



Telecom Public Notice CRTC 2005-10

Ottawa, 19 August 2005

Review of regulatory framework for the small incumbent local exchange carriers

Reference: 8663-C12-200509846 and 8663-C136-200509201

In this Public Notice, the Commission initiates a proceeding and invites comments on establishing a new regulatory framework for the small incumbent local exchange carriers that will go into effect in 2006. The proceeding will also consider the Canadian Independent Telephone Company Joint Task Force's submission of a proposed future regulatory framework.

Background

1. Historically, the small incumbent local exchange carriers (SILECs)¹ were regulated on a rate of return basis and their rates for local services were essentially subsidized from long distance revenues. This allowed the SILECs, which operate primarily in high-cost serving areas (HCSAs), to offer affordable primary exchange service (PES).
2. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000, the Commission concluded that the per-minute mechanism, based on long distance contribution, should be replaced with a mechanism based on total industry revenues. The Commission considered that a mechanism based on total industry revenues would better promote competitive equity and fairness, since it would not rely on one market segment to be the single source of the subsidy for the delivery of residential PES in HCSAs.
3. In *New regulatory framework for small independent telephone companies and related issues*, Public Notice CRTC 2001-61, 30 May 2001, the Commission initiated a proceeding to develop and implement an appropriate regulatory framework for the SILECs. The objectives of the new framework included:
 - providing the SILECs with incentives to be more efficient and innovative;
 - ensuring that the SILECs' customers continue to have access to reliable and affordable services;
 - providing the SILECs with a reasonable opportunity to earn a fair return; and
 - reducing the regulatory burden.

¹ A list of the 39 SILECs is set out in Attachment 1.

4. Based on these objectives, in *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001 (Decision 2001-756), the Commission established a new price regulation framework applicable to the SILECs that provided for annual price increases based primarily on the rate of inflation and Commission-approved pricing for similar services by the large ILECs.
5. In Decision 2001-756, the Commission set the initial price regulation period at four years. The Commission viewed the initial four-year term as a transitional period to allow the SILECs time to adjust to the financial impact of the new contribution framework as they would generally receive smaller subsidies than they had under the previous framework. The Commission also stipulated that a review of the price regulation framework should be initiated in year four of the price regulation regime.
6. In Decision 2001-756, the Commission also concluded that an appropriate direct toll (DT) cost recovery methodology and the requirement for a transition mechanism could not be determined based on the record of the proceeding. The Commission also established a consultative process led by Commission staff on the calculation and recovery of DT and network access (NA) costs. Accordingly, the Commission determined that the DT and NA rates and costs would remain frozen at the 2001 levels and that the corresponding rates would be made interim until the consultative process was completed.
7. In *Direct toll and network access costing methodology for small incumbent local exchange carriers – Follow-up to Decision 2001-756*, Telecom Decision CRTC 2005-3, 31 January 2005, the Commission replaced each of the SILECs' DT rates, which were based on Phase III costs, with a direct connection (DC) rate, an equal access (EA) charge and trunking tariffs for the facilities used to interconnect an interexchange carrier's point of interconnection with a SILEC's switch. This change applied to all the SILECs listed in Attachment 1 except for O.N.Telcom (now Ontera), NorthernTel, Limited Partnership (NorthernTel), and Cochrane Telecom Services (Cochrane). For Ontera, NorthernTel and Cochrane, the Commission approved on a final basis the DC and EA rates established in *O.N.Telcom – Implementation of toll competition and related matters*, Decision CRTC 2001-583, 13 September 2001.

Scope of the proceeding

8. On 29 July 2005, the Canadian Independent Telephone Company Joint Task Force (the Task Force), representing the 39 SILECs operating within Canada, submitted a proposal for establishing the SILECs' future regulatory framework. Included in the Task Force's submission was an additional proposal made by the Canadian Alliance of Publicly-Owned Telecommunications Systems (CAPTS) with respect to the calculations to be used to determine the HCSA subsidy for the municipally owned, tax-exempt companies.
9. In its submission, the Task Force stated that the regulatory framework established by Decision 2001-756 provided a certain level of stability to the SILECs and the simplified form of price regulation was successful in balancing the needs of each stakeholder group. The Task Force submitted that, for example, the existing framework:

- reduced the regulatory burden for all parties;
 - provided the SILECs with an important degree of financial stability; and
 - transitioned the SILECs more closely to the regulatory regime of the large ILECs.
10. The Task Force submitted that an extension of the current framework would be appropriate, provided that its proposed modifications were incorporated into the next iteration of the regulatory framework. The Task Force proposed:
- a term of four years for the new regime commencing 1 January 2006;
 - a variable productivity factor equal to the annual rate of inflation;
 - the ability to carry forward any unused rate increase room under the current regime into the new regime;
 - a maximum rate increase in any one year of \$4 per month; and
 - a staged approach to local competition that includes a requirement to file competitive tariffs for local services only in response to *bona fide* requests.
11. The Commission hereby initiates a proceeding and invites comments on establishing a new regulatory framework for the SILECs that will go into effect in 2006. The proceeding will also consider the Task Force's submission of a proposed future regulatory framework and the additional submission made by the CAPTS with respect to the calculations used to determine the HCSA subsidy for the municipally owned, tax-exempt companies.

Procedure

12. The SILECs listed in Attachment 1 are made parties to this proceeding.
13. The submissions received from the Task Force and the CAPTS regarding the future SILEC regulatory framework will be added to the record of this proceeding.
14. Other parties wishing to participate in this proceeding are required to notify the Commission of their intention to do so by **8 September 2005** (the registration date) and provide their contact information. They are required to do so by contacting the Secretary General by mail at CRTC, Ottawa, Ontario, K1A 0N2, by fax at (819) 994-0218 or by e-mail at procedure@crtc.gc.ca. They are to indicate in their notice their e-mail address where available. If such parties do not have access to the Internet, they are to indicate in their notice whether they wish to receive disk versions of hard copy filings.
15. The Commission will issue, as soon as possible after the registration date, a complete list of parties and their mailing addresses (including their e-mail addresses, if available), identifying those parties who wish to receive disk versions.

16. The Commission and the parties may address interrogatories to the SILECs with respect to the issues in this proceeding. Any such interrogatories must be filed with the Commission and served on the party in question by **19 September 2005**.
17. Responses to all interrogatories are to be filed with the Commission and served on all parties by **17 October 2005**.
18. The Commission invites all parties to file written argument with the Commission with respect to the issues in this proceeding by **31 October 2005**, serving a copy on all other parties by that date.
19. Any person who wish merely to file written comments in this proceeding, without receiving copies of the various submissions, may do so by submitting their comments in writing to the Commission by **31 October 2005**.
20. Parties may file written reply argument with the Commission, serving a copy on all other parties, by **14 November 2005**.
21. Where a document is to be filed or served by a specific date, the document must be actually received, not merely sent, by that date.
22. The Commission will not formally acknowledge comments. It will, however, fully consider all comments and they will form part of the public record of the proceeding.
23. Parties may file their submissions electronically or on paper. Submissions longer than five (5) pages should include a summary.
24. Each paragraph of submissions should be numbered.
25. Where the submission is filed by electronic means, the line *****End of document***** should be entered following the last paragraph of the document as an indication that the document has not been damaged during electronic transmission.
26. Please note that only those submissions electronically filed will be available on the Commission's website and only in the official language and format in which they are submitted.
27. The Commission also encourages parties to monitor the record of this proceeding (and/or the Commission's website) for additional information that they may find useful when preparing their submissions.

Important

28. All information submitted, including your name, e-mail address, and any other information not submitted under a claim for confidentiality, will be posted on the Commission's website. Documents received in electronic format will be posted on the Commission's website exactly as you send them, and in the official language and format in which they are received. Documents not received electronically will be available in .pdf format.

Location of CRTC offices

29. Submissions may be examined or will be made available promptly upon request at the Commission offices during normal business hours:

Central Building

Les Terrasses de la Chaudière
1 Promenade du Portage, Room 206
Gatineau, Quebec J8X 4B1
Tel: (819) 997-2429 - TDD: 994-0423
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205 Viger Avenue West, Suite 504
Montréal, Quebec H2Z 1G2
Tel: (514) 283-6607

55 St. Clair Avenue East, Suite 624
Toronto, Ontario M4T 1M2
Tel: (416) 952-9096

580 Hornby Street, Suite 530
Vancouver, British Columbia V6C 3B6
Tel: (604) 666-2111 - TDD: 666-0778
Fax: (604) 666-8322

Secretary General

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

Attachment 1

Small Incumbent Local Exchange Carriers subject to Decision 2001-756

Amtelecom Inc.	Roxborough Telephone Company Limited
Brooke Telecom Co-operative Ltd.	TBayTel
Bruce Municipal Telephone System	Tuckersmith Communications Co-operative Limited
Cochrane Telecom Services	Westport Telephone Company Limited
Dryden Municipal Telephone System	Wightman Telecom Ltd.
Execulink Telecom Inc.	CoopTel
Gosfield North Communications Co-operative Limited	La Cie de Téléphone de Courcelles Inc.
Hay Communications Co-operative Limited	La Compagnie de Téléphone de Lambton Inc.
Huron Telecommunications Co-operative Limited	La Compagnie de Téléphone de St-Victor
Kenora Municipal Telephone System	La Compagnie de Téléphone Upton Inc.
Lansdowne Rural Telephone Co. Ltd.	La Compagnie de Téléphone de Warwick
Mornington Communications Co-operative Limited	Le Téléphone de St-Liboire de Bagot Inc.
Nexicom Telecommunications Inc.	Le Téléphone de St-Éphrem inc.
Nexicom Telephones Inc.	La Corporation de Téléphone de La Baie (1993)
North Frontenac Telephone Corporation Ltd.	Téléphone Guèvremont inc.
North Renfrew Telephone Company Limited	Téléphone Milot inc.
NorthernTel, Limited Partnership	Compagnie de Téléphone Nantes inc.
Ontera	Sogetel inc.
People's Telephone Company of Forest Inc.	Prince Rupert City Telephones
Quadro Communications Co-operative Inc.	