companies and TELUS proposed that the distribution of the subsidy be based on a fixed monthly amount of subsidy per NAS, per band and per territory.
962. The Commission considers that the ILECs' distribution proposal would provide more competitive certainty and would also require less reconciliation between the subsidy that is collected and the subsidy that is distributed. The Commission notes that as set out in Order 2001-876, the Central Fund Administrator (CFA) has been distributing a specified per NAS subsidy to the ILECs since 1 January 2002, on an interim basis. The Commission directs the CFA to continue to distribute the calculated subsidy to local exchange carriers (LECs) based on a fixed amount per NAS per month, adjusting from month to month as set out in the approved CFA procedures.
963. The Commission directs each ILEC to file its revised 2002 total subsidy requirement and the monthly subsidy per NAS per band by 6 August 2002. This calculation must incorporate all of the Commission's determinations in this Decision concerning residential rates in HCSAs and residential PES cost adjustments. The ILECs are to identify separately the cost adjustments for the inflation factor, the productivity offset and the revenue-percent charge. As discussed in Part VIII of this Decision, the ILECs should also include, and identify separately, an estimate of the Phase II cost impact of any SIP expenditures in HCSAs.

The timing of the annual updates to the TSR

964. The Companies proposed that the effective date of the annual TSR calculation and the associated revenue-percent charge should be changed from 1 January to 1 May, from 2002 onward. This would coincide with the assumed requirement for annual price cap filings. The Companies claimed that this would streamline the administration of the filing requirements and provide a degree of certainty in the marketplace.
965. In Decision 2000-745, the Commission determined that certain information is to be filed annually with the Commission, by 31 March of each year, by all TSPs or groups of related service providers. Updated TSRs and NAS counts by band are also required from the ILECs on the same date. This allows the Commission to verify the contribution amounts remitted the previous year, review the calculation of contribution-eligible revenues, determine which companies will be required to pay contribution and calculate the revenue-percentage charge for the current year.
966. In Decision 2000-745, the Commission determined that the national revenue-based contribution collection mechanism would be implemented, effective 1 January 2001, using an interim 2001 revenue-percent charge. The annual filing date was set at 31 March of each year. The Commission also determined that, based on the previous calendar year's financial information filed by the LECs and by all of the other TSPs, the revenue-percent charge would be finalized and be effective from 1 January of the year in question.

967. The Commission notes that only the ILECs are required to submit annual price cap filings; other TSPs who are part of the contribution collection mechanism are not affected by this requirement. The Commission also notes that the calendar year is an integral part of the revenue-percent charge calculation. For example, the revenue-percent charge is based on the contribution-eligible revenues for the previous calendar year. As well, the subsidy per NAS is based on costs adjusted for the previous calendar year's inflation rate and on the NAS per band at 31 December of the previous year.
968. In the Commission's view, the Companies have not demonstrated that the change in timing will simplify the administration of the national subsidy framework, or that this change in timing would provide more marketplace certainty. The determination of the final revenue-percent charge is dependent on information filed by many parties, in addition to the ILECs. The Commission is of the view that setting the subsidy requirement on a calendar year basis facilitates filing, business planning and auditing requirements for the majority of TSPs.
969. Accordingly, the Commission upholds the 1 January effective date for the annual revenue-percent charge and the 31 March date for the annual filing of revenue information by all TSPs.

Monitoring and adjustment of the revenue-percent charge

970. The Companies and TELUS submitted that the Commission should undertake periodic adjustments to the revenue-percent charge for over- or under-funding of the national subsidy. The ILECs expressed concern that the surplus or shortfall might be so significant that the Commission should make adjustments more frequently than annually. The ILECs supported quarterly adjustments to the revenue-percent charge, and proposed various thresholds that would trigger such adjustments.
971. With respect to adopting thresholds as a trigger for making adjustments, the Companies submitted that if the difference between the subsidy collected and subsidy distributed in that quarter were to exceed 2% relative to the amount distributed, then an adjustment to the revenue-percent charge would be appropriate. TELUS proposed to increase the revenue-percent charge if the National Contribution Fund had a negative balance, and to decrease the revenue-percent charge if the National Contribution Fund had a positive balance, greater than one month's average disbursement.
972. The Companies further submitted that the updated revenue-percent charge should be implemented on a going-forward basis. This would take into account the difference in time between the distribution date of the subsidy per NAS from the CFA and the implementation date of the updated revenue-percent charge. The Companies also noted that the revenue-percent charge was included in the adjustment to the average cost component of the TSR, which was in turn used in the calculation of amounts distributed from the CFA.
973. The Commission notes that the financial data provided to the CFA for any given month

is filed at the end of the following month. The subsidy is distributed in the second month after the data has been collected, and subsequently, data input adjustments are allowed, beginning in the third month. For any reasonable analysis of under- or over-collection, the data would therefore not be available for more than three months. The Commission notes that all eligible contributors have the option to adjust for any previous month filings if corrections are required. The Commission also notes that calendar months are not constant and there is significant seasonal variation in revenue reported.

974. Accordingly, the Commission has determined that quarterly updates to the revenue-percent charge are not appropriate, due to the time lag between the reporting of revenues and the subsidy distribution, as well as seasonal variation in revenue reported.
975. The Commission notes that the two thresholds proposed by the ILECs vary significantly. The Companies proposed a trigger mechanism based on a target threshold of 2% of the revenue distributed, which represents approximately \$500,000 per month. TELUS' proposed trigger mechanism would result in a surplus of approximately \$25 million on average, based on the 2002 subsidy requirement of \$300 million.
976. The Commission is of the view that the the Companies' and TELUS' proposals would result in an unduly large number of adjustments to the revenue-percent charge. The Commission would consider making an adjustment to the revenue-percent charge if the variance was significant in any given quarter. However, this determination would depend on various considerations, including the possibility of the variances being caused by errors in the data filed.
977. The Commission notes that the current process established in Decision 2000-745 for finalizing the revenue-percent charge, based on financial data filed on 31 March each year, allows for a possible adjustment based on actual revenue collected at that point. The Commission also notes the true-up process that was established in Decision 2000-745, whereby if the subsidy collected is more or less than the subsidy that should have been distributed, the adjustment is carried over to the next year's subsidy requirement. Any further adjustment required can be accommodated in the annual true-up process applied at year-end.
978. The Commission also notes that *CRTC gives final approval to procedures for the revenues-based contribution regime*, Order CRTC 2001-738, 21 September 2001 (Order 2001-738), provides for the monitoring of any considerable increases or decreases in the fund on a quarterly basis based on reports prepared by the CFA. The procedures state that the Commission will provide direction to the CFA in regard to the modification of the revenue-percent charge, if deemed necessary. The Commission concludes that the processes set out in Decision 2000-745 and Order 2001-738 represent an appropriate mechanism for making any required adjustments to the revenue-percent charge.

X Reporting requirements

Phase III/SRB and intercorporate transaction reports

979. In Decision 95-21, the Commission established a revised regulatory regime that segmented the telephone companies' operations into a Utility Segment and a Competitive Segment. In connection with this change, the Commission introduced new reporting requirements. Specifically, Phase III/SRB reports were introduced to provide the companies' Income Statement, Average Net Investment Base, Capitalization Report and Return on Average Common Equity Report results separated into the two segments.
980. The current Phase III/SRB reporting requirements for the ILECs include:
- filing of annual historical Phase III/SRB results on or before 30 September of the following year;
 - filing of Phase III/SRB manual updates, along with any changes to Accounting Manuals, annually on 31 March, with such updates considered approved after 60 days from filing, unless the Commission indicates otherwise; and
 - filing of actual financial results for the Utility and Competitive Segments on a semi-annual year-to-date basis, 45 days after the end of the period.
981. The Commission has also directed the ILECs, in various decisions over the years, to file intercorporate transaction reports. The ILECs, except SaskTel, file the reports semi-annually, with the six-month report submitted by 1 October of each year and the annual report by 1 April of the following year. The reports identify all significant non-tariffed financial transactions between an ILEC and any of its affiliates. The purpose of the reports is to safeguard against any potential cross-subsidies from the regulated operations of the ILEC to an affiliated company.
982. SaskTel, under its current transitional regulatory framework implemented in Decision 2000-150, files its Phase III/SRB reports and intercorporate transaction reports on a quarterly basis. Annual audited Phase III/SRB results are filed by 31 October of the following year and SRB manual updates annually by 31 March of each year.
983. The Companies submitted that Phase III/SRB reports, and the supporting intercorporate transaction reports, were no longer needed because:
- commencing in 2002, the contribution requirement will be calculated using Phase II costs rather than SRB results;
 - the regulatory framework should focus on prices rather than earnings;
 - the reports are strictly a regulatory construct and have no utility to the Companies themselves;
 - financial accounting data is not required for rate-setting purposes, as was done to

establish going-in rates for the initial price cap period; and

- preparation of such reports consumes significant company resources.

984. TELUS submitted that there was no longer a need for Phase III/SRB reports or any other type of financial monitoring and reporting of the Utility Segment, for the following reasons:

- with price caps in place, monitoring the financial performance of the Utility Segment was no longer necessary;
- there should not be any need to re-establish new going-in revenue requirements and rates, and thus no need for Phase III/SRB; and
- under price caps, there was no incentive for the company to artificially inflate Utility Segment investments and costs in the hope of justifying rate increases; therefore, the potential for cross-subsidization of Competitive Segment services by Utility Segment services no longer exists.

985. With respect to intercorporate transaction reporting, TELUS submitted that the objective of these reports was to identify instances where a Utility Segment subscriber may be subsidizing other services offered through an affiliate. TELUS was of the view that price cap regulation, by its nature, did not offer the possibility that capped services could be used to offset unauthorized price breaks given to, or investments undertaken by, an affiliate. TELUS argued that the termination of rate of return regulation had removed any theoretical incentive for an ILEC to underwrite an affiliate's operations in the expectation of raising Utility Segment rates to maintain earnings at some Commission-specified allowable return on equity.

986. TELUS submitted that the only monitoring requirement needed in the next price cap period related to the development of competition in the local market.

987. ARC et al. submitted that without the discipline inherent in robust competition, continued regulation was a necessity, and that for effective regulation, some minimum level of reporting was required for the Commission to be satisfied that rates were just and reasonable. ARC et al. also submitted that such reporting was needed to assess the reasonableness and effectiveness of the price cap regime. ARC et al. noted that company-wide results, while broadly indicative of performance under price caps, included revenues and costs related to non-regulated services.

988. AT&T Canada argued that the limited extent of local competition at this time did not support the elimination of existing monitoring and reporting requirements. AT&T Canada supported retaining the Phase III/SRB and other reporting requirements so that the Commission would be able to properly assess the extent to which its objectives for the next price cap regime had been met by the end of that period.
989. CAC Alta submitted that the industry was in transition and that reporting requirements were an important yardstick in assessing the success or failure of this transition. CAC Alta also noted that rates of return were a widely used measurement of corporate performance in both regulated and unregulated industries.
990. Calgary argued that if market forces were insufficient to discipline prices and quality of service on their own, then monitoring and reporting were important to maintain accountability to the Commission and the public. Calgary also submitted that in order to assess the effectiveness of price caps, the Commission needed to maintain appropriate measurement standards in order to receive readily accessible, meaningful information from the ILECs. However, Calgary was of the view that the reliability should be improved, noting that SRB results were not audited and therefore could be subject to manipulation.
991. RCI submitted that reviewing ILEC earnings was entirely appropriate in a price cap review, and argued that Phase III/SRB reports provided useful information for monitoring the economic status of the telephone company and the Utility Segment in particular.
992. The Commission considers that the concept of a Utility Segment no longer has relevance. This is due, in part, to the introduction of a Phase II-based determination of the subsidy requirement starting in 2002. Previously, the contribution requirement was based on a Phase III Utility Segment shortfall calculation. As well, as discussed in Part IV of this Decision, the Commission has determined that the price cap framework will be extended to non-forborne services currently in the Competitive Segment.
993. The Commission also considers that the distinction between the Utility Segment and Competitive Segment is no longer relevant. The meaningful distinction in the next price regulation regime is between tariffed services and forborne services.
994. In light of the revised regulatory framework, there is no longer a need for Phase III/SRB inputs on a going-forward basis. Therefore, the Commission determines that the requirement for Aliant Telecom, Bell Canada, MTS, SaskTel and TELUS to report their financial results on a Phase III/SRB basis is eliminated effective immediately.
995. The Commission recognizes that ILEC financial results will need to be available for the purpose of the review of the next regime. Sufficient information must be reported to allow the Commission to gauge the financial state of ILECs in order to ensure that the objectives of the price cap regime are being met.

996. The Commission notes that the information provided by all telecommunications companies as part of the Commission's annual monitoring process includes, among other things, ILEC financial data.
997. With respect to intercorporate transaction reporting, the Commission notes that the existing reporting requirements were introduced when the ILECs were under rate of return regulation to reduce the incentive for ILECs to overstate the amount of Utility Segment intercorporate transactions, and thus reduce Utility Segment earnings.
998. The Commission considers that under the structure of the next price cap regime, the incentive to overstate intercorporate transactions is reduced. Accordingly, the Commission has determined that the current intercorporate transaction reports for Aliant Telecom, Bell Canada, MTS, SaskTel and TELUS are no longer required, effective immediately.

Reliability and verification of Phase II costs

999. The ILECs have been required to file Phase II costs in a number of situations, most notably as the basis for determining appropriate price levels for ILEC services and in connection with the imputation test applied to certain services.
1000. Several interveners raised concerns as to the reliability of the ILECs' Phase II costs, and the lack of transparency in the current Phase II processes.
1001. ARC et al. and BCOAPO et al. urged the Commission to establish a process for the ongoing tracking, reporting and independent auditing of the ILECs' Phase II cost studies.
1002. AT&T Canada submitted that the Phase II methodology was initially developed to assess forward-looking incremental costs for new services. AT&T Canada argued that this methodology was not well suited to setting rates for a broad set of services such as those provided by ILECs to their competitors. While AT&T Canada also questioned the reliability of the ILECs' Phase II cost estimates. However, it did not propose that the Commission initiate a review of the ILECs' cost studies, noting that such a proceeding would be extremely time-consuming and complex, and would not address overall incumbency advantages enjoyed by ILECs.
1003. Group Telecom argued that it was critical that the rates for essential and near-essential services be based on an accurate estimate of causal costs and that the Phase II-based imputation test represents a reliable and accurate price floor. Group Telecom was of the view that the single most important safeguard for ensuring the reliability of Phase II costs was a careful and detailed review by the Commission and interveners, in the context of a public proceeding to deal with proposed changes to cost-based rates. Group Telecom also considered tracking to be a useful tool for assessing the ongoing appropriateness of rates based on previous cost studies.

1004. Group Telecom submitted that updating and maintaining Phase II manuals would enhance the ability of the Commission and parties to assess cost studies and thereby increase the effectiveness of public proceedings. Finally, Group Telecom expressed its concerns about too much reliance being placed on independent audits, particularly where the existence of audits might curtail discussion of Phase II costing methods in the context of any public processes.
1005. RCI opposed a review of Phase II costing. Although RCI argued that Phase II costing is unreliable, non-transparent and subject to misallocation, the company nonetheless submitted which rates for Competitor Services, which are based on Phase II costing, should be accepted, and then reduced each year by inflation minus a productivity offset.
1006. The Companies considered the Phase II principles and methodology to be fundamentally sound. They noted that the Phase II approach had been the subject of Commission scrutiny and refinements for many years. They argued that the Phase II process was rigorous, since Phase II studies were used both for regulatory purposes and for business decision-making. However, to alleviate parties' concerns, the Companies indicated that they favoured implementing various means to improve the Phase II process or to provide more assurance of the reliability of its results.
1007. TELUS noted that, given the Commission's commitment to the Phase II costing methodology to calculate the subsidy requirement and the imputation test, as well as to price Competitor Services, it was imperative that Phase II costs be transparent, reliable and based on the actual costs of each ILEC. TELUS recommended that the Commission retain an independent auditing firm to examine and audit the Phase II costing methodologies and supporting data sources for each ILEC. Key stakeholders should in TELUS' view be permitted to designate third-party experts in this regard.
1008. The Commission notes the concern expressed by some parties that adequate checks on the reasonableness of the ILECs' Phase II costs currently do not exist. In order to increase the reliability and transparency of the Phase II process, the Commission is of the view that a thorough examination of the Phase II costing approach would be appropriate. Accordingly, the Commission intends to initiate a review, in the fourth quarter of 2002, based on a collaborative approach, such as a round table consultation, that would involve all stakeholders.
1009. The purpose of the Phase II costing approach review will be to develop an updated Phase II manual to set out directives and guidelines with respect to costing processes and methodologies, underlying assumptions, models and tracking systems used by the industry.
1010. The Commission considers that upon the completion of an updated Phase II manual that sets out clear and consistent directives and guidelines within the industry, it will be in a position to conduct random audits of Phase II costing results as indicated in Decision 2000-745.

Other reporting requirements

1011. The Commission directed Bell Canada and TELUS to provide Optical Fibre Availability reports in *Optical Fibre Service*, Telecom Decision CRTC 98-11, 16 July 1998 (Decision 98-11). That decision dealt with the ILECs' provision of optical fibre service to competitors based on the availability of these facilities in the ILECs' central offices (COs). The Commission directed that a report be prepared, providing information on the availability of fibre service in the ILECs' COs, and that the report be updated every six months.
1012. In the current proceeding, the Companies requested that the periodic, six-month updates to the reports required by the Commission further to Decision 98-11 be reduced or discontinued. The Companies submitted that the information on the public record is adequate for competitors' needs.
1013. The Commission notes that the information on the public record, on the availability of fibre service at the ILECs' COs, shows that an increasing number of COs are equipped with fibre service. The Commission agrees that the information on the public record is adequate for competitors' needs. Accordingly, the Commission determines that there should no longer be a requirement for Bell Canada and TELUS to file the periodic updates to the Optical Fibre Availability reports.
1014. The Companies also proposed that the Commission introduce service standards and related annual reports for its telecommunications activities, similar to its broadcasting service standard reports. These service standards would cover activities such as the processing of applications for international telecommunications licenses and intercarrier agreements filed for approval, and of tariff filings.
1015. The Companies stated that the establishment of performance standards for the Commission's telecommunications activities would be an important step forward in objectively addressing the industry perceptions and concerns regarding the speed of Commission decision-making. The Companies reiterated in final argument that, while no party commented on these proposals, the Companies' view was that adoption of their proposed standards for telecommunications matters would assist in reducing regulatory delay.
1016. The Commission notes that on 11 April 2002, service standards for processing the following types of telecommunications applications were introduced:
 - international telecommunications services licences;
 - intercarrier agreements;
 - tariff filings; and
 - Part VII applications (including Commission-initiated proceedings).

1017. Quarterly and annual reports will be posted on the Commission's web site outlining the performance in meeting these service standards. The first report will outline the performance for the period 1 April 2002 to 30 June 2002. In the Commission's view, this initiative addresses the Companies' concern regarding the establishment of Commission service standards for telecommunications activities.
1018. TELUS proposed that the Commission implement a streamlined process to approve ILEC proposals for depreciation life changes, so that such changes could flow through to Phase II studies on a timely basis. The Commission considers, however, that the issue of the depreciation life characteristics of the ILECs is beyond the scope of the proceeding.

XI Procedural matters

1019. A number of procedural matters arose during the course of the present proceeding as discussed below.

Opportunity to file further evidence declined

1020. On 1 October 2001, prior to commencement of cross-examination, Vice-Chairman Colville inquired whether any party wished to raise any preliminary matters. TELUS and Bell Canada expressed concern about statements made in Decision 2001-618 regarding Competitor Services. Both parties indicated that they were not aware of these issues at the time they filed their evidence, and that they would have filed different evidence had they been aware.
1021. The Commission gave TELUS and Bell Canada several opportunities over the course of the first three days of the oral hearing to indicate whether they wished to file additional evidence.
1022. However, both TELUS and Bell Canada declined the opportunity to file further evidence.

Objections to evidence

TELUS

1023. In its reply, ARC et al. argued that certain evidence of TELUS' expert witness, Dr. Weisman, regarding telephone calls he had made to various state regulators about Q-factor plans, constituted hearsay and should be accorded the weight deserved.
1024. The Commission, unlike a court, may admit hearsay evidence. Greater or lesser weight will be placed on such evidence depending on whether there is direct evidence supporting or contradicting the hearsay.
1025. The Commission considers that this evidence constitutes hearsay, and accordingly has given it little weight.

Group Telecom

1026. In its reply, Call-Net argued that Group Telecom had introduced a number of new facts in final argument which should be accorded no weight, particularly where those facts were not corroborated by evidence properly submitted pursuant to the procedures established by the Commission. Call-Net argued that Group Telecom's statement in final argument that it sold more services to TELUS than it bought from TELUS could not be tested in terms of the identity of the customer or the nature or significance of the services.
1027. Given that this evidence is untested, the Commission has given it little weight.

Commissioner of Competition

1028. TELUS and the Companies submitted that the argument filed by the Commissioner of Competition included new evidence. The Companies stated that the Commissioner of Competition chose not to participate in the hearing and therefore avoided having its views subjected to the normal process of interrogatories and cross-examination. TELUS stated that the Commissioner of Competition did not participate in any cross-examination of witnesses and was not an active participant in the proceeding. TELUS and the Companies argued that the Commissioner of Competition's proposals to revisit both the definition of essential facility and a review of the list of essential facilities were outside the scope of the proceeding. TELUS and Group Telecom also argued that the Commissioner of Competition's submissions regarding resale of local services are outside the scope of the proceeding and should be disregarded, with TELUS arguing that this proposal would require a review and variance of Decision 97-8.
1029. The Companies stated that the Commissioner of Competition, in his argument, had made many recommendations to the Commission that substantially amounted to proposals that should have been filed on 20 August 2001, when all other parties had been required to file proposals, in order to be available for examination through interrogatories and cross-examination. Accordingly, the Companies argued that the Commissioner of Competition's opinions and views that were within the scope of the proceeding should only be accorded limited weight, not having been tested. The Companies stated that the Commissioner of Competition had the same rights as any other party to the proceeding, and should accordingly be subject to the process that was set out in PN 2001-37.
1030. TELUS and the Companies submitted that specific paragraphs of the Commissioner of Competition's comments should be stricken from the record on the basis that they either constituted new evidence or referred to matters that are outside the scope of the proceeding. In their view, paragraphs 42, 100, 107, 116, 117, 146 to 150, 177, 197 to 203 and 214 should be stricken on the grounds that they constituted untested economic expert evidence. Paragraphs 24, 25, and 186 to 196, in their submission, should be stricken because they proposed a redefinition of essential facilities that would be beyond the scope of the proceeding.

1031. TELUS also considered that paragraphs 220 to 233 should be stricken as they contemplated a review and variance of mandated resale discounts denied in the Decision 97-8 framework. In addition, the Companies considered that paragraphs 74, 101, 102, and 204 to 218 should not be taken into account in any fashion on the grounds that they were based on economic evidence that did not form part of the record of the proceeding.
1032. TELUS argued that the only way to ensure that the Commission's decision-making process was not tainted by concerns about influence from the Commissioner of Competition, was to allow parties an opportunity to address interrogatories and to cross-examine the Commissioner of Competition and its expert witness, Dr. Church. TELUS stated that as this would be difficult to accommodate at this point, the Commission must make very clear to parties which parts of the Commissioner of Competition's comments, if any, it has relied upon.
1033. In his reply, the Commissioner of Competition stated that he had not intended to include new evidence. Rather, by including references to publicly available economic literature, he had only intended to provide the Commission with a reference to full documentation if it required further elaboration on certain aspects of the Commissioner of Competition's proposal.
1034. With regard to the issue of essential facilities, the Commissioner of Competition submitted that the issue of repricing of certain services fell within the scope of the present proceeding. In his view, the issue of repricing could lead to a *de facto* definition of the elements classified as essential.
1035. The Commissioner of Competition submitted that his suggestions on the issue of resale of local services were appropriate as parties to the present proceeding had raised the issue of the relationship between the current regulatory framework, the state of local competition and the need to facilitate local competition.
1036. The Commission considers that the Commissioner of Competition is subject to the same rules and procedures as are applicable to all parties to a Commission proceeding. In the present proceeding, all parties that made proposals, other than the Commissioner of Competition, filed them, along with their supporting evidence, either on 31 May 2001 (the ILECs) or 20 August 2001 (the remaining parties), as required by PN 2001-37. These submissions were subject to interrogatories by other parties and the Commission, and to cross-examination at the hearing.
1037. The objections put forward by TELUS, the Companies and Group Telecom raise four issues, each of which will be dealt with in turn below.

Admissibility of expert evidence and economic literature

1038. The first issue related to the admissibility of the following expert evidence of Dr. Church and academic economic literature not otherwise already on the record:

- evidence relating to the Commissioner of Competition's proposal for a zero mark-up (paragraphs 177, 197 to 203, and 204 to 218);
- evidence relating to the Commissioner of Competition's price cap proposal (paragraphs 100 to 102; 107; 116; 117; and Appendix A); and
- other submissions that cited academic literature not otherwise already on the record (paragraphs 42; 74; 146 to 150; 209; and 214).

1039. The Commission considers that the filing of new evidence as part of final argument can be unfair to parties. Depending on the circumstances, in some cases it may be appropriate to give such evidence less weight, while in other cases, such evidence should be stricken from the record.

1040. In this instance, the evidence in question relates to issues of core significance to the proceeding. The process established in PN 2001-37 was intended to allow all parties the opportunity to challenge such evidence through interrogatories and cross-examination.

1041. In the circumstances, the Commission concludes that it is appropriate to strike the following portions of the Commissioner of Competition's final argument from the record, as they introduce new evidence: paragraphs 100; 107; 116; 117; 147; 148; 177; 197; 199; 200; 203; 209; 214; and Appendix A.

1042. The following paragraphs, while objected to by TELUS and the Companies, do not contain new evidence, and accordingly have not been stricken from the record for this reason: paragraphs 42; 74; 101; 102; 146; 149; 150; 198; 201; 202; 204; 205; 206; 207; 208; 210; 211; 212; 213; 215; 216; and 217.

Admissibility of the Commissioner of Competition's proposals

1043. The key proposals to which TELUS and the Companies have objected are:

- a) to include, in the context of an overall price cap constraint, an HCSA sub-basket, which would give the ILECs flexibility to reduce the subsidy required for HCSAs, as an alternative to raising rates, in order to meet their price cap commitment;
- b) to create a Competitor Services sub-basket of essential and near-essential facilities;
- c) to price essential facilities at incremental cost without a markup, absent compelling evidence that the ILECs will not break even;
- d) to set an X-factor that is larger than the total factor productivity estimate; and
- e) a "Global Price Cap" proposal, whereby the current regime would be modified by adding Competitor Services and subsidies in HCSAs to the Capped Services basket.

1044. Some of these proposals are variations of proposals already made by other parties on the record of the proceeding, while others are new proposals.
1045. The first proposal is a variation of an approach proposed by RCI. While both proposals would result in the same mandated revenue shedding, RCI's proposal is more restrictive as it is proposing that the subsidy first be eliminated as a precondition to changing residence and business prices. Under the Commissioner of Competition's proposal, the ILECs could choose whether to reduce or eliminate the subsidy.
1046. The second proposal, regarding the services to be included in a Competitor Services sub-basket, is new and not otherwise on the record of the proceeding.
1047. The third proposal, for a zero mark-up, was also proposed by Call-Net. The fourth proposal, in relation to the X-factor, is similar to that made by ARC et al., and also responds to proposals made by the ILECs. While the third and fourth proposals are the same in result as those made by other parties, the Commissioner of Competition's evidence and rationale in support of its proposed approach are not identical.
1048. Finally, the fifth proposal, in relation to the addition of Competitor Services and subsidies to HCSAs to a Capped Services basket that would be subject to a Global Price Cap, is new and is not similar to any proposals already made by other parties earlier in the process.
1049. The key issue with respect to these proposals is whether their admission would be prejudicial to the rights of other parties. The Commission considers that there is a distinction to be made between new proposals not otherwise on the record and proposals that are similar to those already made by other parties earlier in the proceeding.
1050. Parties would not have had a full opportunity to challenge new proposals introduced in argument. They would not have had the opportunity to test such proposals through interrogatories or cross-examination, and would be limited to responding through reply argument. Further, it would clearly be to the advantage of parties to wait to submit their proposals until the end of the proceeding, to avoid such challenge. For these reasons, the Commission considers that the admission of new proposals at the argument stage would be unfair to other parties, and would inhibit a full development of the record. Accordingly, the Commission has stricken from the record the Commissioner of Competition's proposal related to the services to be included in a Competitor Services sub-basket, and the proposal to add Competitor Services and subsidies to HCSAs to the Capped Services basket. Specifically, paragraphs 12; 16; 17; 22; 105; 106; 112; 113; 114; 115; 217; and the first sentence of 218 have been stricken from the record.
1051. A different approach, however, is warranted with respect to proposals made by the Commissioner of Competition that are similar to those made by other parties earlier in the proceeding. To the extent that the Commissioner of Competition's proposals are similar to those of other parties, these ideas have been subject to challenge through interrogatories and cross-examination. Proposals that have the same results as others on

the record can be characterized as an expression of agreement with the proposals and evidence put forward by other parties. Arguments in support of or against proposals made on the record of the proceeding can constitute proper final argument.

1052. The Commission notes that the proposals made in argument by the Commissioner of Competition that are similar to those proposed by other parties fall into two categories: (i) proposals similar to (or referring to) those of other parties, but with no new evidence; and (ii) proposals similar to (or referring to) those of other parties, which also introduce new evidence.
1053. The Commission considers that proposals in the first category should remain on the record, and be accorded the weight deserved in the circumstances. These proposals can properly be characterized as an expression of agreement with proposals put forward by other parties. These proposals do not introduce new evidence, and other parties cannot be said to be prejudiced by inclusion of this material on the record. Rather, they constitute proper final argument. Accordingly, the following paragraphs, notwithstanding the objections of the Companies and TELUS, have been retained on the record: 18; 25; 108; 110; 188; 198; 201; 202; 204 to 208; 210 to 213; 215; and 216.
1054. The proposals in the second category, however, introduce new evidence, and the relevant paragraphs (147; 148; and 209) have been stricken from the record for that reason, as discussed in the previous section.

Whether the Commissioner of Competition's submissions relating to essential facilities are within the scope of the proceeding (paragraphs 24; 25; 149; and 186 to 196)

1055. In paragraph 178 of his submission, the Commissioner of Competition stated that "Decision CRTC 2001-618 ruled that the definition of essential services and the current classification of essential services is not under consideration in this proceeding. However, since pricing of "competitor services" is within the scope of the proceeding, and essential services are competitor services, the pricing of essential services is within the scope of this proceeding. In determining whether certain services should be classified as competitor services, consideration of the appropriate principles regarding what is essential for competition must be considered."
1056. TELUS and the Companies argued that the paragraphs set out above should be stricken because they contemplate an out-of-scope redefinition of essential facilities.
1057. The Commission considers that the issue of modifying the definition for essential facilities as established in Decision 97-8 is outside the scope of the proceeding. In its view, paragraphs 24; 149; 193; 194; 195 and 196 contemplate such a modification, and are therefore outside the scope of the proceeding. Accordingly, they have been stricken from the record.

1058. The remaining paragraphs, however, are not outside the scope of the proceeding, or are similar to other proposals, as discussed above. The Commission considers that these paragraphs merely provide background information. Accordingly, paragraphs 25; and 186 to 192 have not been stricken from the record.

Whether the Commissioner of Competition's submissions relating to resale of local services are is within the scope of the proceeding (paragraphs 220 to 233)

1059. TELUS argued that the Commissioner of Competition's submissions in paragraphs 220 to 233 should be stricken because they contemplate a review and variance of the Commission's determination in Decision 97-8 not to require mandated wholesale resale. Group Telecom also argued that these submissions should be removed from the record.

1060. At paragraph 231 of its argument, the Commissioner of Competition stated that the Commission should "revisit its resale decision and consider whether a policy of mandating avoidable cost discounts for residential and business services is appropriate for assisting in the creation of the competitive process."

1061. The Commissioner of Competition further suggested that if the Commission concludes that such a policy is appropriate, "... the Commission should initiate a separate proceeding to consider all aspects of introducing such a policy, including the appropriate terms and conditions."

1062. The Commission considers that the Commissioner of Competition's proposal that the Commission change its policy regarding mandated wholesale resale is outside the scope of the proceeding. Accordingly, paragraphs 220 to 233 have been stricken from the record.

Evidence for residential PES costs in HCSAs

1063. SaskTel, in its argument, submitted that the Commission was not provided with any empirical evidence to establish a reliable productivity offset for residential PES in HCSAs.

1064. The Commission notes that in response to interrogatory The Companies(CRTC)16Mar01-105, the Companies proposed approximating the unit cost trend in the newly defined HCSAs using the unit cost trends observed in residence PES as a whole, as the underlying technologies and business operations are essentially the same across all bands.

1065. The Commission considers that there is a sufficient evidentiary foundation to support the productivity offset for residential PES in HCSAs. It would not be expected that there would be materially significant differences in unit cost trends as between residence PES as a whole and residence PES in HCSAs.

Secretary General

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

Competitor Services

Aliant Telecom Inc.

A1. Co-location services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 27750 | 301.4 | Entrance Conduit Space | I | -8% | I-X |
| 27750 | 301.4 | Floor Space Physical Co-location Arrangement | I | Note 1 | I-X |
| 27750 | 301.4 | Floor Space Virtual Co-location Arrangement | I | Note 1 | I-X |
| 27750 | 301.4 | Power Consumption | I | -8% | I-X |
| 27750 | 301.4 | Riser Space | I | -8% | I-X |
| 27750 | 301.4 | Service Order Charge | I | -8% | I-X |
| 27750 | 301.4 | Construction Charges : Contracted | I | Note 5 | Note 5 |

A2. Toll network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 10008 | 70.1 | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 10008 | 70.3 | Direct Connection Service | I | Note 1 | Note 2 |
| 10008 | 70.3 | Access Tandem Connection Service | I | -8% | I-X |
| 10008 | 70.3 | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 10008 | 70.4 | PIC Processing Charges | I | -8% | I-X |
| 10008 | 70.6 | Equal Access Start-Up Charge | I | Note 3 | Note 3 |
| 10008 | 70.7 | Carrier Network Profile Change | I | -8% | I-X |
| 10008 | 72.3 | Billing and Collection : Account Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 10008 | 72.3 | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |
| 10008 | 100 | Network Announcements for Customers of Disconnected IXCs with Group Feature D Service | I | -8% | I-X |
| 10008 | 105 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |
| 10008 | 200.3 | 800 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 10008 | 205 | Dialed Number Transport Capability | I | -8% | I-X |
| 11008 | 70.1 | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 11008 | 70.3 | Direct Connection Service | I | Note 1 | Note 2 |
| 11008 | 70.3 | Access Tandem Connection Service | I | -8% | I-X |
| 11008 | 70.3 | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 11008 | 70.4 | PIC Processing Charges | I | -8% | I-X |
| 11008 | 70.6 | Equal Access Start Up Charge | I | Note 3 | Note 3 |
| 11008 | 70.7 | Carrier Network Profile Change | I | -8% | I-X |
| 11008 | 72.3 | Billing and Collection : Accounts Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 11008 | 72.3 | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |
| 11008 | 100 | Network Announcements for Customers of Disconnected IXCs with Group Feature D Service | I | -8% | I-X |
| 11008 | 105 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |
| 11008 | 200.3 | 800 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 11008 | 205 | Dialed Number Transport Capability | I | -8% | I-X |
| 12001 | 800.6 | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 12001 | 800.6 | Direct Connection Service | I | Note 1 | Note 3 |
| 12001 | 800.6 | Access Tandem Connection Service | I | -8% | I-X |
| 12001 | 800.6 | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 12001 | 800.6 | PIC Processing | I | -8% | I-X |
| 12001 | 800.6 | Equal Access Start Up Charge | I | Note 3 | Note 3 |
| 12001 | 800.6 | Carrier Network Profile Change | I | -8% | I-X |
| 12001 | 800.6 | Billing and Collection : Account Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 12001 | 800.6 | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |
| 12001 | 800.9 | Network Announcements for Customers of Disconnected IXCs with Group Feature D Service | I | -8% | I-X |

Aliant Telecom Inc. (cont'd)

| | | | | | |
|-------|--------------|---|---|--------|--------|
| 12001 | 800.10 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |
| 12001 | 800.11 | 800 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 12001 | 800.12 | Dialed Number Transport Capabality | I | -8% | I-X |
| 13001 | 299.3 | Equal Access Start up Charge | I | Note 3 | Note 3 |
| 13001 | 299.3.70 | Direct Connection Service | I | Note 1 | Note 2 |
| 13001 | 299.3.70 | Access Tandem Connection Service | I | -8% | I-X |
| 13001 | 299.3.70 | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 13001 | 299.3.70 | PIC Processing | I | -8% | I-X |
| 13001 | 299.3.70 (c) | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 13001 | 299.3.70.8 | Carrier Network Profile Change | I | -8% | I-X |
| 13001 | 299.3.72 | Billing and Collection : Account Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 13001 | 299.3.72 | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |
| 13001 | 299.3.92 | Network Announcements for Customers of Disconnected IXCs with Group Feature D Service | I | -8% | I-X |
| 13001 | 299.3.95 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |
| 13001 | 299.3.100 | 800 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 13001 | 299.3.110 | Dialed Number Transport Capabality | I | -8% | I-X |

A3. Local network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 27750 | 300.4 | Unbundled Loops Type A & B | I | -8% | Note 2 |
| 27750 | 300.4 | Unbundled Loop Service Charge per Order | I | -8% | I-X |
| 27750 | 300.4 | Unbundled Loop Service Charge per Loop | I | -8% | I-X |
| 27750 | 300.4 | Unbundled Loop Selection | I | -8% | I-X |
| 27750 | 300.4 | Unbundled Loop Modification | I | -8% | I-X |
| 27750 | 300.4 | Unbundled Loop Connecting Link service | I | -8% | I-X |
| 27750 | 300.4 | Traffic termination | I | -8% | I-X |
| 27750 | 300.4 | Transit Services | I | -8% | Note 2 |
| 27750 | 300.4 | Relay Service | I | -8% | I-X |
| 27750 | 300.4 | 9-1-1 Service | I | -8% | I-X |
| 27750 | 300.4 | Compensation for Traffic Termination | I | -8% | I-X |
| 27750 | 300.4 | Compensation for Transiting Service | I | -8% | I-X |

A4. Other interconnection arrangements

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 27750 | 302 | Local Number Portability (LNP) Access to Service Control Point (SCP) | II | 0% | 0% |
| 27750 | 303 | Link Arrangements for Interconnecting Canadian Carriers and Digital Subscriber Line Service Providers | I | -8% | I-X |
| 27750 | 304 | Billed Number Screening (BNS) Database Service | I | -8% | I-X |
| 27750 | 305 | Basic Listing Interchange File | I | -8% | Note 2 |
| 27750 | 505 | Zero-Dialed Emergency Call Routing Service | I | -8% | I-X |

B. Wireless access services (WAS)

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|-----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 10001 | 1270.1 | Wireless Access Service (WAS) : Telephone Numbers Line-side Access | I | -8% | I-X |
| 10001 | 1270 | WAS : Other | I | -8% | I-X |
| 11001 | 922.1 (b) | WAS : Line-side Access – Telephone Numbers | I | -8% | I-X |
| 11001 | 922 | WAS : Other | I | -8% | I-X |

Aliant Telecom Inc. (cont'd)

| | | | | | |
|-------|----------------|--|---|-----|-----|
| 12001 | 805.2 A | WAS : Line-side Access | I | -8% | I-X |
| 12001 | 805.2 B | WAS : Trunk-side Access | I | -8% | I-X |
| 13001 | 295.2 (i) i/ii | WAS : Line-side Access – Telephone Numbers | I | -8% | I-X |
| 13001 | 295.3 (f) i | WAS : Trunk-side Access – 1000 Block Routing | I | -8% | I-X |
| 13001 | 295 | WAS : Other | I | -8% | I-X |

C. Other services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|------------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7400 | 790 | Enhanced Card Swipe Access | II | 0% | 0% |
| 7400 | 901 | Support Structure Service | II | 0% | 0% |
| 7400 | 909 | Card Swipe Access | II | 0% | 0% |
| 10001 | 1155 | Directory File Service | I | -8% | I-X |
| 10001 | 1350 | Network Paging Access Service | I | -8% | I-X |
| 10001 | 1625.2 (a) | Call Forward Busy/No Answer | I | -8% | I-X |
| 10001 | 1625.2 (b) | Integrated Voice Messaging Service (IVMS) – Data Access Ports | I | -8% | I-X |
| 10001 | 4100 | Asymmetric Digital Subscriber Line (ADSL) Access to Individual Line Service | II | 0% | 0% |
| 10006 | 4 | Tariff for Interconnection with Telesat | I | -8% | I-X |
| 10008 | 71 | Operator Services | II | 0% | 0% |
| 10008 | 90 | Standby Circuits | I | -8% | I-X |
| 11001 | 815.1 (a) | Call Forward Busy/No Answer | I | -8% | I-X |
| 11001 | 815.1 (b) | Integrated Voice Messaging Service (IVMS) – Data Access Ports | I | -8% | I-X |
| 11001 | 835.1 | Directory File Service | I | -8% | I-X |
| 11001 | 925 | Network Paging Access Service | I | -8% | I-X |
| 11001 | 7000 | Internet Service Provider (ISP) Access to Individual Line Service | II | 0% | 0% |
| 11006 | 4 | Tariff for Interconnection with Telesat | I | -8% | I-X |
| 11008 | 71 | Operator Services | II | 0% | 0% |
| 11008 | 90 | Standby Circuits | I | -8% | I-X |
| 12001 | 140 | Operator Services | II | 0% | 0% |
| 12001 | 630.1 | Asymmetric Digital Subscriber Line (ADSL) Access Line Service | II | 0% | 0% |
| 12001 | 800.7 | Standby Circuits | I | -8% | I-X |
| 12001 | 820.1 | Radio Paging Access Service | I | -8% | I-X |
| 12002 | 5069.1 | Directory File Service | I | -8% | I-X |
| 12002 | 5800.2 | Call Forward Busy/No Answer | I | -8% | I-X |
| 13001 | 45.2 | Directory File Service | I | -8% | I-X |
| 13001 | 46 | Operator services | II | 0% | 0% |
| 13001 | 290 | Dial Access to Radio Paging Service | I | -8% | I-X |
| 13001 | 299.2 | Tariff for Interconnection with Telesat | I | -8% | I-X |
| 13001 | 325 | Asymmetric Digital Subscriber Line (ADSL) Access Service | II | 0% | 0% |
| 13001 | 370.25 | Call Forward Busy/No Answer | I | -8% | I-X |
| 27750 | 201.2 (e) | Internet Service Provider (ISP) Link Connectivity | II | 0% | 0% |
| 27750 | 306 | Compensation per Call | I | -8% | I-X |
| 27750 | 503 | Electronic Directory Database Access Service | II | 0% | 0% |
| 27750 | 504.4 | Payphone Basic Access Line Service | II | 0% | 0% |

Bell Canada

A1. Co-location services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7516 | 110 | Entrance Conduit Space | I | -8% | I-X |
| 7516 | 110 | Floor Space Physical Co-location Arrangement | I | Note 1 | I-X |
| 7516 | 110 | Floor Space Virtual Co-location Arrangement | I | Note 1 | I-X |
| 7516 | 110 | Power Consumption | I | -8% | I-X |
| 7516 | 110 | Riser Space | I | -8% | I-X |
| 7516 | 110 | Service Order Charge | I | -8% | I-X |
| 7516 | 110 | Construction Charges : Contracted | I | Note 5 | Note 5 |

A2. Toll network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7516 | 40.1 (g) | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 7516 | 40.1 (h) | Signalling Transfer Point (STP) Port Connection Services | I | -8% | I-X |
| 7516 | 40.4 | Direct Connection Service | I | Note 1 | Note 2 |
| 7516 | 40.4 | Access Tandem Connection Service | I | -8% | I-X |
| 7516 | 40.4 | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 7516 | 40.5 | PIC Processing Charges | I | -8% | I-X |
| 7516 | 40.6 | Billed Number Screening (BNS) Database Access | I | -8% | Note 2 |
| 7516 | 40.7 | Equal Access Start-Up Charge | I | Note 3 | Note 3 |
| 7516 | 40.8 | Carrier Network Profile Change | I | -8% | I-X |
| 7516 | 41 | Operator Services Excluding 800/888 Services | II | 0% | 0% |
| 7516 | 41.5 | 800/888 Directory Assistance Service | I | -8% | I-X |
| 7516 | 42.3 | Billing and Collection : Accounts Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 7516 | 42.3 | Billing and Collection : Charges Excluding ARM Discount | I | -8% | I-X |
| 7516 | 70 | 800/888 Carrier Access : Multi-Carrier Selection Capability | I | -8% | I-X |
| 7516 | 75 | Dialed Number Transport Capability | I | -8% | I-X |
| 7516 | 80 | Network Announcements for Customers of Disconnected IXCs with Feature Group | I | -8% | I-X |
| 7516 | 85 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |

A3. Local network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7516 | 105 | Unbundled Loops Type A & B | I | -8% | Note 2 |
| 7516 | 105 | Unbundled Loop Service Charge per Order | I | -8% | I-X |
| 7516 | 105 | Unbundled Loop Service Charge per Loop | I | -8% | I-X |
| 7516 | 105 | Unbundled Loop Selection | I | -8% | I-X |
| 7516 | 105 | Unbundled Loop Modification | I | -8% | I-X |
| 7516 | 105 | Unbundled Loop Connecting Link Service | I | -8% | I-X |
| 7516 | 105 | CCS-7 Signalling Services | I | -8% | I-X |
| 7516 | 105 | Traffic Termination | I | -8% | I-X |
| 7516 | 105 | Transit Services | I | -8% | Note 2 |
| 7516 | 105 | Relay Service | I | -8% | I-X |
| 7516 | 105 | Emergency Service (9-1-1) | I | -8% | I-X |

Bell Canada (cont'd)

A4. Other interconnection arrangements

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7516 | 115 | Local Number Portability (LNP) Access to Service Control Point (SCP) | II | 0% | 0% |
| 7516 | 120 | Link Arrangements for Interconnecting Canadian Carriers and Digital Subscriber Line Service Providers | I | -8% | I-X |
| 7516 | 200 | Customer Information Reports | I | -8% | I-X |
| 7516 | 300 | Advanced Intelligent Network (AIN) Interconnection Services | II | 0% | 0% |
| 7516 | 305 | Billed Number Screen (BNS) Database Service | I | -8% | I-X |
| 7516 | 310 | Basic Listing Interchange File | I | -8% | Note 2 |
| 7516 | 315 | Zero-Dialed Emergency Call Routing Service | I | -8% | I-X |

B. Wireless access services (WAS)

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|-------------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7396 | G6, G8, G14 | Connection of Customer – Provided Equipment | I | -8% | I-X |
| 7396 | G12 | Connection of Customer – Provided Equipment : Co-location Services | I | Note 6 | Note 6 |
| 7396 | G12 | Connection of Customer – Provided Equipment : Other Components | I | -8% | I-X |
| 7396 | G15 | Wireless Access Services – Other | I | -8% | I-X |
| 7396 | G15 (b)(1)a | Line-side WAS Telephone Number Services | I | Note 1 | I-X |
| 7396 | G16 | Cellular Voice Channels | I | -8% | I-X |
| 7396 | G17 | Cellular Access Service Types II & III | I | -8% | I-X |
| 7396 | G18 | Directory Information Service for Wireless Service Providers | I | -8% | I-X |
| 7396 | G19 | Mini Cell Site for Wireless Service Operators | I | -8% | I-X |
| 7396 | G21 | Wireless Service Provider Enhanced 9-1-1 Service | I | -8% | I-X |

C. Other services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|-------------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 6716 | 26.2 | Directory File Service | I | -8% | I-X |
| 6716 | 84 | Wholesale Automated Alternative Billing Service | II | 0% | 0% |
| 6716 | 87 | Directory Information Service | II | 0% | 0% |
| 6716 | 88 | Local Operator Assistance Service (LOAS) | II | 0% | 0% |
| 6716 | 89 | Connection Service | II | 0% | 0% |
| 6716 | 315 | Payphone Basic Access Line Service | II | 0% | 0% |
| 6716 | 1985 | Network Portability Access Service | I | -8% | I-X |
| 6716 | 2025.4 | Integrated Voice Messaging System Access Arrangements | I | -8% | I-X |
| 6716 | 2025.7 | Call Forward Busy / No Answer | I | -8% | I-X |
| 6716 | 4190 & 1990 | Paging/Telephone Number Access (TNA) Services : Telephone Number Access Service | I | Note 1 | I-X |
| 6716 | 4190 & 4195 | Paging /TNA Services : Radio Systems Operators Services and Other Services | I | -8% | I-X |
| 6716 | 4195 | Switched Network Access for Conventional Radio System Operators and Privat | I | -8% | I-X |
| 6716 | 4695 | Internet Service Provider (ISP) Link Service | II | 0% | 0% |
| 6716 | 4698 | Managed Internet Protocol Service (MIPS) | II | 0% | 0% |
| 6716 | 4910 | Partial Cable-distribution System | II | 0% | 0% |
| 6716 | 5400 | Asymmetric Digital Subscriber Line (ADSL) Access Service | II | 0% | 0% |
| 6716 | 5400 | ADSL Loop Administration and Support | I | -8% | I-X |
| 7400 | 700 | Co-located Customer Provided Equipment in TELCO Central-Office | I | -8% | I-X |

Bell Canada (cont'd)

| | | | | | |
|------|-----|--|----|-----|-----|
| 7400 | 704 | Mobile Satellite Access Service | I | -8% | I-X |
| 7400 | 790 | Enhanced Card Swipe Access | II | 0% | 0% |
| 7400 | 901 | Support Structure Service | II | 0% | 0% |
| 7400 | 909 | Card Swipe Access | II | 0% | 0% |
| 7516 | 43 | Compensation per Call | I | -8% | I-X |
| 7516 | 60 | Standby Circuits | I | -8% | I-X |
| 7516 | 100 | Electronic Directory Database Access Service | II | 0% | 0% |

MTS Communications Inc.

A1. Co-location services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 24006 | 110 | Entrance Conduit Space | I | -8% | I-X |
| 24006 | 110 | Floor Space Physical Co-location Arrangement | I | Note 1 | I-X |
| 24006 | 110 | Floor Space Virtual Co-location Arrangement | I | Note 1 | I-X |
| 24006 | 110 | Power Consumption | I | -8% | I-X |
| 24006 | 110 | Riser Space | I | -8% | I-X |
| 24006 | 110 | Service Order Charge | I | -8% | I-X |
| 24006 | 110 | Construction Charges : Contracted | I | Note 5 | Note 5 |

A2. Toll network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 24006 | 40.1 G | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 24006 | 40.3.D | Direct Connection Service | I | Note 1 | Note 2 |
| 24006 | 40.3.D | Access Tandem Connection Service | I | -8% | I-X |
| 24006 | 40.3.F | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 24006 | 40.4 H | PIC Processing | I | -8% | I-X |
| 24006 | 40.6 D | Equal Access Start-Up Charge | I | Note 3 | Note 3 |
| 24006 | 40.8 C | Carrier Network Profile Change | I | -8% | I-X |
| 24006 | 42.3.B | Billing and Collection : Accounts Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 24006 | 42.3.C | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |
| 24006 | 70 | 800 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 24006 | 75 | Dialed Number Transport Capability | I | -8% | I-X |
| 24006 | 80 | Network Announcements for Customers of Discontinued IXCs with Feature Group D Service | I | -8% | I-X |
| 24006 | 85 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |

A3. Local network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|-------------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 24006 | 105.4 B (5) | Relay Service | I | -8% | I-X |
| 24006 | 105.4 B (6) | 9-1-1 Service | I | -8% | I-X |
| 24006 | 105.4 C | Unbundled Loops Type A & B | I | -8% | Note 2 |
| 24006 | 105.4 C | Unbundled Loop Service Charge per Order | I | -8% | I-X |
| 24006 | 105.4 C | Unbundled Loop Service Charge per Loop | I | -8% | I-X |
| 24006 | 105.4 C | Unbundled Loop Selection | I | -8% | I-X |
| 24006 | 105.4 C | Unbundled Loop Modification | I | -8% | I-X |
| 24006 | 105.4 C | Unbundled Loop Connecting Link Service | I | -8% | I-X |
| 24006 | 105.4 D | Compensation for Traffic Terminations | I | -8% | I-X |
| 24006 | 105.4 E (2) | Compensation for Transiting Service | I | -8% | Note 2 |

MTS Communications Inc. (cont'd)

A4. Other interconnection arrangements

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 24006 | 115 | Local Number Portability (LNP) Access to Service Control Point (SCP) | II | 0% | 0% |
| 24006 | 120 | Link Arrangements for Interconnecting Canadian Carriers and Digital Subscriber Line Service Providers | I | -8% | I-X |
| 24006 | 305 | Billed Number Screening (BNS) Database Service | I | -8% | I-X |
| 24006 | 310.4 | Basic Listing Interchange File | I | -8% | I-X |
| 24006 | 320 | Zero-Dialed Emergency Call Routing Service | I | -8% | I-X |

B. Wireless access services (WAS)

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 24001 | 3000.3 E | Wireless Mobile Radio Network Access Service : Telephone Number Services | I | -8% | I-X |
| 24001 | 3000.3 | Wireless Mobile Radio Network Access Service : Other Services Excluding Sub-Item 3000.3 E | I | -8% | I-X |

C. Other services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7400 | 790 | Enhanced Card Swipe Access | II | 0% | 0% |
| 7400 | 901 | Support Structure Service | II | 0% | 0% |
| 7400 | 909 | Card Swipe Access | II | 0% | 0% |
| 24001 | 250 | Resale and Sharing | I | -8% | I-X |
| 24001 | 360 | Directory File Service | I | -8% | I-X |
| 24001 | 1610.3 | Operator Services | II | 0% | 0% |
| 24001 | 1705 | Payphone Basic Access Line Service | II | 0% | 0% |
| 24001 | 2143.3 | Call Forward Busy/No Answer | I | -8% | I-X |
| 24001 | 2600 | Mobile Telephone Service | I | -8% | I-X |
| 24001 | 2950 | Dial Access for Radio Paging Service | I | -8% | I-X |
| 24001 | 3100 | Conventional Mobile Radio Network Access Service | I | -8% | I-X |
| 24001 | 3150.3 B | Dial Access for Customer-Owned Telephone Answering Equipment : Trunks | I | -8% | I-X |
| 24002 | 5800 | Asymmetric Digital Subscriber Line (ADSL) Line Enhancement | II | 0% | 0% |
| 24002 | 5810 | ADSL Access to Individual Line Service | II | 0% | 0% |
| 24006 | 43.3 | Compensation per Call | I | -8% | I-X |
| 24006 | 60 | Standby Circuits | I | -8% | I-X |
| 24006 | 100 | Electronic Directory Database Access Service | II | 0% | 0% |

Saskatchewan Telecommunications

A1. Co-location services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 21414 | 610.16 | Entrance Conduit Space | I | -8% | I-X |
| 21414 | 610.16 | Floor Space Physical Co-location Arrangement | I | Note 1 | I-X |
| 21414 | 610.16 | Floor Space Virtual Co-location Arrangement | I | Note 1 | I-X |
| 21414 | 610.16 | Power Consumption | I | -8% | I-X |
| 21414 | 610.16 | Riser Space | I | -8% | I-X |
| 21414 | 610.16 | Service Order Charge | I | -8% | I-X |
| 21414 | 610.16 | Construction Charges : Contracted | I | Note 5 | Note 5 |

A2. Toll network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 21414 | 610.04 | Billing and Collection : Accounts Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 21414 | 610.04 | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |
| 21414 | 610.06.1 | Service Order Charges per DS-0 Interconnecting circuits | I | -8% | I-X |
| 21414 | 610.06.2 | Direct Connection Service | I | Note 1 | Note 2 |
| 21414 | 610.06.2 | Access Tandem Connection Service | I | 8% | I-X |
| 21414 | 610.06.2 | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 21414 | 610.06.3 | PIC Processing | I | -8% | I-X |
| 21414 | 610.06.5 | Equal Access Start-Up Charge | I | Note 3 | Note 3 |
| 21414 | 610.06.6 | Carrier Network Profile Change | I | -8% | I-X |
| 21414 | 610.08 | Network Announcements for Customers of Disconnected IXCs with Feature Group D Service | I | -8% | I-X |
| 21414 | 610.10 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |
| 21414 | 610.12 | Operator Services | II | 0% | 0% |

A3. Local network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|-----------------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 21414 | 610.18.4 (1)(a) | CCS-7 Signalling Interconnection | I | -8% | I-X |
| 21414 | 610.18.4 (2)(a) | Unbundled Loops Type A & B | I | -8% | Note 2 |
| 21414 | 610.18.4 (2)(a) | Unbundled Loop Service Charge per Order | I | -8% | I-X |
| 21414 | 610.18.4 (2)(a) | Unbundled Loop Service Charge per Loop | I | -8% | I-X |
| 21414 | 610.18.4 (2)(a) | Unbundled Loop Modification | I | -8% | I-X |
| 21414 | 610.18.4 (2)(b) | Other Loop Related Charges | I | -8% | I-X |
| 21414 | 610.18.4 (2)(c) | Unbundled Loop Connecting Link service | I | -8% | I-X |
| 21414 | 610.18.4 (2)(e) | Message Relay Service | I | -8% | I-X |
| 21414 | 610.18.4 (2)(f) | Emergency Service 9-1-1 | I | -8% | I-X |
| 21414 | 610.18.4 (3) | Compensation for Traffic Termination | I | -8% | I-X |
| 21414 | 610.18.4 (4) | Compensation for Transiting Services | I | -8% | Note 2 |

A4. Other interconnection arrangements

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 21414 | 610.20 | Link Arrangements for Interconnecting Canadian Carriers | I | -8% | I-X |
| 21414 | 610.26 | Interconnection Arrangements for Digital Subscriber Line (DSL) Service Providers | I | -8% | I-X |
| 21414 | 650.02 | Basic Listing Interchange File | I | -8% | Note 2 |

Saskatchewan Telecommunications (cont'd)

| | | | | | |
|-------|--------|--|----|-----|-----|
| 21414 | 650.08 | Billed Number Screening (BNS) Database Service | II | 0% | 0% |
| 21414 | 650.22 | Zero-Dialed Emergency Call Routing Service | I | -8% | I-X |

B. Wireless access services (WAS)

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 21414 | 650.20 | Wireless Service Provider – Network Access Service : Telephone Numbers | I | -8% | I-X |
| 21414 | 650.20 | Wireless Service Provider – Network Access Service : Other Services Excluding Telephone Numbers | I | -8% | I-X |

C. Other services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 21412 | 550.08.3 | Call Forward Busy/No Answer | I | -8% | I-X |
| 21414 | 610.22 | Standby Circuits | I | -8% | I-X |
| 21414 | 650.04 | Directory File Service | I | -8% | I-X |
| 21414 | 650.06 | Pay Telephone Basic Access Line Service | II | 0% | 0% |
| 21414 | 650.12 | Busy Line Verification | II | 0% | 0% |
| 21414 | 650.14 | Digital Subscriber Line (DSL) Access Capability | II | 0% | 0% |
| 21414 | 650.16 | Support Structure Service | II | 0% | 0% |
| 21414 | 650.18 | Radio Paging Access Service | I | -8% | I-X |
| 21414 | 650.24 | Payphone Compensation per Call | I | -8% | I-X |

TELUS Communications Inc.

A1. Co-location services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 1017 | 110 | Entrance Conduit Space | I | -8% | I-X |
| 1017 | 110 | Floor Space Physical Co-location Arrangement | I | Note 1 | I-X |
| 1017 | 110 | Floor Space Virtual Co-location Arrangement | I | Note 1 | I-X |
| 1017 | 110 | Power Consumption | I | -8% | I-X |
| 1017 | 110 | Riser Space | I | -8% | I-X |
| 1017 | 110 | Service Order Charge | I | -8% | I-X |
| 1017 | 110 | Construction Charges : Contracted | I | Note 5 | Note 5 |
| 18008 | 250 | Entrance Conduit Space | I | -8% | I-X |
| 18008 | 250 | Floor Space Physical Co-location Arrangement | I | Note 1 | I-X |
| 18008 | 255 | Floor Space Virtual Co-location Arrangement | I | Note 1 | I-X |
| 18008 | 250 | Power Consumption | I | -8% | I-X |
| 18008 | 250 | Riser Space | I | -8% | I-X |
| 18008 | 250 | Service Order Charge | I | -8% | I-X |
| 18008 | 250 | Construction Charges : Contracted | I | Note 5 | Note 5 |

A2. Toll network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 1017 | 70 A | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 1017 | 70 A(8) | Signalling Transfer Point (STP) Port Connection Services (PCS) | I | -8% | I-X |
| 1017 | 70 E(5) | Direct Connection Service | I | Note 1 | Note 2 |
| 1017 | 70 E(5) | Access Tandem Connection Service | I | -8% | I-X |
| 1017 | 70 E(7) | 800/888 Carrier Identification Charge | I | -8% | Note 2 |
| 1017 | 70 F | PIC Processing | I | -8% | I-X |
| 1017 | 70.G.4 | Equal Access Start-Up Charge | I | Note 3 | Note 3 |
| 1017 | 70 H | Carrier Network Profile Change | I | -8% | I-X |
| 1017 | 70 I | Billed Number Screening (BNS) Database Access Query | I | -8% | Note 2 |
| 1017 | 73 | 800/888 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 1017 | 75 | Dialed Number Transport Capabality | I | -8% | I-X |
| 1017 | 90 | Network Recorded Announcements for Customers of Disconnected Interexchange Carriers (IXCs) | I | -8% | I-X |
| 18008 | 220 | 800 Carrier Access Multi-Carrier Selection Capability | I | -8% | I-X |
| 18008 | 225 | Dialed Number Transport Capabality | I | -8% | I-X |
| 18008 | 270.1 | Service Order Charges per DS-0 Interconnecting Circuits | I | -8% | I-X |
| 18008 | 270.2 | Direct Connection Service | I | Note 1 | Note 2 |
| 18008 | 270.2 | Access Tandem Connection Service | I | -8% | I-X |
| 18008 | 270.2 | 800/877/888 Carrier Identification Charge | I | -8% | Note 2 |
| 18008 | 270.2 | Signalling Transfer Point (STP) Port Connection Service (PCS) | I | -8% | I-X |
| 18008 | 270.3 | Equal Access Start-Up Charge | I | Note 3 | Note 3 |
| 18008 | 270.4 | PIC Processing Charge | I | -8% | I-X |
| 18008 | 270.5 | Billed Number Screening (BNS) Database Access | I | -8% | Note 2 |
| 18008 | 270.6 | Carrier Network Profile Change | I | -8% | I-X |
| 21462 | 200 | Bulk Transfer of Customer Base between IXCs having Feature Group D Service | I | -8% | I-X |
| 21462 | 201 | Network Recorded Announcements for Customers of Disconnected IXCs with Trunk Side Access | I | -8% | I-X |
| 21462 | 207 | Billing and Collection : Accounts Receivable Management (ARM) Discount | I | Note 4 | Note 4 |
| 21462 | 207 | Billing and Collection Charges Excluding ARM Discount | I | -8% | I-X |

TELUS Communications Inc. (cont'd)

A3. Local network interconnection and ancillary services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 1005 | 209 | Transit Services | I | -8% | Note 2 |
| 1017 | 105 | Unbundled Loops Type A & B | I | -8% | Note 2 |
| 1017 | 105 | Fixed Rate Service Order Charge per Order | I | -8% | I-X |
| 1017 | 105 | Variable Rate Service Order Charge per loop | I | -8% | I-X |
| 1017 | 105 | Unbundled Loop Selection | I | -8% | I-X |
| 1017 | 105 | Unbundled Loop Modification | I | -8% | I-X |
| 1017 | 105 | Unbundled Loop Connecting Link Services | I | -8% | I-X |
| 1017 | 105 | CCS-7 Signalling Services | I | -8% | I-X |
| 1017 | 105 | Compensation for traffic termination | I | -8% | I-X |
| 1017 | 105 | Relay Service | I | -8% | I-X |
| 1017 | 105 | Emergency Service (9-1-1) | I | -8% | I-X |
| 18008 | 215 | Unbundled Loops Type A & B | I | -8% | Note 2 |
| 18008 | 215 | Fixed Rate Service Order Charge per Order | I | -8% | I-X |
| 18008 | 215 | Variable Rate Service Order Charge per Loop | I | -8% | I-X |
| 18008 | 215 | Unbundled Loop Selection | I | -8% | I-X |
| 18008 | 215 | Unbundled Loop Modification | I | -8% | I-X |
| 18008 | 215 | Unbundled Loop Connecting Link Services | I | -8% | I-X |
| 18008 | 215 | CCS-7 Signalling Services | I | -8% | I-X |
| 18008 | 215 | Traffic Termination | I | -8% | I-X |
| 18008 | 215 | Transit Services | I | -8% | Note 2 |
| 18008 | 215 | Relay Service | I | -8% | I-X |
| 18008 | 215 | 9-1-1 Service | I | -8% | I-X |

A4. Other interconnection arrangements

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|----------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 1017 | 75 | Dialed Number Transport Capability | I | -8% | I-X |
| 1017 | 115 | Local Number Portability (LNP) Access to Service Control Point (SCP) | II | 0% | 0% |
| 1017 | 120 | Link Arrangements for Interconnecting Carriers and DSL Providers | I | -8% | I-X |
| 1017 | 205 | Billed Number Screening (BNS) Database Service | I | -8% | I-X |
| 1017 | 210 | Basic Listing Interchange File | I | -8% | Note 2 |
| 18008 | 225 | Dialed Number Transport Capability | I | -8% | I-X |
| 18008 | 230 | Intelligent Network Interconnection | II | 0% | 0% |
| 18008 | 235 | Central Office Link Arrangements for Interconnecting Canadian Carriers | I | -8% | I-X |
| 18008 | 265 | Local Number Portability (LNP) Access to Service Control Point (SCP) | II | 0% | 0% |
| 18008 | 300 | Basic Listing Interchange File | I | -8% | Note 2 |
| 18008 | 310 | Billed Number Screening (BNS) Database Service | I | -8% | I-X |

B. Wireless access services (WAS)

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|------------------|--|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 1005 | 196 | Terminal Network Access (TNA) for Local Service | I | -8% | I-X |
| 1005 | 197 | Switched Access Types for Conventional Public Mobile Radio Systems | I | -8% | I-X |
| 1005 | 197 A | Wireless Access Service (WAS) | I | -8% | I-X |
| 1005 | 197 A (D)(1) d/e | SAT-1 Digital Wireless Service : Telephone Numbers | I | -8% | I-X |
| 1005 | 197 C | Wireless Service Provider Enhanced Provincial 9-1-1 Network Access Service | I | -8% | I-X |

TELUS Communications Inc. (cont'd)

| | | | | | |
|-------|----------------|---|---|--------|-----|
| 18001 | 255 | Interconnection with Private Mobile Telephone Systems – Network Access | I | -8% | I-X |
| 18001 | 555 | Wireless Service Providers (WSP) – Network Access Service | I | -8% | I-X |
| 18001 | 555.4 (10) b/c | WSP – Network Access Service : Line Side Interconnection, Telephone Numbers | I | Note 1 | I-X |
| 18001 | 555.4 (11) | WSP – Network Access Service : Emergency 9-1-1 Service | I | -8% | I-X |
| 18001 | 695 | Wireless System Operators (WSO) – Tower Service | I | -8% | I-X |
| 25721 | 2220 | Radio Paging System Access | I | -8% | I-X |

C. Other services

| Tariff | Item no. | Description | Category | Change in rates due to: | |
|--------|-----------|---|----------|-------------------------|--------------------|
| | | | | Mark-up | Pricing constraint |
| 7400 | 790 | Enhanced Card Swipe Access | II | 0% | 0% |
| 7400 | 909 | Card Swipe Access | II | 0% | 0% |
| 1005 | 23 | Directory File Service | I | -8% | I-X |
| 1005 | 179 | Directory Information Services for Carriers and Non-Carriers | II | 0% | 0% |
| 1005 | 180 | Local Operator Assistance Service for Carriers and Non-Carriers | II | 0% | 0% |
| 1005 | 185 | Pay Telephone Basic Access Line Service | II | 0% | 0% |
| 1005 | 206 | Integrated Voice Messaging Service (IVMS) Access | I | -8% | I-X |
| 1005 | 209 C (2) | CCS-7 Transit Services | I | -8% | I-X |
| 1005 | 471 | Internet Service Provider (ISP) Connection Service | II | 0% | 0% |
| 18001 | 245 | Network Portability Access Service (NPAS) | I | -8% | I-X |
| 18001 | 295 | Inbound Data Access (IDA) Service | II | 0% | 0% |
| 18001 | 300 | Integrated Voice Messaging – Underlying Network Components | I | -8% | I-X |
| 18001 | 475 | Directory File Service | I | -8% | I-X |
| 18001 | 535 | Electronic Directory Database Access Service | II | 0% | 0% |
| 18008 | 205 | Directory Information Services (DIS) | II | 0% | 0% |
| 18008 | 210 | Local Operator Assistance Service | II | 0% | 0% |
| 18008 | 280 | Call Routing – Local Routing Number Absent | I | -8% | I-X |
| 18808 | 416 | Public Telephone Access Line | I | -8% | I-X |
| 21461 | 300.3 | Call Forwarding – Wholesale | I | -8% | I-X |
| 21461 | 404 | Support Structure Service | II | 0% | 0% |
| 21462 | 202 | Standby Circuits | I | -8% | I-X |
| 21462 | 203 | Dedicated Access Line Facilities | II | 0% | 0% |
| 21462 | 205 | Payphone per Call Compensation | I | -8% | I-X |
| 21462 | 210 | Asymmetric Digital Subscriber Line (ADSL) Access to Individual Line Service | II | 0% | 0% |
| 25721 | 5075 | Public Telephone Access Line | II | 0% | 0% |

NOTES TO APPENDIX 1:

- Note 1 See Part III of this Decision for explicit rates
- Note 2 0% : Exempt because the study includes explicit productivity factor
- Note 3 0% : Exempt because the rate is for the recovery of Equal Access Start-Up Costs
- Note 4 0% : Exempt because the ARM discount reflects percentage of uncollectible revenues
- Note 5 0% : Exempt because the charges are flow-through charges passed on to carriers
- Note 6 Refer to rate treatment of co-location services Tariff 7516, Item no. 110

Classification of Services

Aliant Telecom Inc.

Residential local services in non-HCSAs

Residential local exchange services in non-HCSAs

| Tariff | Item no. | Description |
|--------|-----------|--|
| 10001 | 520 | Service Charge Schedule – (Residence) |
| 10001 | 630 | Network Exchange Service – Single Line – (Residence) |
| 10001 | 920 | One-Party Mileage – (Residence) |
| 10001 | 1000 | Temporary Discontinuance of Service – (Residence) |
| 11001 | 280 | Network Exchange Service – (Residence) |
| 11001 | 365 | Service Charge Schedule – (Residence) |
| 11001 | 400 | Temporary Discontinuance of Service – (Residence) |
| 11001 | 1510 | Telephone Sets |
| 12001 | 22.9 | Suspension of Service – (Residence) |
| 12001 | 45 | Residence Single Line Access Service |
| 12001 | 110.2 A | Service Charges – (Residence) |
| 13001 | 50.10 (a) | Rate Schedule for Primary Exchange (Local) Service – (Residence) |
| 13001 | 50.11 | Extended Area Service – (Residence) |
| 13001 | 50.15 | Short-Term Service – (Residence) |
| 13001 | 50.16 | Community Calling Plan – (Residence) |
| 13001 | 80 | Service Charge Rate Schedule – (Residence) |
| 13001 | 330 | Telephone Sets for Party-Line Services |

Residential optional local services in non-HCSAs

| Tariff | Item no. | Description |
|--------|----------|--|
| 10001 | 1700 | Residential Service Packages |
| 10001 | 1600 | Enhanced Local Services with the Exception of 1-Time Charge Services – (Residence) |
| 10001 | 1625.1 | Enhanced Local Services – Information Manager – (Residence) |
| 11001 | 855 | Residential Service Packages |
| 11001 | 800 | Enhanced Local Services with the Exception of Call Guardian Services – (Residence) |
| 12001 | 47 | Residence Single Line Access Service – Packages |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|--------|---|
| 12001 | 48 | Residential Prime Packs |
| 12001 | 49 | Second Line Package |
| 12001 | 200 | Calling Features – Residence |
| 12001 | 205 | Call Trace Service (Residence) |
| 12002 | 5066 | TalkMail Service – (Residence) |
| 12002 | 5067 | Call Answer Service |
| 13001 | 370.24 | Voice Information Service – (Residence) |
| 13001 | 400 | Residence Service Package |
| 13001 | 405 | Residential Prime Packs |
| 13001 | 385 | Calling Features – (Residence) |
| 21491 | 308 | Internet Call Manager – (Residence) |

Residential local services in HCSAs

Residential local exchange services in HCSAs

| Tariff | Item no. | Description |
|---------------|-----------------|--|
| 10001 | 520 | Service Charge Schedule – (Residence) |
| 10001 | 630 | Network Exchange Service – Single Line – (Residence) |
| 10001 | 920 | One-Party Mileage – (Residence) |
| 10001 | 1000 | Temporary Discontinuance of Service – (Residence) |
| 11001 | 280 | Network Exchange Service – (Residence) |
| 11001 | 365 | Service Charge Schedule – (Residence) |
| 11001 | 400 | Temporary Discontinuance of Service – (Residence) |
| 11001 | 1510 | Telephone Sets |
| 12001 | 22.9 | Suspension of Service – (Residence) |
| 12001 | 45 | Residence Single Line Access Service |
| 12001 | 110.2 A | Service Charges – (Residence) |
| 13001 | 50.10 (a) | Rate Schedule for Primary Exchange (Local) Service – (Residence) |
| 13001 | 50.11 | Extended Area Service – (Residence) |
| 13001 | 50.15 | Short-Term Service – (Residence) |
| 13001 | 50.16 | Community Calling Plan – (Residence) |
| 13001 | 80 | Service Charge Rate Schedule – (Residence) |
| 13001 | 330 | Telephone Sets for Party-Line Services |

Aliant Telecom Inc. (cont'd)

Residential optional local services in HCSAs

| Tariff | Item no. | Description |
|---------------|-----------------|--|
| 10001 | 1700 | Residential Service Packages |
| 10001 | 1600 | Enhanced Local Services with the Exception of 1-Time Charge Services – (Residence) |
| 10001 | 1625.1 | Enhanced Local Services – Information Manager – (Residence) |
| 11001 | 855 | Residential Service Packages |
| 11001 | 800 | Enhanced Local Services with the Exception of Call Guardian Services – (Residence) |
| 12001 | 47 | Residence Single Line Access Service – Packages |
| 12001 | 48 | Residential Prime Packs |
| 12001 | 49 | Second Line Package |
| 12001 | 200 | Calling Features – (Residence) |
| 12001 | 205 | Call Trace Service (Residence) |
| 12002 | 5066 | TalkMail Service – (Residence) |
| 12002 | 5067 | Call Answer Service |
| 13001 | 370.24 | Voice Information Service – (Residence) |
| 13001 | 400 | Residence Service Package |
| 13001 | 405 | Residential Prime Packs |
| 13001 | 385 | Calling Features – (Residence) |
| 21491 | 308 | Internet Call Manager – (Residence) |

Single and Multi-Line business local exchange services

| Tariff | Item no. | Description |
|---------------|-----------------|---|
| 10001 | 520 | Service Charge Schedule – (Business – Single Line and Multiline) |
| 10001 | 720 | Network Exchange Service – (Multiline) |
| 10001 | 740 | Hotel Service |
| 10001 | 1000 | Temporary Discontinuance of Service – (Business – Single Line and Multi-Line) |
| 11001 | 266 | Business Service at Reduced Rates |
| 11001 | 365 | Service Charge Schedule – (Business) |
| 11001 | 720 (a) | Network Exchange Service – Multiline |
| 12001 | 22.9 | Suspension of Service – (Business – Single Line and Multi-Line Access) |
| 12001 | 100 | Business Multi-Line Access Service |
| 12001 | 110.2 A | Service Charges – (Business – Single Line and Multi-Line) |
| 12001 | 50.2.A | Business Single-Line Access Service |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----------|--|
| 21491 | 205.2 | Single-Line Access Service |
| 13001 | 50.10 (a) | Rate Schedule for Primary Exchange (Local) Service – (Multi-Line Access) |
| 13001 | 50.11 | Extended Area Service – (Business – Single Line and Multi-Line) |
| 13001 | 50.15 | Short-Term Service – (Business – Single Line and Multi-Line) |
| 13001 | 50.16 | Community Calling Plan – (Business – Single Line and Multi-Line) |
| 13001 | 80 | Service Charge Rate Schedule – (Business – Single Line and Multi-Line) |
| 13001 | 330 | Telephone Sets for Party-Line Services – (Business) |

Other capped services

| Tariff | Item no. | Description |
|---------------|-----------------|---|
| 7400 | 15 | Sale of Tariff |
| 7400 | 301 | Digital Network Access |
| 7400 | 303 | Managed Digital Private Line Service |
| 7400 | 304 | Digital Private Line Solutions Service Extension Features |
| 7400 | 305 | Digital Private Line Solutions Service Extension |
| 7400 | 306 | Customer Volume Pricing Plan |
| 7400 | 307 | Inter-Office Digital Channels |
| 7400 | 308 | Access Special Routing |
| 7400 | 310 | High Capacity 45 Service |
| 7400 | 311 | Bandwidth Data Service |
| 7400 | 380 | Digital Private Line Satellite Access |
| 7400 | 382 | Digital Private Line Large Business |
| 7400 | 401 | Dataroute Service |
| 7400 | 402 | Broadcast and Image for Occasional Use – Domestic and Cross-Border |
| 7400 | 403 | Broadcast and Image Full Time Inter-Exchange Broadcast-Quality Video Transmission Channel Service |
| 7400 | 515 | Advantage 900 with the exception of 900 Call Denial/Blocking |
| 10001 | 4 | Tariff Subscription and Exchange Information |
| 10001 | 530 | Other Service Charges – Other than Centrex Related |
| 10001 | 585 | Hourly Labour Rates |
| 10001 | 592 | Non-Sufficient Funds (NSF) Cheque Charge |
| 10001 | 731 | Answer Supervision |
| 10001 | 810 | Direct-In-Dial Service |
| 10001 | 930 | Exchange Private Line Mileage |
| 10001 | 940 | Extension Line Mileage |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|----------------------------|--|
| 10001 | 950 | Private Property Circuit Mileage |
| 10001 | 951 | Miscellaneous Circuit Mileage |
| 10001 | 952 | Wired Music circuits |
| 10001 | 953 | Alarm Security Narrowband Service |
| 10001 | 1150 | Directory and Listings with the exception of Non-Published Listings Without Automated per Line Blocking – (Residence) |
| 10001 | 1160 | Operator Services |
| 10001 | 1400 | Telephone Answering Service |
| 10001 | 1500 | Hospital Patient Telephone Service |
| 10001 | 2100 | Conference Service – Local |
| 10001 | 2350 | Remote Call Forwarding |
| 10001 | 2510, 2520, 2530 & 2540 | Inter-Exchange Circuit Mileage |
| 10001 | 2900 | Telpak Service |
| 10001 | 3070 | Teleroute 200 Service |
| 10001 | 3120 | Maintenance |
| 10001 | 4050 | Datalink Service |
| 10001 | 4090 | Province-Wide Dial Access Service |
| 10001 | 4110 | Local Data Channels – Loaded and Unloaded |
| 10001 | 4130 | Multicom Service |
| 10001 | 4400 | Digital Channel Service |
| 10001 | 4450 | 128 Kbps fractional DS-1 |
| 10001 | 4460 | Digital Network Access – 100 Mbps |
| 10001 | 4470 | Digital Network Access – OC-3 |
| 10001 | 4480 | Digital Network Access – Gigabit |
| 10001 | 4510 | Microlink Service |
| 10001 | 4550 | Digital Exchange Access Service |
| 10001 | 6010 | Lease of Channels/Channels for Program Transmission |
| 11001 | 5 | Company Tariffs |
| 11001 | 385 | Labour Rates |
| 11001 | 391 | Set Loss Charge |
| 11001 | 392 | Non-Sufficient Funds (NSF) Cheque Charge |
| 11001 | 400 | Temporary Discontinuance of Service |
| 11001 | 450 | Exchange Private Line Mileage |
| 11001 | 460 | Extension Line Mileage |
| 11001 | 470 | Private Property Mileage |
| 11001 | 660 | Off Premise Extension |
| 11001 | 692 | Answer Supervision |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----------|---|
| 11001 | 700 | Hotel Service |
| 11001 | 760 | Telephone Answering Service |
| 11001 | 764 | Telephone Answering Access Service |
| 11001 | 775.2 | Hospital Patient Telephone Service |
| 11001 | 766 | Direct-In-Dial Service |
| 11001 | 775 | Hospital Patient Telephone Service |
| 11001 | 825 | Directory Listings – Extra Listings |
| 11001 | 825 | Directory Listings – Non-Listed Service |
| 11001 | 825 | Directory Listings – Non-Published Service except Residence Non-Published |
| | | Service Without Automated per Line Blocking |
| 11001 | 850 | Operator Services |
| 11001 | 915 | Local Conference Service |
| 11001 | 1220 | Interexchange Private Line |
| 11001 | 1240 | Foreign Exchange Service |
| 11001 | 1260 | Out-of-Province Inter-Exchange Circuit Mileage |
| 11001 | 1471 | Telpak Service |
| 11001 | 1820 | Maintenance |
| 11001 | 1840 | Customer Provided Equipment – Company Provided Interface |
| 11001 | 2900 | Digital Channel Service |
| 11001 | 2950 | Megalink Service |
| 11001 | 3000/3010 | Microlink Service |
| 11001 | 3050 | Digital Exchange Access Service |
| 11001 | 6010 | Channels for Program Transmission |
| 11003 | 1000 | Access Service Arrangements |
| 11003 | 4001 | Channels for Data Transmission |
| 11003 | 6701 | Special Channels – Digital Access to the PSTN |
| 12001 | 25 | Tariff Subscription Service |
| 12001 | 102 | Digital Switched Service (DSS) |
| 12001 | 105.2 | Extra Listings |
| 12001 | 105.2 | Non-Published Telephone Number |
| 12001 | 110.2 C | Diagnostic Maintenance Charge |
| 12001 | 140.2 | Directory Assistance Service |
| 12001 | 150 | Toll Access Service |
| 12001 | 175 | Direct Inward Dialing for Access service (DID -AS) |
| 12001 | 180 | Network Access line Busy-Out Feature |
| 12001 | 190 | Automatic Dialing Service |
| 12001 | 210 | Suppressed Ringing Service |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|---------|--|
| 12001 | 211 | Province Wide Switched Suppressed Ringing Service (SRS) Access Service |
| 12001 | 215 | Answer Supervision Service |
| 12001 | 216 | Name Inquiry Service |
| 12001 | 217 | Music on Hold |
| 12001 | 220 | Hospital Patient Service |
| 12001 | 225 | TAS ID Service |
| 12001 | 230.2 B | Business Toll Restriction Service |
| 12001 | 232 | Data Line Support Services |
| 12001 | 235 | Switched Digital Data Service |
| 12001 | 240 | Automatic Line Service |
| 12001 | 280 | Jack Service |
| 12001 | 610 | Local Mileage |
| 12001 | 700 | Conference 300 Service |
| 12001 | 750 | Remote Call Forwarding Service |
| 12001 | 780 | Foreign Exchange Service |
| 12001 | 790 | Inter-Exchange Mileage |
| 12001 | 3370 | Key Telephone Service |
| 12001 | 3600 | Rates for Regular Private Automatic Branch Exchange Service Trunk Lines |
| 12001 | 3640 | Hotel and Motel Private Branch Exchange Service |
| 12001 | 3795 | Special Billing Codes |
| 12001 | 3850 | Connection of Customer-Owned Circuits with Company-Owned P(A)BX Switchboards |
| 12002 | 1002 | Tariff Subscription Service |
| 12002 | 1005 | Local Private Line Circuits |
| 12002 | 1010 | Intra-New Brunswick Inter-exchange Voice-Grade Transmission Facilities |
| 12002 | 1015 | Inter-Provincial Voice-Grade Transmission Facilities |
| 12002 | 1040 | Data, Alarm and Signal Transmission Facilities |
| 12002 | 1050 | Program Broadcast Transmission Facilities |
| 12002 | 3770 | Digital Channel Service |
| 12002 | 3775 | Digital Network Access – 100Mbps or 155 Mbps (OC-3) |
| 12002 | 3776 | Digital Network Access – OC-48 |
| 12002 | 3777 | Digital Network Access – OC-48 Special Tariff for Health and Education |
| 12002 | 3960 | Corporate LAN Extention Service |
| 12002 | 5500 | Province Wide Digital Access and Transmission Service |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----------|---|
| 12002 | 6030 | Private Line Voice Service |
| 12002 | 6040 | Telpak Service |
| 13001 | 15.1.5 | Non-Sufficient Funds (NSF) Cheque Charge |
| 13001 | 30 | Tariff Subscription Service |
| 13001 | 46.2 | Operator Services |
| 13001 | 50.10 (b) | Equivalent Line Service |
| 13001 | 50.12 (b) | Omission of Directory Listings – (Business) |
| 13001 | 50.18 | Name That Number Service |
| 13001 | 170 | Public Mobile Telephone Service |
| 13001 | 180 | Hospital Patient Service |
| 13001 | 195 | DMS Data Service |
| 13001 | 200 | Digital Exchange Access |
| 13001 | 215 | Microlink Service |
| 13001 | 230 | Tie Trunks |
| 13001 | 235 | Direct-In-Dial Service |
| 13001 | 260 | Intercommunicating Systems |
| 13001 | 270 | Intercommunicating Circuits |
| 13001 | 310 & 320 | Circuits Charges |
| 13001 | 331 | Set-Loss Charge for Party-Line Services |
| 13001 | 335 | Answer Supervision |
| 13001 | 370.4 | Jack and Plug Equipment |
| 13003 | Section A | Local Program Circuits or Channels |
| 13003 | Section A | Interexchange Program Circuits or Channels |
| 13003 | Section A | Telephone Directories |
| 13003 | Section A | Public Facsimilie Service |
| 13003 | Section A | Investigative Maintenance Service Charges |
| 13003 | Section A | Interexchange Voice-Grade Channels |
| 13003 | Section A | Interexchange Channels Discount |
| 13003 | Section A | Omnidata Service |
| 13003 | Section A | Data Channels |
| 13003 | Section A | Data Channels Conditioning Arrangement |
| 13003 | Section A | Datalink |
| 13003 | Section A | Miscellaneous Data Equipment |
| 13003 | Section A | Data equipment – Teletype – Network Access |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----------|--|
| 13003 | Section A | Digital Channel Service |
| 13003 | Section A | 10/100/155 Mbps Access Service |
| 21491 | 122 | Tariff Subscription Service |
| 27750 | 10 | Tariff Subscription Service |
| 27750 | 200 | Full-Time Local Broadcast-Quality Video Transmission Channel Service |
| 27750 | 201 | Megalink Service except 201.2 (e) ISP Link Connectivity |

Public telephone services

| Tariff | Item | Description |
|---------------|-------------|--|
| 10001 | 1300 | Public Telephone Service |
| 10001 | 1310 | Semi-Public Telephone Service |
| 10001 | 1320 | Inmate Service |
| 11001 | 500 | Public and Semi-Public Telephone Service |
| 12001 | 55 | Public Telephone Service |
| 12001 | 56 | Inmate Service |
| 12001 | 60 | Semi-Public Telephone Service |
| 13001 | 130 | Coin Telephone Service |
| 13001 | 140 | Inmate Service |

Services with frozen rate treatment

| Tariff | Item | Description |
|---------------|-------------|---|
| 7400 | 515.3 (k) | Advantage 900 – 900 Call Denial/Blocking |
| 10001 | 1600 | Enhanced Local Services – 1-Time Charge Services – (Residence) |
| 10001 | 511 | Partial Payment Provision |
| 10001 | 280 | Provincial 9-1-1 Service |
| 10001 | 3075 | Maritime Relay Service |
| 11001 | 267 | Provincial 9-1-1 Service |
| 11001 | 361 | Partial Payment Provision |
| 11001 | 800 | Enhanced Local Services – Call Guardian Services |
| 11001 | 825.6 | Residence Non-Published Service Without Automated per Line Blocking |
| 11001 | 961 | Island Relay Service |
| 12001 | 105.2 | Limited Non-Published Telephone Number |
| 12001 | 110.3 | Service Charges – Installment Payment Plan |
| 12001 | 140.3 B | Message Relay Service |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----------|---|
| 12001 | 620 | Provincial Enhanced 911 Service |
| 12001 | 230.2 A | Residence Toll Restriction Service |
| 13001 | 46.2 (c) | Message Relay Service |
| 13001 | 50.12 (b) | Omission of a Directory Listing – (Residence) |
| 13001 | 70.7 | Partial Payment Provision |
| 13001 | 391 | Residence Toll Restriction |
| 13001 | 390 | 900 Call Denial Service |

Uncapped services

| Tariff | Item | Description |
|---------------|-------------|---|
| 7400 | Part 7 | Special Facilities Services (Special Assemblies) |
| 7400 | Part 11 | Special Facilities Services (Special Assemblies) |
| 10001 | 530 | Other Service Charges – Centrex Related |
| 10001 | 590 | Late Payment Charge |
| 10001 | 780 | Centrex Business Service |
| 10001 | 975 | Small Business Network Service |
| 10001 | 985 | Small Business Network Service Offers |
| 10001 | 1010 | Temporary Discontinuance of Service – (Centrex Business Service) |
| 10001 | 1390 | Metro Transit Access Service |
| 10001 | 1600 | Enhanced Local Services – (Business) |
| 10001 | 1625.1 | Enhanced Local Services – Information Manager – (Business) |
| 10001 | 1920 | Connecting Companies |
| 11001 | 370.1 | Other Service Charges – Centrex |
| 11001 | 390 | Miscellaneous Charges – Late Payment Charge |
| 11001 | 698 | Centrex Business Service |
| 11001 | 800 | Enhanced Local Services – (Business) |
| 11001 | 1120 | Remote Call Forwarding |
| 11003 | 1000 | Access Service Arrangements – Activation of Network Routing Capability |
| 11003 | 4001 | Channels for Data Transmission – Digital Transmission facilities at 1.544 Megabits a Second |
| 11003 | 6701 | Special Channels – Digital Access to the Public Switched Telephone Network |
| 11004 | All Items | Special Facilities Tariffs |
| 11005 | | Tariff for interconnection with the equipment and facilities of Unitel |
| 11006 | | Tariff for interconnection with the equipment and facilities of Telesat |
| 11007 | | Cellular Mobile Telephone service |
| 12001 | 23 | Late Payment Charge |
| 12001 | 70 | Business Communications Service |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----------|--|
| 12001 | 80 | National Centrex Service |
| 12001 | 110.2 A | Service Charges – (BCS and Centrex) |
| 12001 | 165 | Enhanced Business Communications Service (BCS) |
| 12001 | 170 | Enhanced BCS – Automatic Call Distribution Service |
| 12001 | 171 | Enhanced BCS – Feature Networking |
| 12001 | 172 | Enhanced National Centrex Service |
| 12001 | 173 | Guest Voice Service |
| 12001 | 174 | Basic Call Centre Service |
| 12001 | 200 | Calling Features – (Business) |
| 12001 | 205 | Call Trace Service – (Business) |
| 12002 | 5065 | Message-Net Service – (Business) |
| 12002 | 5066 | TalkMail Service – (Business and Education) |
| 12002 | 5066 | Messenger Return Service |
| 12003 | All items | Special Assembly Tariff |
| 13001 | 15.1.4 | Late Payment Charge |
| 13001 | 190 | Provincial Centrex Service |
| 13001 | 194 | National Centrex Service |
| 13001 | 196 | Centrex Per Agent Service |
| 13001 | 370.24 | Voice Information System – (Business) |
| 13001 | 385 | Calling Features – (Business) |
| 13001 | 410 | Business Service Package |
| 13003 | Section B | Custom Built Equipment and Arrangements |
| 13003 | Section D | Interconnection with Sealink |
| 13003 | Section D | Hibernia Site Centrex |
| 21491 | 302.1 | Business Loyalty Program |
| 21491 | 308 | Internet Call Manager – (Business) |
| 27750 | 10 | Tariff Subscription Service |
| 27750 | 200 | Full-Time Local Broadcast-Quality Video Transmission Channel Service |
| 27750 | 201 | Megalink Service except 201.2 (e) ISP Link Connectivity |
| 27750 | Section 4 | Special Facilities Services |
| 27750 | 400 | Large Capacity Digital Network |
| 27750 | 401 | Arrangements for Data Transmission |
| 27750 | 410 | Large Capacity OC-12 Digital Network |
| 27750 | 415 | Large Capacity OC-3 Digital Network |

Aliant Telecom Inc. (cont'd)

| | | |
|-------|-----|---|
| 27750 | 500 | Electronic Transfer Capability for Centrex |
| 27750 | 501 | Eligibility for Exclusive Tariffs for Health and Education Entities |
| 27750 | 502 | Universal Messaging |
| 27750 | 700 | Small Business Bundles |
| 27750 | 701 | Single Line Business Bundle |

Bell Canada

Residential local services in non- HCSAs

Residential local exchange services in non- HCSAs

| Tariff | Item no. | Description |
|--------|-----------|--|
| 6716 | 70.1 | Rate Schedule for Primary Exchange (Local) Service – (Residence) |
| 6716 | 100.4 (b) | Service Charges Work Function Structure – (Residence) |
| 6716 | 1130 | Suspension of Service (General) – (Residence) |
| 6716 | 1430 | Exchange Radio-Telephone Service – (Residence) |
| 6716 | 2150 | Push-Button Dialing (Touch-Tone) – (Residence) |
| 6716 | 2300 | Telephone Station Equipment |

Residential optional local services in non- HCSAs

| Tariff | Item no. | Description |
|--------|--------------|---|
| 6716 | 2025.6/.8/.9 | Integrated Voice Messaging Service (IVMS) – (Residence) |
| 6716 | 2165 | Calling Features – (Residence) |
| 6716 | 2170 | Calling Features Bundles – (Residence) |
| 6716 | 2210 | SimplyOne Service – (Residence) |
| 6716 | 2220 | Consumer Solutions (Simple Connections) |
| 6716 | 4699 | Internet Call Display Service – (Residence) |

Residential local services in HCSAs

Residential local exchange services in HCSAs

| Tariff | Item no. | Description |
|--------|-----------|--|
| 6716 | 70.1 | Rate Schedule for Primary Exchange (Local) Service – (Residence) |
| 6716 | 100.4 (b) | Service Charges Work Function Structure – (Residence) |
| 6716 | 1130 | Suspension of Service (General) – (Residence) |
| 6716 | 1430 | Exchange Radio-Telephone Service – (Residence) |
| 6716 | 2150 | Push-Button Dialing (Touch-Tone) – (Residence) |
| 6716 | 2300 | Telephone Station Equipment |

Bell Canada (cont'd)

Residential optional local services in HCSAs

| Tariff | Item no. | Description |
|---------------|-----------------|---|
| 6716 | 2025.6/.8/.9 | Integrated Voice Messaging Service (IVMS) – (Residence) |
| 6716 | 2165 | Calling Features – (Residence) |
| 6716 | 2170 | Calling Features Bundles – (Residence) |
| 6716 | 2210 | SimplyOne Service – (Residence) |
| 6716 | 2220 | Consumer Solutions (Simple Connections) |
| 6716 | 2210 | SimplyOne Service |
| 6716 | 2220 | Consumer Solutions (Simple Connections) |
| 6716 | 4699 | Internet Call Display Service – (Residence) |

Single and multi-line business local exchange services

| Tariff | Item no. | Description |
|---------------|-----------------|---|
| 6716 | 70.2 | Rate Schedule for Primary Exchange (Local) Service – (Business) |
| 6716 | 70.2 | Microlink – Voice plus packet channel |
| 6716 | 100.4 (a) | Service Charges Work Function Structure – (Business) |
| 6716 | 1030 | Short-Term Service |
| 6716 | 1130 | Suspension of Service (General) – (Business) |
| 6716 | 1430 | Exchange Radio-Telephone Service – (Business) |
| 6716 | 2150 | Push-Button Dialing (Touch-Tone) – (Business) |
| 6716 | 2300 | Telephone Station Equipment |

Other capped services

| Tariff | Item no. | Description |
|---------------|-----------------|---|
| 6716 | 160 | Trench Provisioning |
| 6716 | 180 | Interior construction (no rate element) |
| 6716 | 295 | Repertory Dialer Service |
| 6716 | 26.1 | Sale of Bell Canada Tariffs |
| 6716 | 28 | NSF Cheque Charge |
| 6716 | 29 | Telephone Set Loss Charge |
| 6716 | 70.3 | Rate Schedule for Primary Exchange (Local) Service – (Equivalent Service) |
| 6716 | 73 | Telephone Number Services |
| 6716 | 85 | Operator Services |
| 6716 | 110 | Service Charges – Other than Work-Function Structure |

Bell Canada (cont'd)

| | | |
|------|------|--|
| 6716 | 150 | Construction on public thoroughfares and private property |
| 6716 | 160 | Trench Provisioning |
| 6716 | 220 | Extra Listings |
| 6716 | 220 | Omission of a Primary Exchange Listing – (Business) |
| 6716 | 295 | Repertory Dialer Service |
| 6716 | 310 | Toll Telephones |
| 6716 | 430 | Private Branch Exchange Service |
| 6716 | 500 | Direct Inward Dialing |
| 6716 | 950 | Local Channels |
| 6716 | 1060 | Service on Stationary Boats, Ships, Trailers and Trains |
| 6716 | 1100 | Foreign Exchange Service |
| 6716 | 1190 | Service System Service (General) |
| 6716 | 1380 | Telephone-Type Alerting System |
| 6716 | 1385 | Individual Line -Type Reporting System |
| 6716 | 1415 | Bell Neutral Answer Service |
| 6716 | 1435 | Regional Communication Service |
| 6716 | 2070 | Jack and Plug Arrangements |
| 6716 | 2175 | Customer Name and Address |
| 6716 | 2177 | Service Provider Identification Service |
| 6716 | 2205 | Suppressed Ringing Service |
| 6716 | 3260 | Remote Call Forwarding System |
| 6716 | 3360 | Conference 300 |
| 6716 | 3520 | Ship and Aircraft Service |
| 6716 | 3750 | Monthly Distance Charges for Interexchange Channels – Service Point Termination for Local Channels |
| 6716 | 3770 | Channel Discounts (Telpak) |
| 6716 | 4030 | Intercommunicating Channels (General) |
| 6716 | 4140 | Mobile Telephone Service |
| 6716 | 4210 | Diagnostic Maintenance Charge |
| 6716 | 4480 | Tie Trunks |
| 6716 | 4550 | Lease of Channels |
| 6716 | 4560 | Channels for Signal Transmission |
| 6716 | 4570 | Channels for Remote Operation of Private Mobile and One-Way Radio-Paging Transmitters |
| 6716 | 4580 | Channels for Wired-Music Transmission |
| 6716 | 4590 | Channels for Voice without Signalling or Conditioning |
| 6716 | 4610 | Channels for Program Transmission |

Bell Canada (cont'd)

| | | |
|------|------|---|
| 6716 | 4620 | Broadcast-Quality Television Channels for Occasional Use |
| 6716 | 4621 | Full-Time Local Broadcast-Quality Video Transmission Channel Service |
| 6716 | 4625 | 14/12 GHz Satellite Occasional Use Video Service |
| 6716 | 4699 | Internet Call Display Service – (Business) |
| 6716 | 4630 | VHF Television Channels Continuous Use |
| 6716 | 4970 | 976 Service |
| 6716 | 5010 | Digital Channel Service |
| 6716 | 5201 | Megalink Service |
| 6716 | 5210 | Microlink Services |
| 6716 | 5300 | Digital Exchange Access |
| 7400 | 15 | Sale of Tariff |
| 7400 | 301 | Digital Network Access |
| 7400 | 302 | Digital Private Line Service |
| 7400 | 303 | Managed Digital Private Lines Service |
| 7400 | 304 | Digital Private Line Solutions Service Extension Features |
| 7400 | 305 | Digital Private Line Solutions Service Extension Access Service |
| 7400 | 306 | Customer Volume Pricing Plan (CVPP) |
| 7400 | 307 | Inter-Office digital channels |
| 7400 | 308 | Access Special Routing |
| 7400 | 310 | High Capacity 45 Service |
| 7400 | 311 | Bandwidth Data Service (BDS) |
| 7400 | 380 | Digital Private Line Satellite Access |
| 7400 | 382 | Digital Private Line Large Business Service |
| 7400 | 401 | Dataroute Service |
| 7400 | 402 | Broadcast and Image for Occasional Use – Domestic and Cross-Border |
| 7400 | 403 | Broadcast and Image Full Time Inter-Exchange Broadcast-Quality Video Transmission Channel Service |
| 7400 | 515 | Advantage 900 with the exception of 900 Call Denial/Blocking |

Public telephone services

| Tariff | Item no. | Description |
|--------|----------|---|
| 6716 | 250 | Public Telephone Service (General) |
| 6716 | 292 | Inmate Service |
| 6716 | 320 | Semi-Public Telephone Service (General) |

Bell Canada (cont'd)

Services with frozen rate treatment

| Tariff | Item no. | Description |
|---------------|-----------------|---|
| 6716 | 70.4 | Rate Schedule for Primary Exchange (Local) Service – (Bell Canada Relay Service (BCRS)) |
| 6716 | 82 | Toll Restriction |
| 6716 | 86 | Call Display Blocking |
| 6716 | 90.7 | Service Charges (General) – Partial Payment Provision |
| 6716 | 220 | Extra Listings – Omission of a Primary Exchange Listing – (Residence) |
| 6716 | 1000 | Foreign-Exchange Service |
| 6716 | 1190 | Service-System Service |
| 6716 | 1395 | 9-1-1 Emergency Reporting Service |
| 6716 | 1400 | 9-1-1 Public Emergency Reporting Service |
| 6716 | 2200 | Call Blocking Service |
| 7396 | B51 | Custom-Designed 9-1-1 Arrangement – Metropolitan Toronto |
| 7396 | B52 | Custom-Designed 9-1-1 Arrangement – Communauté Urbaine de Montréal |
| 7396 | B53 | Enhanced 9-1-1 Arrangements |
| 7396 | B54 | Basic 9-1-1 System |
| 7396 | B55 | Custom-Designed Enhanced 9-1-1 Arrangement |
| 7400 | 515.3 (k) | Advantage 900 – 900 Call Denial/Blocking |
| 7516 | 105 | Local Network Inteconnection and Component Unbundling – Emergency service (9-1-1) |
| 7516 | 105 | Local Network Inteconnection and Component Unbundling – Relay Service |
| 7516 | 315 | Zero-Dialed Emergency Call Routing Service |

Uncapped services

| Tariff | Item no. | Description |
|---------------|-----------------|--|
| 6716 | 25 | Late Payment Charge |
| 6716 | 73 | Telephone Number Services |
| 6716 | 670 | Centrex III Service |
| 6716 | 675 | Centrex III Service – Rates and Charges |
| 6716 | 677 | Electronic Transfer Capability for Centrex |
| 6716 | 680 | Local Link Package |
| 6716 | 685 | Keypack |
| 6716 | 2025.6/.8/.9 | Integrated Voice Messaging (IVMS) – (Business) |
| 6716 | 2030 | Universal Messaging |

Bell Canada (cont'd)

| | | |
|------|---------|--|
| 6716 | 2165 | Calling Features – (Business) |
| 6716 | 2170 | Calling Features Bundles – (Business) |
| 6716 | 2180 | Primeline Executive |
| 6716 | 2210 | SimplyOne Service – (Business) |
| 6716 | 2230 | Large Customer Access Bundle |
| 6716 | 6000 | Advantage SmartRoute |
| 7396 | Note 1 | Special Facilities Tariff |
| 7400 | Part 7 | Special Facilities Services (Special Assemblies) |
| 7400 | Part 11 | Special Facilities Services (Special Assemblies) |
| 7515 | 350 | Enhanced Exchange-Wide Dial (EEWD) Service |

Note 1 All items not otherwise identified as part of either Services with Frozen Rate Treatment or Competitor Services

MTS Communications Inc.

Residential local services in non-HCSAs

Residential local exchange services in non-HCSAs

| Tariff | Item | Description |
|---------------|-------------|--|
| 24001 | 475.1 | Rate Schedule Primary Exchange Service – (Residence) |
| 24001 | 480 | Community Calling Service – (Residence) |
| 24001 | 490 | Urban Unlimited (Winnipeg and Brandon) – (Residence) |
| 24001 | 510 | Service Charges – (Residence) |
| 24001 | 800 | Suspension of Service – (Residence) |

Residential optional local services in non-HCSAs

| Tariff | Item | Description |
|---------------|-------------|--|
| 24001 | 2142 | Calling Features |
| 24001 | 2148 | Voice Messaging Service – (Residence) |
| 24001 | 2260 | Messaging Bundle – (Residence) |
| 24001 | 2261 | Mini Calling Features Value Pack – (Residence) |
| 24002 | 6100 | Internet Call Display – (Residence) |

Residential local services in HCSAs

Residential local exchange services in HCSAs

| Tariff | Item | Description |
|---------------|-------------|--|
| 24001 | 475.1 | Rate Schedule Primary Exchange Service – (Residence) |
| 24001 | 480 | Community Calling Service – (Residence) |
| 24001 | 490 | Urban Unlimited (Winnipeg and Brandon) – (Residence) |
| 24001 | 510 | Service Charges – (Residence) |
| 24001 | 800 | Suspension of Service – (Residence) |

Residential optional local services in HCSAs

| Tariff | Item | Description |
|---------------|-------------|--|
| 24001 | 2142 | Calling Features |
| 24001 | 2148 | Voice Messaging Service – (Residence) |
| 24001 | 2260 | Messaging Bundle – (Residence) |
| 24001 | 2261 | Mini Calling Features Value Pack – (Residence) |
| 24002 | 6100 | Internet Call Display – (Residence) |

MTS Communications Inc. (cont'd)

Single and multi-line business local exchange services

| Tariff | Item | Description |
|---------------|-------------|---|
| 24001 | 475.2/.3 | Rate Schedule Primary Exchange Service – (Business) |
| 24001 | 480 | Community Calling Service – (Business) |
| 24001 | 490 | Urban Unlimited (Winnipeg and Brandon) – (Business) |
| 24001 | 510 | Service Charges – (Business) |
| 24001 | 800 | Suspension of Service – (Business single line) |
| 24001 | 1000 | Joint User Service |

Other capped services

| Tariff | Item | Description |
|---------------|-------------|--|
| 7400 | 301 | Digital Network Access |
| 7400 | 302 | Digital Private Line Service |
| 7400 | 303 | Managed Digital Private Line Service |
| 7400 | 304 | Digital Private Line Solutions Service Extension Features |
| 7400 | 305 | Digital Private Line Solutions Service Extension |
| 7400 | 306 | Customer Volume Pricing Plan |
| 7400 | 307 | Inter-Office Digital Channels |
| 7400 | 308 | Access Special Routing |
| 7400 | 310 | High Capacity 45 Service |
| 7400 | 380 | Digital Private Line Satellite Access |
| 7400 | 382 | Digital Private Line Large Business |
| 7400 | 401 | Dataroute Service |
| 7400 | 402 | Broadcast and Image for Occasional Use – Domestic and Cross-Border |
| 7400 | 403 | Broadcast and Image Full Time Inter-Exchange Broadcast Quality Video Transmission channel service |
| 7400 | 515 | Advantage 900 |
| 24001 | 300 | Non-Sufficient Funds (NSF) Cheque Charge |
| 24001 | 350 | Tariff Subscription Service |
| 24001 | 510 | Service Charges – Non-Element Charges |
| 24001 | 710 | Exchange Measurement – Telephone Service Facilities |
| 24001 | 720 | Premium Exchange Service |
| 24001 | 900 | Foreign Exchange Service |
| 24001 | 1600.8 | Directory Listings |

MTS Communications Inc. (cont'd)

| | | |
|-------|--------|--|
| 24001 | 1600.9 | Directory Listings – Non-Published Listings |
| 24001 | 1610 | Operator Services |
| 24001 | 1990 | Digital Exchange Access Service |
| 24001 | 1995 | Microlink (ISDN Basic Rate Access) |
| 24001 | 1997 | Microlink Measured Service (ISDN Basic Rate Access) |
| 24001 | 2000 | Megalink Services (ISDN Primary Rate Access) |
| 24001 | 2114 | Dial Access Computer Port |
| 24001 | 2115 | Answer Supervision |
| 24001 | 2126 | Label Service |
| 24001 | 2136 | Rotary Service |
| 24001 | 2140 | Direct Inward Dialing (DID) |
| 24001 | 2149 | Universal Messaging |
| 24001 | 2186 | Autoquote Service |
| 24001 | 2188 | Data Service Access Line |
| 24001 | 2450 | Remote Call Forwarding |
| 24001 | 2600 | Mobile Telephone Service |
| 24001 | 2700 | Marine Radio Telephone Service |
| 24001 | 2830 | Customer-Provided Telephone Set and Inside Wiring |
| 24001 | 2840 | Multiline Terminal Attachment |
| 24002 | 5100 | Channels for Occasional Radio Program Service |
| 24002 | 5150 | Channels for Occasional Video Service |
| 24002 | 5160 | Full-Time Local Broadcast-Quality Video Transmission Channel Service |
| 24002 | 5200 | Channels for Signal Transmission |
| 24002 | 5300 | Channels for Data Transmission |
| 24002 | 5500 | Channels for Interexchange Voice Grade Facilities |
| 24002 | 5600 | Channel Charges |
| 24002 | 5700 | Teleroute 200 Service (Discontinued) |
| 24002 | 5705 | Business Video Access |
| 24002 | 5710 | Business Video Network Service |
| 24002 | 5715 | Manitoba Education Network Access |
| 24002 | 5720 | Manitoba Education Network |
| 24002 | 5800 | Asymmetric Digital Subscriber Loop (ADSL) Line Enhancement for end-users |
| 24002 | 5900 | SONET Access Service |
| 24002 | 6020 | LAN Access |
| 24002 | 6680 | FLEX Access |

MTS Communications Inc. (cont'd)

| | | |
|-------|-------|---|
| 24002 | 6690 | Cental Office Access |
| 24002 | 6700 | Digital Network Services Access (DNSA) |
| 24002 | 6800 | Digital Channel Service (DCS) |
| 24002 | 7250 | Dial Access Mobile Service |
| 24002 | 7260 | Name that Number |
| 24002 | 9025 | Private Branch Exchange Service – Toll Diversion and Toll Denial (Discontinued) |
| 24002 | 9050 | Departmental Billing Service |
| 24002 | 9100 | Teletex Service (Discontinued) |
| 24002 | 9325 | Automatic Dialing Announcing Device (ADAD) Access |
| 24002 | 9350 | Conference Access |
| 24002 | 9430 | Billing Reprint Service Charge |
| 24002 | 9700 | Joint-Use Buried Service Relocation |
| 24002 | 9710 | Wire Watch Service |
| 24002 | 9720 | Voice Processing Service |
| 24003 | 12400 | Explosive Atmosphere Equipment (discontinued) |
| 24003 | 12600 | Night and Holiday Service |
| 24003 | 12930 | Stop Hunt Feature |
| 24003 | 14030 | Cables |
| 24003 | 14070 | Loops & Facilities Equipment |
| 24003 | 15001 | Dedicated technician on site |

Public telephone services

| Tariff | Item | Description |
|---------------|-------------|-------------------------------|
| 24001 | 1700 | Public Telephone Service |
| 24001 | 1701 | Semi-Public Telephone Service |

Services with frozen rate treatment

| Tariff | Item | Description |
|---------------|-------------|---|
| 24001 | 485 | Province Wide Enhanced 9-1-1 Service |
| 24001 | 515 | Residence Exchange Service Charge Billing Option Plan |
| 24001 | 1610.2.B1 | Directory Assistance (DA) Blocking |
| 24001 | 1610.2.B2 | Automated Directory Assistance Call Completion (ADACC) Blocking |

MTS Communications Inc. (cont'd)

| | | |
|-------|------------|--|
| 24001 | 2142.2.B.9 | Calling Features (Call Display Blocking) |
| 24001 | 2147 | Manitoba Relay Service |
| 24001 | 2180 | Toll Management |
| 24001 | 2450 | Remote Call Forwarding |
| 7400 | 515.3(k) | Advantage 900 – 900 Call Denial/Blocking |

Uncapped services

| Tariff | Item | Description |
|---------------|-------------|--|
| 7400 | Part 7 | Special Facilities Services (Special Assemblies) |
| 7400 | Part 11 | Special Facilities Services (Special Assemblies) |
| 24001 | 310 | Surcharge on Overdue Accounts |
| 24001 | 510.2 | Service Charges – Centrex |
| 24001 | 1980 | Centrex |
| 24001 | 1981 | Electronic Transfer Capability for Centrex |
| 24001 | 1982 | Centrex 2 |
| 24001 | 1985 | National Centrex Service |
| 24001 | 1987 | Centrex Plus |
| 24001 | 2135 | Custom Telephone Number Service |
| 24001 | 2142 | Calling Features – (Business) |
| 24001 | 2148 | Voice Messaging Service – (Business) |
| 24001 | 2250 | Centrex (Discontinued) |
| 24001 | 2260 | Messaging Bundle – (Business) |
| 24001 | 2261 | Mini Calling Features Value Pack – (Business) |
| 24001 | 2850 | Customer-Provided Centrex Telephones |
| 24002 | 6100 | Internet Call Display – (Business) |
| 24002 | 9270 | Centrex Digital Data Service Premium |
| 24002 | 9275 | Centrex 5 |
| 24003 | 12170 | Centrex Miscellaneous |
| 24005 | All items | Supplementary Tariff – Special Assemblies |

Saskatchewan Telecommunications

Residential local services in non- HCSAs

Residential local exchange services in non- HCSAs

| Tariff | Item | Description |
|--------|--------|---|
| 21411 | 100.30 | Extended Area Service (EAS) – (Residence) |
| 21411 | 105.05 | Administration Charges – (Residence) |
| 21411 | 105.10 | Excess Mileage Charges – (Residence) |
| 21411 | 110.02 | Seasonal Service – (Residence) |
| 21411 | 110.10 | Network Access Service – (Residence) |
| 21411 | 110.12 | Network Access Service – (Residence) |

Residential optional local services in non- HCSAs

| Tariff | Item | Description |
|--------|--------|-------------------------------------|
| 21411 | 150.15 | SmartTouch Subscription Service |
| 21411 | 300.05 | Smart Bundles |
| 21412 | 550.08 | Message Manager – (Residence) |
| 21412 | 580.02 | Internet Call Waiting – (Residence) |

Residential local services in HCSAs

Residential local exchange services in HCSAs

| Tariff | Item | Description |
|--------|---------|--|
| 21411 | 100.30 | Extended Area Service (EAS) – Residence |
| 21411 | 105.05 | Administration Charges – (Residence) |
| 21411 | 105.10 | Excess Mileage Charges – (Residence) |
| 21411 | 110.02 | Seasonal Service – (Residence) |
| 21411 | 110.10 | Network Access Service – (Residence) |
| 21411 | 110.12 | Network Access Service – (Residence) |
| 21411 | 400.05 | Exchange Radio Telephone Service (ERTS) – (Residence) |
| 21411 | 400.20 | Northern Radio Telephone Service (NRTS) – (Residence) |
| 21413 | 1000.18 | Extended Area Service (EAS) – Christopher Lake – (Residence) |
| 21413 | 1000.19 | Extended Area Service (EAS) – Marshall – (Residence) |
| 21413 | 1000.20 | Extended Area Service (EAS) – Meath Park – (Residence) |
| 21413 | 1000.21 | Extended Area Service (EAS) – Paddockwood – (Residence) |

Saskatchewan Telecommunications (cont'd)

Residential optional local services in HCSAs

| Tariff | Item | Description |
|---------------|-------------|---|
| 21411 | 150.15 | SmartTouch Subscription Service – (Residence) |
| 21411 | 300.05 | Smart Bundles |
| 21412 | 550.08 | Message Manager – (Residence) |
| 21412 | 580.02 | Internet Call Waiting – (Residence) |

Single and multi-line business local exchange services

| Tariff | Item | Description |
|---------------|-------------|---|
| 21411 | 100.25 | Joint User Service |
| 21411 | 100.30 | Extended Area Service (EAS) – (Business) |
| 21411 | 105.05 | Administration Charges – (Business) |
| 21411 | 105.10 | Excess Mileage Charges – (Business) |
| 21411 | 110.02 | Seasonal Service – (Business Single Line) |
| 21411 | 110.10 | Network Access Service – (Business) |
| 21411 | 110.12 | Network Access Service – (Business) |
| 21411 | 110.28 | Multi-Line Access Service |
| 21411 | 110.30 | Multi-Line Access Service |
| 21411 | 400.05 | Exchange Radio Telephone Service (ERTS) – (Business) |
| 21411 | 400.20 | Northern Radio Telephone Service (NRTS) – (Business) |
| 21413 | 1000.18 | Extended Area Service (EAS) – Christopher Lake – (Business) |
| 21413 | 1000.19 | Extended Area Service (EAS) – Marshall – (Business) |
| 21413 | 1000.20 | Extended Area Service (EAS) – Meath Park – (Business) |
| 21413 | 1000.21 | Extended Area Service (EAS) – Paddockwood – (Business) |

Other capped services

| Tariff | Item | Description |
|---------------|-------------|---|
| 21411 | 86 | Tariff Subscription Service |
| 21411 | 105.15 | Extra Provisioning Charges |
| 21411 | 105.20 | Winter Construction Charges |
| 21411 | 105.25 | Distribution and Entry Construction Charges |
| 21411 | 110.04 | Extended Network Access Service |
| 21411 | 110.06 | Extended Network Access Service |

Saskatchewan Telecommunications (cont'd)

| | | |
|-------|--------|---|
| 21411 | 110.08 | Extended Data Access Charge |
| 21411 | 110.14 | Temporary Telephone Service |
| 21411 | 110.16 | Direct Customer Access and Wiretap Services |
| 21411 | 110.26 | Wireless Payphone Service |
| 21411 | 110.32 | Direct-in-Dial Service |
| 21411 | 110.34 | Microlink Service |
| 21411 | 110.36 | Microlink Discontinued Service |
| 21411 | 110.38 | Megalink Service |
| 21411 | 110.40 | Digital Exchange Access Service |
| 21411 | 110.42 | Digital Channel Service |
| 21411 | 110.46 | Digital Network Access |
| 21411 | 110.44 | Local Loop Service |
| 21411 | 110.48 | Voice Grade Facilities – Local |
| 21411 | 110.50 | Local Loop – Conditioning |
| 21411 | 110.52 | 310-XXXX Access |
| 21411 | 150.05 | Rotary Hunting Service |
| 21411 | 150.10 | Service Interface |
| 21411 | 160.10 | Telephone Directory Service – Extra Listings |
| 21411 | 160.20 | Directory Assistance Charge |
| 21411 | 160.25 | Intercept Service |
| 21411 | 160.30 | Directory Assistance Call Completion |
| 21411 | 160.40 | Reminder Service |
| 21411 | 200.05 | Remote Message Register |
| 21411 | 400.10 | General Mobile Telephone Service (GMTS) |
| 21411 | 400.15 | GMTS – 450 MHz Public Air-Ground Radio Telephone Service |
| 21412 | 500.04 | Digital Inter-Exchange Facilities |
| 21412 | 500.06 | Voice Grade Facilities – Inter-Exchange |
| 21412 | 500.08 | Voice Grade Facilities – In-House |
| 21412 | 500.10 | Full Period Private Line Telephone Service |
| 21412 | 500.12 | Digital Private Line Service |
| 21412 | 500.14 | Managed Digital Private Line Service |
| 21412 | 500.16 | Digital Private Line Solutions Service Extension Features |
| 21412 | 500.18 | Digital Private Line Solutions Service Extension Access Service |
| 21412 | 500.20 | Customer Volume Pricing Plan |

Saskatchewan Telecommunications (cont'd)

| | | |
|-------|--------|---|
| 21412 | 500.22 | Inter-Office Digital Channels |
| 21412 | 500.26 | Access Special Routing |
| 21412 | 500.34 | Tie Line Service |
| 21412 | 550.02 | Wire Watch |
| 21412 | 585.02 | Occasional Broadcast-Quality Video Transmission Channel Service |
| 21412 | 585.04 | Radio Program (Audio) Transmission Channel Service |
| 21412 | 585.06 | Full-Time Local Broadcast-Quality Video Transmission Channel Service |
| 21412 | 585.09 | Full-Time Inter-Exchange Broadcast-Quality Video Transmission Channel Service |

Public telephone services

| Tariff | Item | Description |
|--------|--------|---|
| 21411 | 110.18 | Public Telephone Service |
| 21411 | 110.21 | Charge-A-Call Plus Service |
| 21411 | 110.22 | Automated Inmate Public Telephone Service |
| 21411 | 110.24 | Semi-Public Telephone Service |

Services with frozen rate treatment

| Tariff | Item | Description |
|--------|--------|--|
| 21411 | 140.05 | Provincial Enhanced 9-1-1 Service |
| 21411 | 160.10 | Telephone Directory Service – Non-Listed and Non-Published Numbers |
| 21411 | 170.05 | Residential Bill Management Tools |
| 21411 | 170.15 | Toll Restrictor |
| 21411 | 160.35 | Directory Assistance Call Completion Blocking |

Uncapped services

| Tariff | Item | Description |
|--------|--------|--|
| 21411 | 90 | Past Due Charges |
| 21411 | 110.34 | Microlink Optional Features |
| 21411 | 110.36 | Microlink Optional Features |
| 21411 | 150.15 | SmartTouch Subscription Service – (Business) |
| 21411 | 200.10 | SaskTel Beyond Service – Discontinued |
| 21411 | 200.15 | Centrex Service I |
| 21411 | 200.20 | Centrex Service II |

Saskatchewan Telecommunications (cont'd)

| | | |
|-------|--------|------------------------------|
| 21411 | 200.25 | Centrex Data Service |
| 21411 | 300.10 | Business Basics Package |
| 21412 | 550.06 | Message Manager One |
| 21412 | 550.08 | Message Manager – (Business) |
| 21412 | 550.08 | Message Manager – (Centrex) |
| 21412 | 550.10 | TalkMail |
| 21412 | 550.12 | Fax Overflow Service |
| 21413 | Note 1 | Special Facilities Tariffs |

Note 1 Includes all Special Facilities items other than those identified above.

TELUS Communications Inc.

Residential local services in non-HCSAs

Residential local exchange services in non-HCSAs

| Tariff | Item | Description |
|---------------|-------------|---|
| 1005 | 29 | Wireless Local Loop Exchange Service – (Residence) |
| 1005 | 32-A | Exchange Rates – (Residence) |
| 1005 | 32-B | Radio Exchange Rates – (Residence) |
| 1005 | 110 | Multi-Element Plan Service Charges – (Residence) |
| 1005 | 155 | Telephone Instruments – Party-Line Telephone Sets – (Residence) |
| 1005 | 157 | Suspension of Service – (Residence) |
| 1005 | 254 | Radio Toll Station Service – Residential |
| 1005 | 255 | Exchange Area Radiotelephone Service – (Residence) |
| 18001 | 425 | Exchange Service – (Residence) |
| 18001 | 550 | Service Charges – (Residence) |
| 21461 | 202 | Individual Line Service (ILS) – (Residence) |

Residential optional local services in non-HCSAs

| Tariff | Item | Description |
|---------------|-------------|---|
| 1005 | 279 | Residential Additional Line Bundle |
| 1005 | 405 | Internet Call Director – (Residence) |
| 18001 | 230 | Voice Messaging Options Service – (Residence) |
| 21461 | 300 | Call Management Services – (Residence) |
| 21461 | 301 | Voice Mail Service (VMS) – (Residence) |
| 21461 | 302 | Residence Values Bundle |
| 21461 | 303 | Residence No Limits Bundle |
| 21461 | 311 | Dual Line Call Manager – (Residence) |

Residential local services in HCSAs

Residential local exchange services in HCSAs

| Tariff | Item | Description |
|---------------|-------------|---|
| 1005 | 29 | Wireless Local Loop Exchange Service – (Residence) |
| 1005 | 32-A | Exchange Rates – (Residence) |
| 1005 | 32-B | Radio Exchange Rates – (Residence) |
| 1005 | 110 | Multi-Element Plan Service Charges – (Residence) |
| 1005 | 155 | Telephone Instruments – Party-Line Telephone Sets – (Residence) |

TELUS Communications Inc. (cont'd)

| | | |
|-------|-----|--|
| 1005 | 157 | Suspension of Service – (Residence) |
| 1005 | 254 | Radio Toll Station Service – Residential |
| 1005 | 255 | Exchange Area Radiotelephone Service – (Residence) |
| 18001 | 425 | Exchange Service – (Residence) |
| 18001 | 550 | Service Charges – (Residence) |
| 21461 | 202 | Individual Line Service (ILS) – (Residence) |

Residential optional local services in HCSAs

| Tariff | Item | Description |
|---------------|-------------|---|
| 1005 | 279 | Residential Additional Line Bundle |
| 1005 | 405 | Internet Call Director – (Residence) |
| 18001 | 230 | Voice Messaging Options Service – (Residence) |
| 21461 | 300 | Call Management Services – (Residence) |
| 21461 | 301 | Voice Mail Service (VMS) – (Residence) |
| 21461 | 302 | Residence Values Bundle |
| 21461 | 303 | Residence No Limits Bundle |
| 21461 | 311 | Dual Line Call Manager – (Residence) |

Single and multi-line business local exchange services

| Tariff | Item | Description |
|---------------|-------------|--|
| 1005 | 29 | Wireless Local Loop Exchange Service – (Business) |
| 1005 | 32-A | Exchange Rates – (Business) |
| 1006 | 32-B | Radio Exchange Rates – (Business) |
| 1005 | 32-F | Local Business Contract Option |
| 1005 | 110 | Multi-Element Plan Service Charges – (Business) |
| 1005 | 155 | Telephone Instruments – Party-Line Telephone Sets – (Business) |
| 1005 | 157 | Suspension of Service – (Business) |
| 1005 | 252 | Radio Toll Station Service – Business |
| 1005 | 255 | Exchange Area Radiotelephone Service – (Business) |
| 18001 | 425 | Exchange Service – (Business) |
| 18001 | 550 | Service Charges – (Business) |
| 21461 | 202 | Individual Line Service (ILS) – (Business) |

TELUS Communications Inc. (cont'd)

Other capped services

| Tariff | Item | Description |
|---------------|-------------|--|
| 1005 | 20 | Not sufficient Funds Cheque Charge |
| 1005 | 95 | Construction Charges – General |
| 1005 | 96 | Construction Charges – Single-Line Inside Wire – Stand-Alone Multi-Dwelling Units |
| 1005 | 97 | Construction Charges – Customer's Premises |
| 1005 | 98 | Construction Charges – Public Property |
| 1005 | 104 | Extension Line Mileage – Voice |
| 1005 | 104-A | Extension Line Mileage – Data |
| 1005 | 106 | Interexchange Line Mileage – Voice |
| 1005 | 106-A | Interexchange Line Mileage – Data |
| 1005 | 110 | Multi-Element Plan Service Charges – Other |
| 1005 | 111 | Service Charges – Hourly Rates |
| 1005 | 119 | Toll Station Service |
| 1005 | 122 | Foreign Central Office Service – Voice |
| 1005 | 122-A | Foreign Central Office Service – Data |
| 1005 | 124 | Foreign Exchange Service – Voice |
| 1005 | 124 A | Foreign Exchange Service – Data |
| 1005 | 126 | Direct-In-Dial Service |
| 1005 | 130 | Remote Call Forwarding |
| 1005 | 132 | Service to Ships and Trains |
| 1005 | 133 | Spacotel Service |
| 1005 | 136 | Answer Supervision |
| 1005 | 145 | Directory Listings with the exception of Non-Published Telephone Numbers – (Residence) |
| 1005 | 150 | Reserved Telephone Number Service |
| 1005 | 152 | Off-Hook Service |
| 1005 | 153 | Optional Hunting Arrangements |
| 1005 | 154 | Call Info Services |
| 1005 | 159 | Tie Trunk and Tie Line Service |
| 1005 | 164 | Dual Tone Multi-Frequency |
| 1005 | 161 | Call Guardian – (Business) |
| 1005 | 165 | Transfer of Calls |
| 1005 | 155-D | Telephone Instruments – Telephone Set Loss |
| 1005 | 170 | Interconnection Services – General |
| 1005 | 234 | Mobile Telephone Service – Directory Listings |

TELUS Communications Inc. (cont'd)

| | | |
|------|-------|---|
| 1005 | 236 | Radiotelephone Service – VHF Mobile Stations |
| 1005 | 238 | Radiotelephone Service – VHF Marine Radiotelephone Stations |
| 1005 | 242 | Radiotelephone Service – Mobile and Ship Stations |
| 1005 | 244 | Public Radiotelephone Stations |
| 1005 | 250 | Radiotelephone Service – Service Charges |
| 1005 | 252 | Radio Toll Station Service – Business |
| 1005 | 254 | Radio Toll Station Service – Residential |
| 1005 | 256 | Local Message Rate |
| 1005 | 261 | Remote Radiotelephone Service |
| 1005 | 368 | Data Service |
| 1005 | 370 | Data Access System |
| 1005 | 395 | Toll Access Service |
| 1005 | 400 | Private Line Service- Voice/Local Channels |
| 1005 | 400-A | Private Line Service – Data/Local Channels |
| 1005 | 401 | Multi-Point Anti-Streaming Service |
| 1005 | 404 | Optical Fibre Service |
| 1005 | 405 | Internet Call Director – (Business) |
| 1005 | 406 | Program Transmission Service |
| 1005 | 410 | Signal Transmission Service |
| 1005 | 410-A | Distribution Services |
| 1005 | 415-A | 14/12 GHz Satellite Occasional Use Video Service |
| 1005 | 416 | Television Transmission Service |
| 1005 | 416-A | Occasional Use Broadcast Quality Video Service – Newroute |
| 1005 | 416-B | Occasional Use Broadcast Quality Video Service – Sporting Venues General Motors Place (GM Place) & BC Place |
| 1005 | 416-C | Occasional Use Broadcast Quality Video Service – Satellite Downlink |
| 1005 | 421 | Full-Time Local Broadcast-Quality Video Transmission Channel Service |
| 1005 | 422 | Emergency Reporting and Alerting Systems |
| 1005 | 435 | Megaroute Service |
| 1005 | 437 | Megastream Service |
| 1005 | 440 | Digital Channel Service |
| 1005 | 446 | Megaplan Service Extension Access Service |
| 1005 | 447 | Digital Network Access |
| 1005 | 448 | Access Special Routing |
| 1005 | 465 | Integrated Services Digital Network – Basic Rate Interface Service |
| 1005 | 470 | Integrated Services Digital Network – Primary Rate Interface Service |
| 1005 | 470-A | Integrated Services Digital Network – Primary Rate Interface Service Monthly Non-Contracted Service |

TELUS Communications Inc. (cont'd)

| | | |
|-------|-----|---|
| 1005 | 490 | Datadial Service |
| 1005 | 495 | Digital Exchange Access |
| 7400 | 401 | Dataroute Service |
| 7400 | 515 | Advantage 900 with the exception of 900 Call Denial/Blocking |
| 18001 | 105 | Not Sufficient Funds Cheques |
| 18001 | 160 | Emergency Reporting System |
| 18001 | 165 | Digital Exchange Access |
| 18001 | 170 | Direct In Dial Service |
| 18001 | 200 | Directory Primary Listings excluding Non-Published Telephone Number – (Residence) |
| 18001 | 215 | Dataline Service |
| 18001 | 220 | Toll Terminal Service |
| 18001 | 255 | Interconnection with Private Mobile Telephone Systems – Network Access |
| 18001 | 270 | Alberta Manual 150 Mobile Telephone Service |
| 18001 | 280 | Foreign Wire Centre Service |
| 18001 | 305 | Denial Service |
| 18001 | 320 | Electronic Delivery Service |
| 18001 | 325 | Optical Fibre Service |
| 18001 | 330 | Slow Speed Channel Service |
| 18001 | 350 | Interexchange Foreign Exchange Service |
| 18001 | 355 | Interexchange Off-Premise Service |
| 18001 | 365 | Interexchange Tie Trunk Service |
| 18001 | 340 | Answer Supervision Service |
| 18001 | 370 | AltaNet 200/300 Service |
| 18001 | 360 | Interexchange Private Line Service |
| 18001 | 380 | Temporary Disconnect |
| 18001 | 385 | Channels for Data Transmission |
| 18001 | 400 | Busy Line Verification/Interruption |
| 18001 | 460 | Construction Charges |
| 18001 | 485 | Integrated Services Digital Network – Basic Rate Interface Service |
| 18001 | 495 | Integrated Services Digital Network – Primary Rate Interface Service |
| 18001 | 500 | Digital Network Access |
| 18001 | 505 | Switched 56 Digital Service |
| 18001 | 535 | Electronic Directory Database Access Service |
| 18001 | 545 | Dedicated Line Service |
| 18001 | 550 | Service Charges – (Other) |
| 18001 | 580 | Wireless Payphone Service |
| 18001 | 615 | Local Channel Service (Outside the City of Edmonton) |

TELUS Communications Inc. (cont'd)

| | | |
|-------|------|--|
| 18001 | 620 | Local Channel Conditioning (Outside the City of Edmonton) |
| 18001 | 625 | Local Channel Service (In the City of Edmonton) |
| 18001 | 630 | Local Channel Conditioning (In the City of Edmonton) |
| 18001 | 655 | Remote Call Forwarding |
| 18001 | 665 | Digital Channel Service |
| 18001 | 666 | CityNet 200/300 Service |
| 18001 | 709 | Megaplan Service Extension Access Feature |
| 18001 | 712 | Access Special Routing |
| 18001 | 410 | Interexchange Radio Program Transmission Service |
| 18001 | 415 | Interexchange Television Transmission Service |
| 18001 | 660 | Local Broadcast Video Transmission Service |
| 18001 | 670 | Local Radio Program Cchannel Service |
| 18001 | 706 | Megaroute Service |
| 18001 | 707 | Megastream Service |
| 18001 | 709 | Megaplan Service Extension Access Service |
| 18002 | 1820 | Network Diagnostic and Maintenance Services |
| 18002 | 1825 | Rotary Splitting Service |
| 21461 | 308 | Operator Services |
| 21461 | 311 | Dual Line Call Manager – (Business) |
| 21461 | 502 | Local Broadcast Video Transmission – Digital Service |
| 21461 | 503 | Inter-Office Digital Channels |
| 21461 | 504 | Customer Volume Pricing Plan (discount plan for uncapped services) |
| 21461 | 505 | Digital Private Line Large Business Service |
| 21461 | 506 | Digital Private Line Service Extension Features |
| 21461 | 507 | International Private Line (IPL) Service |
| 21461 | 509 | High Capacity 45 Service |
| 21461 | 510 | Wired Music Transmission Service |
| 21461 | 513 | Dedicated Loop Service |
| 25721 | 2510 | Customer Traffic Studies |
| 25721 | 3090 | Frame Relay Service |
| 25721 | 4025 | Billing Analysis (Breakdown) Service |

TELUS Communications Inc. (cont'd)

Public telephone services

| Tariff | Item | Description |
|--------|------|------------------------------------|
| 1005 | 115 | Public Coin Telephone Service |
| 1005 | 117 | Semi-Public Coin Telephone Service |
| 18001 | 205 | Public Telephone Service |
| 18001 | 210 | Semi-Public Telephone Service |

Services with frozen rate treatment

| Tariff | Item | Description |
|--------|-----------|---|
| 1005 | 14 | Payment of Charges – Installment Payment Plan |
| 1005 | 32-D | BC TEL Message Relay Centre |
| 1005 | 120 | Centralized Emergency Reporting Service (Dial 911) |
| 1005 | 120-A | Enhanced Centralized Emergency Reporting (Dial E-911) |
| 1005 | 121 | Provincial 9-1-1 Service |
| 1005 | 145 | Directory Listings – Non-Published Telephone Numbers – (Residence) |
| 1005 | 161 | Call Guardian |
| 7400 | 515.3 (k) | Advantage 900 – 900 Call Denial/Blocking |
| 18001 | 200 | Directory Primary Listings – Non-Published Telephone Number – (Residence) |
| 18001 | 235 | Calling Features – Call Display Blocking |
| 18001 | 280 | Provincial E9-1-1 |
| 18001 | 310 | Toll Restrict |
| 18001 | 455 | Message Relay Service |
| 18001 | 550.5 | Service Charges – Installment Payment Plan |

Uncapped services

| Tariff | Item | Description |
|--------|------|--|
| 1005 | 15 | Late Payment Charges |
| 1005 | 42 | Centrex – General |
| 1005 | 42-B | Centrex – C.O. |
| 1005 | 43 | Centrex |
| 1005 | 43-A | Centrex Call Processing Service |
| 1005 | 43-B | Electronic Transfer Capability for Centrex |
| 1005 | 138 | Intelliroute Service |

TELUS Communications Inc. (cont'd)

| | | |
|-------|-----------|--|
| 1005 | 144 | Special Number Service |
| 1005 | 168-C | Voice Messaging Options Service |
| 1005 | 169 | Universal Messaging |
| 1020 | All Items | Special Assembly Tariff |
| 1027 | All Items | Special Assembly Tariff for Interconnection with the Equipment and/or Facilities of Interexchange Carriers |
| 7400 | 700 | Co-Located Customer Provided Equipment in a Telephone Company Central-Office |
| 7400 | 703 | Program Channels C.B.C. Radio |
| 18001 | 195 | Special Number Service |
| 18001 | 230 | Voice Messaging Options Service – (Business) |
| 18001 | 235 | Calling Features – (Business) |
| 18001 | 245 | Network Portability Access Service |
| 18001 | 250 | Intelliroute Service |
| 18001 | 285 | Centrex Voice Activated Dialing |
| 18001 | 520 | Universal Messaging |
| 18001 | 530 | Electronic Transfer Capability for Centrex |
| 18001 | 585 | Centrex Service |
| 18006 | All Items | Special Assembly Tariff |
| 21463 | All Items | Special Assembly Tariff |
| 25723 | All Items | Special Assembly Tariff |

**Retail Quality of Service Adjustment Plan
Report
(to be filed with the Commission with Q of S results)**

Date: ____/____/____
dd / mm/ yyyy

Company: _____
(Full Corporate Name)

Contact Name: _____

Contact Address: _____

Contact Phone: ____ - ____ - ____ **Contact Facsimile:** ____ - ____ - ____

Certification: (insert statutory declaration language, include knowledge that Q of S results are subject to random audits by the CRTC or its agent)

**Retail Quality of Service Adjustment Plan
Worksheet 1**

Step 1: Calculate the Total Maximum Adjustment Value (TMAV)

TOTAL ANNUAL LOCAL REVENUES \$ _____ * 5% =
_____ (A)

Step 2: Calculate the Maximum Adjustment Value (MAV) per required Q of S indicator TMAV (A) _____ / total number of required Quality of Service Indicators _____ = _____ (B)

Transfer to Worksheet 3 – MAV Column

(For this calculation only: Q of S Indicator reported as rural and urban, count as one required indicator when calculating MAV)

Step 3: Calculate Annual Average Performance (AAP) for each Quality of Service Indicator (Worksheet 2)

Add Monthly results for each indicator / 12 (where required and not reported = 0%)

Step 4: Calculate the AAP Ratio (AAPR) for each indicator compared to the Q of S standard (Worksheet 2)

AAPR = (AAP / Q of S standard) * 10 (maximum AAPR = 10)

Step 5: Calculate the Quality of Service Adjustment (QSA) (Worksheet 3)

QSA = Standard Adjustment (SA) percent * MAV

The standard adjustment is determined by reading the AAPR into the AAPR to Standard Adjustment conversion table

Step 6: Calculate the Total Annual Quality of Service Adjustment (Worksheet 2)

Retail Quality of Service Adjustment Plan Illustrative Calculations

Step 1 Calculate the Total Maximum Adjustment Value (TMAV)

TMAV = Total Annual Local Revenues * 5 %

| | | | | |
|----------------|--------------------|---|-------|-------------------------|
| EXAMPLE | \$4,500,250,000.00 | * | 5.00% | (A) |
| | | | | \$225,012,500.00 |

Step 2 Calculate the Maximum Adjustment Value (MAV) per required Q of S indicator

MAV = TMAV (A) / number of required Quality of Service Indicators

| | | | | |
|----------------|------------------|---|----|------------------------|
| EXAMPLE | \$225,012,500.00 | / | 15 | (B) |
| | | | | \$17,308,653.85 |

** Where rural and urban indicators are reported, count as one service category

Step 3 Calculate Annual Average Performance (AAP) for each Quality of Service Indicator

Add Monthly results for each indicator / 12 (where not reported = 0%)

| | | | | |
|----------------|--------|---|----|--------------|
| EXAMPLE | | | | (C) |
| INDICATOR 1 | 1035.6 | / | 12 | 86.30 |
| INDICATOR 2 | 955.4 | / | 12 | 79.62 |
| INDICATOR 3 | 1114.5 | / | 12 | 92.88 |
| INDICATOR 4 | 1095.2 | / | 12 | 91.27 |
| INDICATOR 5 | 828.5 | / | 12 | 69.04 |
| INDICATOR 6 | 922.6 | / | 12 | 76.88 |
| ETC | | | | |

**Retail Quality of Service Adjustment Plan
Illustrative Calculations (cont'd)**

Step 4 Calculate the AAP Ratio (AAPR) for each indicator compared to the Q of S standard

$AAPR = (AAP / Q \text{ of } S \text{ standard}) * 10$ (maximum AAPR = 10)

| EXAMPLE | AAP (C) | * | Standard | AAP Ratio (D) |
|----------------|--------------------|----------|-----------------|--------------------------|
| INDICATOR 1 | 86.30 | / | 90 | 9.59 |
| INDICATOR 2 | 79.62 | / | 80 | 9.59 |
| INDICATOR 3 | 92.88 | / | 90 | 10 |
| INDICATOR 4 | 91.27 | / | 90 | 10 |
| INDICATOR 5 | 69.04 | / | 90 | 7.67 |
| INDICATOR 6 | 76.88 | / | 80 | 9.61 |
| ETC | | | | |

Step 5 Calculate the Quality of Service Adjustment (QSA) for each indicator per table below

$QSA = AAPR * \text{Standard Adjustment (SA) percent} * MAV$

EXAMPLE

$AAPR \text{ per table} * SA \text{ per table} * MAV$

(B) MAV

\$15,000,833.33

| AAP Ratio (D) | SA (E) | QSA (F) |
|--------------------------|-------------------|--------------------|
| 10 | 0% | \$0.00 |
| 9.50-9.99 | 25% | \$4,327,163.46 |
| 9.00-9.49 | 30% | \$5,192,596.15 |
| 8.50-8.99 | 35% | \$6,058,028.85 |
| 8.00-8.49 | 40% | \$6,923,461.54 |
| 7.75-7.99 | 45% | \$7,788,894.23 |
| 7.50-7.74 | 50% | \$8,654,326.92 |
| 7.25-7.49 | 60% | \$10,385,192.31 |
| 7.00-7.24 | 70% | \$12,116,057.69 |
| 6.50-6.99 | 80% | \$13,846,923.08 |
| 6.00-6.49 | 90% | \$15,577,788.46 |
| 5.50-5.99 | 92% | \$15,923,961.54 |
| 5.00-5.59 | 94% | \$16,270,134.62 |
| 4.50-4.99 | 96% | \$16,616,307.69 |
| 4.00-4.49 | 98% | \$16,962,480.77 |
| 3.00-3.99 | 100% | \$17,308,653.85 |
| 2.00-2.99 | 100% | \$17,308,653.85 |
| 1.00-1.99 | 100% | \$17,308,653.85 |
| 0 | 100% | \$17,308,653.85 |

**Retail Quality of Service Adjustment Plan
Illustrative Calculations (cont'd)**

Step 5a For Rural and Urban, apply 50% of Maximum Adjustment Value to each
 $AAP * SA$
 $(AAP * SA) * (MAV/2)$

| EXAMPLE | (AAP = SA) | * | (MAV/2) | (C) |
|----------------|-------------------|----------|----------------|----------------|
| Rural | (7.75 = 45%) | * | \$8,654,326.92 | \$3,894,447.12 |
| Urban | (9.92 = 25%) | * | \$8,654,326.92 | \$2,163,581.73 |

Step 6 Add all QSA results for all indicators for the year

Competitor Quality of Service Adjustment Plan

| CLEC (ABC) | | | Achieved performance in % | | | Adjustment amount in \$ payable to CLEC (ABC) | | | Applicable Formula |
|-------------------|-------------|--|---------------------------|------------------|------------------|--|--|--|---------------------------------------|
| Indicator # | Standard | Title | Month/Y ear | Month/ Year | Month/Y ear | Month/Year | Month/Year | Month/Year | |
| 1.8 Final | 90% or more | New Unbundled Type A and B Loop Order Service Intervals Met | P(1.8) <i>i</i> | P(1.8) <i>j</i> | P(1.8) <i>k</i> | [90%-P(1.8)] <i>i</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | [90%-P(1.8)] <i>j</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | [90%-P(1.8)] <i>k</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | Formula #1 |
| 1.9 Final | 90% or more | Migrated Unbundled Type A and B Loop Order Service Intervals Met | P(1.9) <i>i</i> | P(1.9) <i>j</i> | P(1.9) <i>k</i> | [90%-P(1.9)] <i>i</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | [90%-P(1.9)] <i>j</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | [90%-P(1.9)] <i>k</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | Formula #1 |
| 1.10 Final | 90% or more | Local Number Portability (LNP) Order (Standalone) Service Interval Met | P(1.10) <i>i</i> | P(1.10) <i>j</i> | P(1.10) <i>k</i> | [90%-P(1.10)] <i>i</i> *(CLEC-specific demand for the month) * (CRTC mandated adjustment amount per event) | [90%-P(1.10)] <i>j</i> *(CLEC-specific demand for the month) * (CRTC mandated adjustment amount per event) | [90%-P(1.10)] <i>k</i> *(CLEC-specific demand for the month) * (CRTC mandated adjustment amount per event) | Not applicable for the interim regime |
| 1.11 Final | 90% or more | Competitor Interconnection Trunk Order Service Interval Met | P(1.11) <i>i</i> | P(1.11) <i>j</i> | P(1.11) <i>k</i> | [90%-P(1.11)] <i>i</i> *(CLEC-specific demand for the month) * (CRTC mandated adjustment amount per event) | [90%-P(1.11)] <i>j</i> *(CLEC-specific demand for the month) * (CRTC mandated adjustment amount per event) | [90%-P(1.11)] <i>k</i> *(CLEC-specific demand for the month) * (CRTC mandated adjustment amount per event) | Not applicable for the interim regime |
| 2.7 Final | 80% or more | Competitor Out-of-Service Trouble Reports Cleared within 24 Hours | P(2.7) <i>i</i> | P(2.7) <i>j</i> | P(2.7) <i>k</i> | [80%-P(2.7)] <i>i</i> *(CLEC-specific total tariffed charges for the month for the service in question) | [80%-P(2.7)] <i>j</i> *(CLEC-specific total tariffed charges for the month for the service in question) | [80%-P(2.7)] <i>k</i> *(CLEC-specific total tariffed charges for the month for the service in question) | Formula #2 |
| 2.8 Final | 90% or more | Migrated Local Loop Completion Notices to Competitors | P(2.8) <i>i</i> | P(2.8) <i>j</i> | P(2.8) <i>k</i> | [90%-P(2.8)] <i>i</i> *(CLEC-specific total tariffed charges for the month for the specific rate element) | [90%-P(2.8)] <i>j</i> *(CLEC-specific total tariffed charges for the month for the specific rate elements) | [90%-P(2.8)] <i>k</i> *(CLEC-specific total tariffed charges for the month for the specific rate elements) | Formula #1 |

Competitor Quality of Service Adjustment Plan (cont'd)

P(Indicator # x.y)_{i,j,k} = Performance for indicator x.y relative to month *i,j* or *k*

Formula #1: This formula applies in the case where the indicator is associated with a specific service or services for which a rate is paid by the CLEC.

Formula #2: This formula applies in the case where the indicator is associated with an activity for which no specific rate is paid by the CLEC but affects a service or services for which the CLEC pays a rate.

Indicators 1.10 and 1.11: The applicable formula for these indicators, both associated with an activity for which no specific rate is paid by the CLEC, requires the use of a mandated amount per event that will be developed in a follow up proceeding. Therefore, rate adjustments for these indicators will not be applied during the interim regime.

Notes:

Competitor Quality of Service results are to be filed quarterly. Rebates will be calculated and issued quarterly.

Any adjustments owing to a CLEC are to be provided to the CLEC within 45 calendar days following the end of each quarter (due date).

For purposes of determining rebates that are applicable for substandard service quality, the remedy is predicated on the rate paid by the entrant for the activity covered by the indicator.

Indicators 1.8, 1.9, and 2.8 are subject to formula #1 (case 1) so that the rate elements for the activities concerned would be non-recurring charges. Indicator 2.7, however, does not describe an activity for which a specific rate (or rates) is (are) paid. Rather, this would be a formula #2 (case 2) situation in which the service quality of one or more services would be affected by a substandard performance of Indicator 2.7. Thus, the monthly recurring rate of the affected service or services would be applicable for adjustment purposes.

Application of Rate Adjustment Plan for Competitors Examples

1) Indicator 1.8 (New Unbundled Type A and B Loop Order Service Intervals Met)

The set standard is 90%.

Example:

- The CLEC orders for a given month 540 new Type A loops and 210 new Type B loops all in band A
- The ILEC performance for indicator 1.8 was 84%
- The set objective was then missed by: $90\% - 84\% = 6\%$
- When the CLEC receives the bill for these loops (those delivered on time and those that were delayed), the following will be shown:

a) One time charges for the Type A and B loops:

Total charges (service charge per order) (assuming a total of 550 orders and all orders were for Business): $550 * \$46.50 = \$25,575.00$

b) Total charges (service charge per loop): $(540+210) * \$27.00 = \$20,250.00$

- The rate adjustment plan for that given month, excluding taxes, will then be applied as follows: $(90\% - 84\%) * (\$25,575 + \$20,250) = 6\% * \$45,825 = \mathbf{\$2,749.50}$

2) Indicator 1.9 (Migrated Unbundled Type A and B Loop Order Service Intervals Met)

The set standard is 90%.

The calculation of the rate adjustment is the same as for new loops in the example above.

**Application of Rate Adjustment Plan for Competitors
Examples (cont'd)**

**3) Indicator 2.7 (Competitor Out of Service Trouble Reports Cleared
within 24 Hours)**

The set standard is 80%.

Example:

- The CLEC has sustained in a given month troubles for 200 Type A loops and 10 Type B loops, all in band A.
- The performance of the ILEC for indicator 2.7 was 70%
- The set objective was missed by: $80\% - 70\% = 10\%$
- The calculation of the rate adjustment will be as follows:

Monthly rate for a Type A loop in band A: \$9.24

Monthly rate for a Type B loop in band A: \$11.59

ILEC revenue for the loops for which a trouble report was issued that month:

$$200 * \$9.24 + 10 * \$11.59 = \$1,848.00 + \$115.90 = \$1,963.90$$

Adjustment for missed standard (for trouble reports for Type A and Type B loops not cleared within 24 hours): $(80\% - 70\%) * \$1,963.90 = \mathbf{\$196.39}$

Application of Rate Adjustment Plan for Competitors Examples (cont'd)

4) Indicator 2.8 (Migrated Local Loop Completion Notices to Competitors)

The set standard is 90%

The definition of the indicator is:

The total number of migrations of local loops and the number of notifications given on time by the incumbent telephone company to the competitors, notifying that the local loop migration is complete at the facilities of the incumbent telephone company, with the percentage of notifications given on time relative to this total.

The indicator measures the completions of migrated local loops and the notifications given on time are sorted to determine the actual numbers and the percentage of notifications given on time.

Note: The unit to be adopted to calculate a rate adjustment in this case is the service charge for the local loops to be migrated and for which a completion notification was not given on time.

Example:

- The CLEC has sent 20 orders for the migration of 250 loops (200 Type A and 50 Type B all in band A) for business customers.
- The performance of the ILEC with regard to this indicator was 84%
- The service charges for the loops to be migrated is calculated as follows:
 - a) Total charge for service charge per order: $\$46.50 * 20 = \930.00
 - b) Total charge for service charge per loop: $(200 + 50) * \$27.00 = \$6,750.00$
- The rate adjustment plan for that given month will then be applied as follows:
 $(90\% - 84\%) * (\$930.00 + \$6,750.00) = 6\% * \$7,680.00 = \mathbf{\$460.80}$