



## Telecom Decision CRTC 2006-23

Ottawa, 27 April 2006

### **Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Direct Connection service**

Reference: 8638-C12-200304634

*The Commission **approves on a final basis**, for the period 1 June 2002 to 16 December 2003, the rates set out in paragraph 242 of Regulatory framework for second price cap period, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), for the Direct Connection (DC) service of Aliant Telecom Inc., Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications and TELUS Communications Inc. The Commission also **approves on a final basis**, effective 17 December 2003, revised rates (17 December 2003 rates) for the DC service for these companies. Consistent with Decision 2002-34, the applicable inflation minus productivity offset constraint is to be applied to the 17 December 2003 rates for the DC service for 2004 and each subsequent year.*

#### **Introduction**

1. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission made interim, as of the date of that decision, the Direct Connection (DC) service rates of Aliant Telecom Inc. (Aliant Telecom), Bell Canada, MTS Communications Inc. now MTS Allstream Inc. (MTS Allstream),<sup>1</sup> Saskatchewan Telecommunications (SaskTel) and TELUS Communications Inc. (TCI) (collectively, the incumbent local exchange carriers or ILECs).
2. In Decision 2002-34, the Commission also set out revised rates for the DC service that, in its preliminary view, should be adopted for the DC service. In *Interim rates for Access Tandem service and Direct Connection service*, Telecom Order CRTC 2002-384, 24 September 2002, as amended by Telecom Order CRTC 2002-384-1, 30 September 2002 (Order 2002-384), the Commission approved these revised rates for the DC service on an interim basis, effective 1 June 2002. Subsequently, in *Rates for co-location floor space, Direct Connection service, Wireless Access Service: Line-side Access services, and Wireless Service Providers Enhanced Provincial 9-1-1 Network Access service*, Telecom Decision CRTC 2003-12, 18 March 2003, as amended by Telecom Decision CRTC 2003-12-1, 19 November 2003 (Decision 2003-12), the Commission approved revisions to TCI's interim rates and directed the ILECs to file updated cost studies for the DC service. In *Direct Connection service*, Telecom Decision CRTC 2003-83, 17 December 2003 (Decision 2003-83), the Commission approved revisions to the interim rates of the other ILECs, effective the date of that decision, and established a process with respect to the approval of rates for the DC service on a final basis.

<sup>1</sup> Manitoba Telecom Services Inc., the parent company of MTS Communications Inc., acquired all of the issued and outstanding shares of Allstream Inc. effective 4 June 2004. As part of the transaction, MTS Communications Inc., MTS Media Inc., and Allstream Corp. amalgamated effective 4 June 2004 to form a company operating under the name MTS Allstream Inc.

3. The DC service is a toll interconnection service that provides Alternate Providers of Long Distance Service (APLDS) with the capability to exchange toll traffic with an ILEC through direct interconnection at the ILEC's local DC switch. Service providers that use an ILEC's Access Tandem (AT) service also use the DC service.

## **Background**

4. In Decision 2002-34, the Commission noted that, in *Unbundled rates to provide equal access*, Telecom Decision CRTC 97-6, 10 April 1997, as amended by Telecom Decision CRTC 97-6-1, 24 April 1997 (Decision 97-6), it adopted a uniform DC rate of \$0.007 per-connect minute per-end (per-minute) for each ILEC excluding SaskTel, as SaskTel was not subject to the Commission's jurisdiction at that time. Subsequent to Decision 97-6, the Commission issued a letter on 9 March 2000 entitled *Rates lowered for direct connection service* (9 March 2000 letter) in which it reduced the ILECs' DC per-minute rate of \$0.007 to \$0.003.
5. In the proceeding that led to the 9 March 2000 letter, each ILEC except SaskTel provided revised Phase II cost studies for the DC service (January 2000 cost studies).
6. In *Direct connect rate approved for SaskTel*, Order CRTC 2000-1080, 1 December 2000 (Order 2000-1080), the Commission approved a DC rate of \$0.005 per-connect minute per-end (per-minute) for SaskTel. The Commission concluded that a DC rate of \$0.005 per-minute was appropriate for SaskTel to recover the associated Phase II costs and to provide sufficient contribution to recover fixed common costs. SaskTel provided a Phase II cost study in the proceeding that led to Order 2000-1080 (SaskTel's 2000 cost study).
7. In Decision 2002-34, the Commission also established two categories of Competitor Services in order to clarify the pricing treatment of these services. Category I Competitor Services comprise those services that are in the nature of an essential service, and Category II Competitor Services are those services developed for use by telecommunications service providers, other than services in the nature of an essential service. The ILECs' DC service was classified as a Category I Competitor Service on a preliminary basis in Decision 2002-34 and on a final basis in *Follow-up to Regulatory framework for second price cap period, Telecom Decision CRTC 2002-34 – Service basket assignment*, Telecom Decision CRTC 2003-11, 18 March 2003, as amended by Telecom Decision CRTC 2003-11-1, 23 May 2003. In Decision 2002-34, the Commission determined that rates for a Category I Competitor Service should generally be based on the service's Phase II costs plus a mark-up of 15 percent.
8. When the Commission made the ILECs' rates for the DC service interim in Decision 2002-34, it expressed the preliminary view in paragraph 242 of that decision that it would be appropriate to adopt for each ILEC the per-minute rates for the DC service set out in that paragraph, which were based on Phase II costs plus a mark-up of 15 percent. The Commission also established process for parties to comment on this preliminary view.
9. In Order 2002-384, the Commission approved on an interim basis, effective 1 June 2002, the rates for the DC service set out in paragraph 242 of Decision 2002-34.

10. In Decision 2003-12, the Commission approved revised rates on an interim basis, effective 1 June 2002, for the DC service of TCI operating in Alberta (TCI-AB) and TCI operating in British Columbia (TCI-BC). These revised rates for TCI-AB and TCI-BC were based on the previous interim rates as adjusted to reflect the application of the inflation minus productivity offset (I-X) constraint introduced in Decision 2002-34.
11. In Decision 2003-12, the Commission also noted that the revised cost studies filed by the ILECs for the AT service in 2002 showed significant cost decreases when compared to the initial cost studies filed in the proceeding that led to Decision 97-6. In view of this, the Commission directed each ILEC to file revised cost studies for the DC service within 60 days of the date of Decision 2003-12.
12. Bell Canada and Aliant Telecom (Bell Canada et al.), SaskTel and TCI filed updated DC cost studies dated 20 May 2003. MTS Allstream filed an updated cost study dated 6 June 2003. Aliant Telecom filed separate cost studies and rates for each of its operating regions: Aliant Telecom operating in New Brunswick (Aliant Telecom-NB), Aliant Telecom operating in Nova Scotia (Aliant Telecom-NS), Aliant Telecom operating in Prince Edward Island (Aliant Telecom-PEI) and Aliant Telecom operating in Newfoundland and Labrador (Aliant Telecom-NL). TCI filed a single cost study for TCI-AB and TCI-BC.
13. Having regard to the cost studies filed by the ILECs in response to Decision 2003-12, in Decision 2003-83, the Commission approved on an interim basis, effective 17 December 2003, revised rates for the DC service of Aliant Telecom, Bell Canada, MTS Allstream and SaskTel. The Commission noted that TCI's cost study did not contain the same level of detail as those filed by the other ILECs and directed TCI to file separate cost studies for TCI-AB and TCI-BC within 30 days of the date of that decision. TCI filed the required cost studies on 16 January 2004.
14. The cost studies filed by Bell Canada et al., MTS Allstream, SaskTel and TCI in response to Decision 2003-12 and Decision 2003-83 are referred to in this Decision as "the 2003 cost studies."

### **Process**

15. The procedure to review the ILECs' revised costs and rates for the DC service established in Decision 2003-83 was supplemented by Commission letters dated 30 June 2005 and 26 July 2005. Interrogatories were addressed to the ILECs dated 16 February 2004. Supplementary interrogatories were addressed to the ILECs dated 26 July 2005.
16. Comments were received from MTS Allstream, on behalf of itself and Rogers Telecom Inc. (the Competitors), dated 16 September 2005. Reply comments were filed by Bell Canada et al. and SaskTel dated 30 September 2005 and by TCI dated 4 October 2005.

## **General costing issues**

### ***Approach to updated costing methods and information***

17. The Commission notes that Phase II costing methods (costing methods) may require adjustment over time. For example, in *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000, the Commission introduced a subsidy revenue-percent charge to be paid by certain telecommunications service providers. As a result of the introduction of this subsidy revenue-percent charge, the ILECs were subsequently required to include an explicit cost associated with this revenue-percent charge in their Phase II cost studies. Further, in *Primary inter-exchange carrier processing charges review*, Telecom Decision CRTC 2004-72, 9 November 2004 (Decision 2004-72), the Commission considered it appropriate to include marketing-related portfolio expenses in the ILECs' Phase II cost studies and required Bell Canada, Aliant Telecom, SaskTel and MTS Allstream to include portfolio expenses in their cost studies based on the use of a portfolio expense factor.
18. The Commission considers that in order to provide an accurate representation of the cost of a service over a study period, cost studies should generally use the most accurate cost information available and current costing methods, including ongoing changes to costing methodologies.
19. Accordingly, in this Decision, the Commission adjusts the ILECs' 2003 cost studies to reflect appropriate cost inclusions and costing methods, as set out below.

### ***TCI's proposed study period***

#### ***Positions of parties***

20. The Competitors submitted that while Bell Canada, Aliant Telecom, MTS Allstream and SaskTel used a five-year study period from 2003 to 2007, TCI used a three-year study period from 2003 to 2006. The Competitors requested that, consistent with the Commission's recent practice for Category I Competitor Services, the Commission approve TCI's final rates for the DC service based on a five-year study period.
21. TCI submitted that it used a three-year study period due to the uncertainty associated with demand forecasts for future years, potential changes in technology and uncertainty associated with predicting cash flows into the future.

### **Commission's analysis and determination**

22. The Commission notes that the study period is generally designed to capture the service's significant cash flows and is typically between three and five years. The Commission further notes that because TCI's cost study did not include costs causal to the service, the per-minute DC costs would not be expected to vary significantly depending on the length of the study period chosen. The Commission therefore considers that TCI's per-minute DC costs will not vary significantly depending on the study period length.

23. Accordingly, the Commission accepts TCI's 2003 cost study for the DC service based on a three-year study period.

***SaskTel's average working fill factors (AWFFs)***

*Positions of parties*

24. The Competitors submitted that the level of the AWFFs used by SaskTel for umbilical link electronics in Bands C, E, F and G and for remote switching centres (RSCs) in Bands E, F and G were much lower than the comparable AWFFs used by other ILECs. In the Competitors' view, SaskTel's AWFFs implied that the facilities in question would never require demand-driven relief and that, as a result, these facilities were not causal. The Competitors submitted further that it would be reasonable to either use a deemed AWFF of 80 percent and treat the facilities as causal, or exclude these facilities from SaskTel's costs for the DC service. The Competitors also submitted that either of these adjustments would affect any associated expense or other capital cash flows driven by umbilical link electronics and RSC capital cash flows.
25. SaskTel submitted in reply that the Commission should dismiss the Competitors' proposal to adjust the AWFFs. SaskTel submitted that the AWFFs in question were determined during an extensive study in 2000 and represented forward-looking AWFFs expected for these facilities. SaskTel argued that its proposed treatment was consistent with Directive 5.2 of *Inquiry into Telecommunications Carriers' Costing and Accounting Procedures – Phase II: Information Requirements for New Service Tariffs Filings*, Telecom Decision CRTC 79-16, 28 August 1979 (Decision 79-16) and with a 14 July 2003 Commission letter entitled *Follow-up to 18 June 2003 letter concerning Phase II costing information requirements* (14 July 2003 letter).
26. With respect to the Competitors' proposal to use a deemed AWFF of 80 percent, SaskTel submitted that the use of artificially high assumed fill factors would result in artificially lower rates for Competitor Services and would lead to an under-recovery of the incremental costs of these services. With respect to the Competitors' proposal that these facilities were non-causal, should be treated as fixed and common costs and should be recovered through the 15 percent mark-up, SaskTel argued that this could have market-distorting impacts and would require a re-examination of the basis on which the 15 percent mark-up had been developed.

**Commission's analysis and determination**

27. AWFFs are applied to the ILECs' cost estimates for equipment to recognize the spare capacity of the equipment in Phase II cost studies by apportioning the average non-service producing capacity to the per-unit cost of the service producing capacity. The Commission notes that the cost of a service varies inversely with the level of the AWFF.
28. With respect to SaskTel's AWFFs for umbilical link electronics, the Commission notes that SaskTel provided a cost sensitivity based on a minimum AWFF of 68 percent associated with its umbilical electronics equipment (68 percent AWFF cost sensitivity) and notes further that SaskTel's per-minute cost estimate in its 2003 cost study was higher than that proposed under the 68 percent AWFF cost sensitivity. In the Commission's view, this comparison implies that the AWFFs used in SaskTel's 2003 cost study were lower on average than those used in the 68 percent AWFF cost sensitivity.

29. The Commission notes that in paragraph 363 of *Competitor Digital Network Services*, Telecom Decision CRTC 2005-6, 3 February 2005 (Decision 2005-6), it determined that for cost studies that include central office (CO) optical transmission equipment, the appropriate minimum AWWF values for CO optical transmission equipment was 80 percent for Bands A and B, and 70 percent for Bands C to G. The Commission considers that the AWWFs for umbilical link electronics and RSCs would be comparable to those associated with CO optical transmission equipment. The Commission further notes that SaskTel's proposed AWWFs in its 2003 cost study are greater than 80 percent for Bands A and B, but are less than 70 percent for Bands C to G. In the circumstances, the Commission considers it appropriate to use minimum AWWFs of 70 percent for CO optical equipment for the umbilical electronics and RSCs in Bands C to G, consistent with Decision 2005-6 for this class of equipment.
30. Accordingly, consistent with Decision 2005-6, the Commission adjusts SaskTel's 2003 cost study to reflect minimum AWWFs associated with umbilical electronics and RSCs of 70 percent in Bands C, E, F and G.

### ***Equipment lives***

#### *Positions of parties*

31. The Competitors submitted that final rates for the DC service should be based on depreciation life characteristics approved in *Implementation of price cap regulation and related issues*, Telecom Decision CRTC 98-2, 5 March 1998, as amended by Telecom Decision CRTC 98-2-1, 20 March 1998 (Decision 98-2), and noted that Aliant Telecom, SaskTel and MTS Allstream had done so.
32. The Competitors submitted further that, in response to a Commission interrogatory in this proceeding, Bell Canada had provided a revised cost estimate based on revised economic parameters and equipment lives. The Competitors noted that under the revised assumptions, Bell Canada's proposed per-minute DC cost estimate had increased by 24 percent from its original submission. The Competitors also submitted that TCI used what the Competitors considered to be economic lives in its DC cost studies. The Competitors noted that the Commission had stated in Decision 2005-6 that it considered it appropriate to adopt one set of accounting plant lives for TCI, applicable to both TCI-AB and TCI-BC, and had used TCI-AB's accounting lives to determine TCI's estimates for its Competitor Digital Network (CDN) service. The Competitors suggested that, if the Commission wished to use a single set of lives for TCI-AB and TCI-BC, the only method for arriving at such lives that would be consistent with Decision 98-2 would be to derive weighted average lives based on the two sets approved in Decision 98-2.
33. Bell Canada et al. submitted that it used Decision 98-2 equipment lives in Bell Canada's and Aliant Telecom's 2003 cost studies. In reply to the Competitors' comments regarding Bell Canada's revised cost study provided in response to a Commission interrogatory that relied on revised equipment lives, Bell Canada et al. submitted that the most up-to-date expected equipment life information should be used if the resulting cost was to reflect current circumstances.

34. TCI argued that in view of the Commission's determinations in Decision 2005-6, the Competitors' request to develop a single set of equipment lives based on a weighted average of the lives approved for TCI-AB and TCI-BC in Decision 98-2 should be dismissed.

#### **Commission's analysis and determinations**

35. The Commission notes that, consistent with current costing practice, Bell Canada et al., MTS Allstream and SaskTel used accounting plant lives approved in Decision 98-2 in their 2003 cost studies. The Commission further notes that TCI used economic lives in its 2003 cost studies but that it did not justify its departure from the Commission's general policy with respect to the use of accounting plant lives. The Commission therefore considers it appropriate to adjust TCI's 2003 cost studies to reflect TCI's approved accounting plant lives.
36. Accordingly, the Commission adjusts the equipment lives in TCI's 2003 cost studies to reflect TCI's approved accounting plant lives. The Commission considers that no adjustment is required in respect of the 2003 cost studies of Bell Canada et al., MTS Allstream and SaskTel.

#### **Capital costing issues**

##### *DC demand and cost causality*

##### *Positions of parties*

37. The Competitors argued that the switching-related components would not require demand-driven relief or provisioning of additional facilities. The Competitors submitted therefore that these costs were not causal to the DC service and should be excluded from the ILECs' 2003 cost studies. The Competitors submitted further that the other capital and expense costs impacted by switching-related cash flows should be reduced accordingly.
38. The Competitors submitted that the critical factor in determining causality with respect to fungible<sup>2</sup> and shared facilities was whether overall demand for all services provisioned using these facilities was increasing, not whether demand for a specific service was increasing.
39. The Competitors submitted that the increasing use of voice over Internet protocol (VoIP) and its emergence as a significant alternative to circuit-switched technology, in both toll and local retail markets, raised doubt as to whether it could be assumed that demand for the DC functionality was growing. The Competitors submitted further that the decline in the number of retail circuit-switched-access lines provided by ILECs for reasons such as the replacement of fax lines by e-mail, the migration of primary or secondary lines to wireless, the provision of access independent VoIP services, and the entrant or ILEC access-dependent VoIP services would reduce both local and toll demand for switching-related capital equipment used to provide the DC service. The Competitors also noted that Aliant Telecom, Bell Canada, SaskTel and TCI had not reflected the impact of VoIP in their demand forecasts for the DC service.

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<sup>2</sup> A facility is fungible if there is use for the facility for other services offered by the company, and therefore, the use of the facility by the DC service would cause or advance the purchase of an additional new facility elsewhere in the company for other company services.

40. Bell Canada et al. submitted that Bell Canada's all-carrier demand<sup>3</sup> for the DC service grew over the 2003 to 2005 period, and that growth in alternative services would not be expected to cause a decline in demand for the DC service in the next two years. Bell Canada et al. argued that the issue raised by Competitors was not applicable to Bell Canada's circumstances.
41. Bell Canada et al. submitted further that, although MTS Allstream had forecast a decline in demand for its DC service, MTS Allstream's cost study showed significant levels of switch-related costs. Bell Canada et al. submitted therefore that negative demand growth had little, if any, effect on the unit costs for the DC service. Bell Canada et al. argued that, even if ILECs faced declining demand for the DC service, they should be permitted to recover the costs associated with this functionality.
42. SaskTel submitted that there was a slight decrease in its demand for the DC service from 2002 to 2005, resulting from some large APLDS moving their traffic to line-side toll interconnection arrangements. SaskTel submitted further that these line-side interconnection arrangements nevertheless required local switch resources. SaskTel submitted that the trend to use wireless service to make long distance calls in place of wireline services that was implicit in their demand forecasts would not change materially over the next three years. SaskTel also submitted that the adoption of VoIP was not expected to have a material impact on the demand for the DC service.
43. SaskTel argued that evidence of a sustained drop in demand for all services that used local switching equipment would be required to exclude an entire category of costs like switching costs. SaskTel submitted that the demand for its DC service did not show a consistent material decline.
44. TCI submitted that switching equipment in the DC cost study was fungible and that it included only forward-looking traffic-driven switching related costs for the DC service, as adjusted to reflect changes in demand. TCI submitted that its cost studies reflected the total all-carrier demand over the study period, not just the incremental all-carrier demand over that period.

#### **Commission's analysis and determinations**

45. The Commission notes that the ILECs currently provide several retail services and Competitor Services other than the DC service that rely on switch-related components of the type used to provide the DC service, and that the overall demand for these services is not expected to decline over the remainder of the study period.
46. Accordingly, the Commission finds that switch-related components used to provision the DC service are fungible and that, consistent with current costing practice for fungible facilities, the associated capital costs should be determined using forward-looking traffic-driven switching-related costs.

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<sup>3</sup> "All-carrier demand" refers to the combined demand of APLDS and the ILEC.



### ***Impact of changing traffic distributions***

#### *Positions of parties*

47. The Competitors submitted that, in determining their capital costs for the DC service, Bell Canada, Aliant Telecom, MTS Allstream and SaskTel had applied a factor to convert annual traffic demand into busy-hour traffic demand. The Competitors noted that TCI had applied a similar conversion factor directly to demand.
48. With respect to the busy-day-of-the-month factor, the Competitors noted that, in their 2003 cost studies, Bell Canada et al. had acknowledged that the current toll calling demand might be more uniform than implied by the traditional busy-day-of-the-month factor and had judgmentally adjusted this factor to 1/22 of the total month's traffic instead of using the traditional factor of 1/20. The Competitors submitted that this was a conservative assumption. The Competitors submitted that although SaskTel had not provided the specific factor, it appeared that it had used the same factor as Bell Canada et al. and MTS Allstream.
49. The Competitors noted that, by contrast, TCI's proposed factor to convert annual demand to busy-hour demand was based on the traditional approach and reflected the busy-day-of-the-month-factor of 1/20. The Competitors submitted that TCI's factor should similarly be adjusted to 1/22.
50. TCI submitted that it opposed the adjustment for the calculation of the busy-day-of-the-month proposed by the Competitors. In TCI's view, the magnitude of the proposed adjustment required a more detailed traffic study before it should be applied to its DC cost studies.
51. The Competitors proposed further that the ILECs' busy-hour-of-the-day factor of 1/10 should be adjusted to reflect 15 percent growth in non-busy-hour traffic relative to busy-hour traffic since the early 1990s. The Competitors argued this adjustment was required to reflect the changed distribution in peak and off-peak traffic since the early 1990s, which was due to the introduction in 1998 of toll calling plans that initially provided unlimited, flat rate off-peak calling, and the subsequent prevalence of plans that did not distinguish, from a rating perspective, between daytime and evening calling.
52. With respect to the traffic analyses undertaken by Bell Canada and SaskTel, the Competitors submitted that these studies did not constitute an appropriate alternative measure of busy-hour volumes since one month of traffic was not sufficient to measure the busy-hour due to seasonality and other factors. The Competitors submitted further that, assuming off-peak traffic had grown as a proportion of the total traffic and if, as Bell Canada and SaskTel argued, the proportion of busy-day traffic represented by the busy-hour remained unchanged, this would imply either that off-peak traffic had not grown as a proportion of busy-day traffic, unlike in the case of most other days, or that busy-hour traffic was growing as fast as off-peak traffic and much faster than the rest of the business day traffic during the busy-day. The Competitors argued that neither possibility seemed likely.
53. Bell Canada and SaskTel submitted that they had reviewed their current busy-hour traffic distribution information to determine if the proportion of busy-hour traffic had changed since 1992. SaskTel noted that it had conducted a busy period traffic study based on April 2003

data. Bell Canada also noted that it had examined the proportion of busy-hour traffic in the month of September 2004. Bell Canada et al. submitted that, in both cases, the results indicated that their busy-hour traffic contributed about 10 percent of the daily traffic volumes and had not changed since 1992. Bell Canada et al. argued that the distribution of peak and off-peak was only relevant if a change in distribution affected the volume carried in the busy-hour. Bell Canada et al. submitted that it was the growth in the busy-hour traffic that caused a requirement for additional facilities to be provisioned, and the Competitors had presented no evidence that busy-hour demand had declined relative to the demand in other hours in the busy-day.

54. With respect to the Competitors' submission that Bell Canada's and SaskTel's traffic analyses should not be relied on, Bell Canada et al. noted that a one-month analysis undertaken by Bell Canada and SaskTel provided a general sense of accuracy vis-à-vis the Competitors' allegations regarding busy-hour demand. They further argued that these analyses provided real data on busy-hour volumes, which were considerably more pertinent than the Competitors' assertions about traffic distribution based on unverifiable changes to peak and off-peak traffic volumes that allegedly caused changes to busy-hour traffic.
55. Bell Canada et al. argued that in light of the above and without factual evidence of significant changes in busy-hour traffic volumes, the Competitors' proposed adjustment for busy-hour-of-the-day distribution should not be adopted.
56. TCI submitted that it opposed the adjustment for the calculation of the busy-hour-of-the-day proposed by the Competitors. In TCI's view, the magnitude of this adjustment required a more detailed traffic study before it should be applied to its DC cost studies. TCI opposed this proposed adjustment in the absence of a supporting traffic study.

#### **Commission's analysis and determinations**

57. The Commission notes that ILECs provision their networks' switching and trunking facilities in a manner that meets growth in their peak calling periods, typically, demand in the busy-hour. The Commission also notes that the ILECs generally determine the causal incremental capital costs associated with network services such as the DC service by estimating the costs of additional facilities to be provisioned to meet this demand growth in the busy-hour. As part of this costing process, annual demand for the DC service is converted into busy-hour demand by dividing the annual demand by 12 months, and then applying the busy-day-of-the-month factor and the busy-hour-of-the-day factor.
58. With respect to the busy-day-of-the-month factor, the Commission notes that in this proceeding, Bell Canada et al., MTS Allstream and SaskTel proposed to use a busy-day-of-the-month factor of 1/22, rather than the traditional value of 1/20. The Commission also notes that Bell Canada et al. acknowledged that the current distribution of demand within the month may be more uniform than that implied by the traditional conversion factor of 1/20.

59. The Commission further notes that there have been significant changes in the toll market since the early 1990s, including reductions in toll rating plans and toll rates and, related to the rate reductions, significant increases in both peak and off-peak toll demand. The Commission considers it reasonable to assume that there have been increases in the off-peak traffic relative to peak traffic. The Commission considers it likely that toll traffic patterns are more uniform across the days of the month now than they were in the early 1990s. The Commission therefore concludes that a busy-day-of-the-month factor of 1/22 is appropriate for Bell Canada et al., MTS Allstream and SaskTel.
60. The Commission notes that, by contrast with the other ILECs, TCI proposed the use of the traditional value of 1/20 for this factor in its cost studies and argued that it would need to conduct traffic studies to determine the appropriate revised busy-day-of-the-month factor. However, the Commission notes that TCI did not provide any supporting evidence (e.g. traffic study) to demonstrate that Bell Canada et al., MTS Allstream and SaskTel's proposed revision to the busy-day-of-the-month factor would be inappropriate for TCI. In light of this, the Commission concludes that, consistent with the other ILECs, it would be reasonable to use a busy-day-of-the-month factor of 1/22 for TCI.
61. Accordingly, the Commission adjusts TCI's 2003 cost studies to reflect a busy-day-of-the-month factor of 1/22. The Commission notes that, as a result of its change to reflect a busy-day-of-the-month factor of 1/22, TCI's proposed DC capital costs have been reduced by 9.1 percent.
62. The Commission notes that the ILECs assumed a busy-hour-of-the-day factor of 1/10 in their cost studies for the DC service. This factor converts the busy-day demand to the demand in the busy-hour and, while a uniform distribution of demand throughout the day would imply a factor of 1/24, demand is not uniform throughout the day and tends to be greater during business hours. The Commission notes that, while the ILECs have traditionally assumed that the busy-hour represented 1/10 of the day's total demand, the Competitors submitted that demand in the busy hour would decline relative to the total day demand if there was less growth in peak period traffic relative to off-peak period traffic.
63. While, as noted above, the Commission considers it reasonable to assume there have been increases in the off-peak traffic relative to peak traffic since the early 1990s, this does not necessarily imply that busy-hour demand has declined relative to the other hours in the busy-day. The Commission notes that the ILECs provided two recent traffic studies based on data using busy-hour volumes that support the continued use of the traditional busy-hour-of-the-day factor of 1/10. The Commission further considers that the Competitors did not demonstrate that the traffic studies submitted by Bell Canada and SaskTel do not provide a fair representation of the current percentage of busy-hour traffic relative to the total day traffic.
64. Accordingly, the Commission has not adjusted the busy-hour-of-the-day factor of 1/10 of the day's traffic used by the ILECs in their 2003 cost studies.

### ***Growth technology costs for switch trunk terminations***

#### *Positions of parties*

65. The Competitors noted that, in their 2003 cost studies, Aliant Telecom (for each of its operating regions), Bell Canada and MTS Allstream determined their switching costs for the DC service based on an assumed mix of Digital Trunk Controller (DTC) and Spectrum Peripheral Module (SPM) technologies as the growth technology. The Competitors noted further that SaskTel's 2003 cost study assumed the exclusive use of DTC technology. However, the Competitors also noted that TCI's 2003 cost studies assumed the exclusive use of SPM technology.
66. The Competitors submitted that TCI's switching costs were substantially greater than those of other ILECs for the DC service and that TCI's rates should reflect the exclusive use of DTC as the growth technology. The Competitors submitted that until TCI provided cost information with respect to the exclusive use of DTC technology, TCI's final DC rates should reflect Bell Canada's per-minute switching costs. The Competitors submitted that responses to a Commission interrogatory indicated that, assuming the exclusive use of DTC technology, the per-minute DC switching costs had declined as follows: 22 percent for Aliant Telecom-NB, 20 percent for Aliant Telecom-NS, 24 percent for Aliant Telecom-NL, 7 percent for Aliant Telecom-PEI, 6 percent for Bell Canada and 5 percent for MTS Allstream.
67. TCI submitted that it deployed SPM technology for several reasons in addition to space considerations and that SPM technology's integrated echo-cancelling functionality reduced the need for multiple network elements, including multiplexers, digital cross connect and main distribution facilities, which reduced overall operating costs.

#### **Commission's analysis and determinations**

68. The Commission notes Bell Canada's submission on behalf of itself, Aliant Telecom and SaskTel in the proceeding initiated in Decision 2002-34 to consider rates for the ILECs' AT service that, while Aliant Telecom-NB's and Aliant Telecom-NS's use of SPM trunk termination technology had resulted in greater per-minute AT switching costs, that choice also produced savings related to building space and power consumption. The Commission notes, however, that in *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for the Access Tandem service*, Telecom Decision CRTC 2006-22, 27 April 2006 (Decision 2006-22) it noted that ILECs do not generally experience space constraints in their COs. In that decision, the Commission also considered that power consumption costs related to the trunk termination components would be small relative to total trunk termination costs.
69. The Commission notes that the DC switching capital costs for Aliant Telecom, Bell Canada and MTS Allstream were developed based on an assumed mix of DTC and SPM trunk termination technologies. The Commission further notes a comparison of these ILECs' costs with their costs developed based on the exclusive use of DTC technology revealed that the use of a mix of DTC and SPM technologies leads to greater costs than the exclusive use of DTC technology. As in the case of the AT service, the Commission therefore considers that the trunk termination costs reflected in the switching capital costs in the 2003 DC cost studies of Aliant Telecom, Bell Canada and MTS Allstream are not appropriate at this time.

70. Accordingly, the Commission adjusts the switching capital costs in the 2003 cost studies downward by 22 percent for Aliant Telecom-NB, 20 percent for Aliant Telecom-NS, 24 percent for Aliant Telecom-NL, 7 percent for Aliant Telecom-PEI, 6 percent for Bell Canada and 5 percent for MTS Allstream to reflect the exclusive use of DTC technology as the growth technology for the purpose of estimating trunk termination capital costs.
71. The Commission notes that TCI developed its switching capital costs for the DC service based on the exclusive use of SPM technology as the growth technology. The Commission further notes TCI's submission that, in addition to space considerations, it would benefit from the SPM technology's integrated echo-cancelling functionality, which would reduce the need for multiple network elements. The Commission considers that these network elements are used to provide the DC service, and therefore, any additional cost savings due to the use of SPM technology should already be captured in the capital costs for the DC service.
72. The Commission notes that the Competitors requested that TCI's rates for the DC service reflect the exclusive use of DTC as the growth technology. The Commission notes that TCI's per-minute switching capital costs were greater than those of the other ILECs and that TCI was unable to provide a cost sensitivity based on the exclusive use of DTC technology.
73. As noted, a comparison of Aliant Telecom's, Bell Canada's and MTS Allstream's per-minute switching costs revealed that the use of a mix of DTC and SPM technologies leads to greater costs than the exclusive use of DTC technology. The Commission considers that the per-minute switching costs for these ILECs would be even greater if these ILECs had developed their costs based on the exclusive use of SPM technology, as TCI did in its 2003 cost studies. The Commission notes that the average percentage reduction of Bell Canada's, Aliant Telecom's and MTS Allstream's switching capital costs based on the exclusive use of DTC technology compared to the proposed mix of DTC and SPM technologies is 11 percent. Further, the Commission considers that it would be appropriate to apply this percentage reduction to TCI's switching capital costs.
74. Accordingly, the Commission reduces TCI's switching capital costs for TCI-AB and TCI-BC by 11 percent to reflect the exclusive use of DTC technology as the growth technology for the purpose of estimating trunk termination capital costs.

### **Expense costing issues**

#### ***Portfolio expenses***

##### *Positions of parties*

75. The Competitors noted that the Commission had recently been requiring the inclusion of portfolio expenses in Phase II cost studies, such as in Decision 2005-6 and Decision 2004-72.
76. The Competitors noted that, in *TELUS Communications Inc. – Application to review and vary Decision 2000-745 and Decision 2001-238*, Telecom Decision CRTC 2002-67, 25 October 2002 (Decision 2002-67), the Commission stated that it would be appropriate to review whether to

include portfolio expenses in Phase II costs and that, in the interim, all ILEC Phase II costs studies were to include portfolio expenses. The Competitors submitted that, until this matter had been reviewed, it was incumbent on the Commission to ensure that portfolio expenses included in Competitor Service costs studies were very moderate.

77. The Competitors submitted that TCI's portfolio expense factors used to develop maintenance expenses for TCI-AB and TCI-BC were significantly greater than Bell Canada's factor of 3.6 percent. They submitted further that the use, for TCI, of the 8.25 percent factor established for SaskTel would be generous, given the greater efficiencies of TCI, which flow from its size and the nature of its territory, and recommended that this factor be used for TCI.
78. The Competitors noted that Bell Canada used a portfolio expense factor of 9.7 percent, which needed to be revised to the current factor of 3.6 percent when the final rates for the DC service were set.
79. In reply to the Competitors' request to reduce the portfolio expense factor to 8.25 percent until a review of the Phase II costing methodology was completed, TCI argued that its portfolio costs were compliant with the Commission's determinations in Decision 2002-67. Regarding the Competitors' comparison of TCI's portfolio expense factor with those of the other ILECs, TCI submitted that the other ILECs did not have the level of detail required to develop the costs to the level that TCI did.

#### **Commission's analysis and determinations**

80. The Commission notes that, while Aliant Telecom, MTS Allstream and SaskTel did not include portfolio expenses in their 2003 cost studies, in Decision 2004-72 the Commission required ILECs to include portfolio expenses in their regulatory cost filings by applying the portfolio expense factors set out in that decision to expenses in the ILECs' Phase II cost studies. These portfolio expense factors are 3.6 percent for Bell Canada and Aliant Telecom, 1.78 percent for MTS Allstream and 8.25 percent for SaskTel. In light of this costing method change, the Commission considers it appropriate to adjust expenses in these ILECs' 2003 cost studies to reflect the inclusion of the portfolio expense factors applicable to each ILEC.
81. The Commission notes that Bell Canada used a portfolio expense factor of 9.7 percent in its 2003 cost study, which is greater than the portfolio expense factor of 3.6 percent adopted for Bell Canada in Decision 2004-72. The Commission therefore considers it appropriate to adjust expenses in Bell Canada's 2003 cost study to reflect the inclusion of a portfolio expense factor of 3.6 percent.
82. Accordingly, the Commission adjusts expenses in the 2003 cost studies of Aliant Telecom, Bell Canada, MTS Allstream and SaskTel to reflect the inclusion of the following portfolio expense factors for each ILEC: 3.6 percent for Aliant Telecom, 3.6 percent for Bell Canada, 1.78 percent for MTS Allstream and 8.25 percent for SaskTel.
83. The Commission notes that in Decision 2004-72 it did not require TCI to use a portfolio expense factor as TCI's cost studies included portfolio expenses in its direct and indirect expenses. The Commission notes that the total portfolio expenses TCI proposed in its

2003 cost studies in this proceeding are greater than those of the other ILECs. The Commission notes, based on a cost sensitivity excluding portfolio expenses, that TCI did not include portfolio expenses in its 2003 cost studies expense items other than the maintenance expense line item. Accordingly, except for TCI's maintenance expense line item, which is discussed below, the Commission has not adjusted the portfolio expenses in TCI's 2003 cost studies.

### ***Maintenance expenses***

#### *Positions of parties*

84. The Competitors submitted that TCI had used maintenance expenses of the individual business line (IBL) service as a proxy for the DC service. The Competitors further submitted that this proxy would include elements that were not part of the DC service, such as switching and transport equipment related to interoffice transmission facilities, access remotes and umbilicals which were not included in the cost study for the DC service. The Competitors submitted that it was not apparent why the maintenance expenses for the DC service derived from the IBL service should be viewed as more accurate than maintenance expense factors applied to each asset class, which were used in the 2000 cost studies for the DC service. The Competitors noted that the difficulty was that, because TCI's Phase II costing methods no longer include data collection of maintenance costs by asset class for the DC service, TCI was unable to estimate its current maintenance costs using the same methodology as per the 2000 cost studies. The Competitors submitted that in these circumstances, the Commission was left with no option but to substitute Bell Canada's maintenance costs as a proxy for TCI.
85. TCI submitted that it had separated the local switching maintenance expense from the total IBL service maintenance expense by isolating the inside plant (i.e. switching equipment and transport electronics) from the outside plant (i.e. access loop and transport cable and support structures). TCI submitted further that it separated the inside plant maintenance expense from total maintenance expense based on the ratio of the number of employees involved in each maintenance activity. TCI argued that the switching and transport maintenance expense factor based on this approach provided an accurate proxy for the maintenance expenses of the DC service as IBL and DC services were both business category services. TCI submitted that the Competitors' proposal to use Bell Canada's maintenance expense as a proxy should be rejected by the Commission.

### **Commission's analysis and determinations**

86. The Commission notes significant differences in monthly maintenance expense estimates across ILECs, as expressed on a per-minute basis and as a percentage of capital. As the maintenance expenses relate to comparable activities undertaken by all ILECs, the Commission considers that the significant differences in these estimates among ILECs, as expressed on a per-minute basis and as a percentage of capital, are not appropriate.

87. In light of the significant differences across the ILECs' maintenance expense estimates, the Commission considers it appropriate to apply a maintenance expense cap expressed as a percentage of the present worth of annual costs to ensure that maintenance expenses are reasonable. The Commission notes that this approach is consistent with the approach adopted in Decision 2005-6 where the proposed maintenance expenses of certain ILECs were considered inappropriate and were capped at a percentage level of the associated capital.
88. The Commission notes that, excluding TCI, the ILECs' maintenance expense estimates, when expressed as a percentage of capital, varied from 5.1 percent to 11.2 percent, with an average value of 6.5 percent. The Commission considers that a maintenance expense cap equal to a maintenance expense level of 7.5 percent of capital would represent an appropriate maximum level of maintenance expenses for all ILECs, subject to an adjustment in the case of TCI. The Commission also notes that, in Decision 2006-22, it adopted this level of maintenance expense cap for the AT service.
89. The Commission notes that TCI's proposed maintenance expense included portfolio expenses, and that its proposed maintenance expenses are several times greater than those proposed by the other ILECs. The Commission also notes that TCI provided a cost sensitivity that excluded portfolio expenses from maintenance expenses. The Commission further notes the Competitors' concerns regarding the level of the portfolio expense factors used by TCI to develop its maintenance expenses, and the Competitors' submission that the portfolio expense factor established for SaskTel in Decision 2004-72 should be adopted for TCI. In the Commission's view, TCI did not adequately justify the level of the portfolio expenses proposed in its 2003 cost studies. The Commission therefore considers that it would be appropriate to adjust the level of the maintenance expense cap for TCI to reflect an appropriate level of portfolio expenses.
90. The Commission notes that, in the context of the Commission's ongoing general review of ILEC Phase II costing information requirements, TCI estimated an average portfolio expense factor of 48.65 percent.<sup>4</sup> The Commission therefore considers it appropriate to adjust TCI's 2003 cost studies by applying a portfolio expense factor of 48.65 percent to the maintenance expense cap of 7.5 percent. The Commission notes that this adjustment has the effect of increasing TCI's maintenance expense cap to 11 percent of its capital costs.
91. Accordingly, the Commission applies a maintenance expense cap of 7.5 percent of capital costs for the DC service of Aliant Telecom, Bell Canada, MTS Allstream and SaskTel, and applies a maintenance expense cap of 11 percent of capital costs for TCI's DC service.

*Aliant Telecom's service provisioning costs*

*Positions of parties*

92. The Competitors submitted that Aliant Telecom had included capital-related expenses in its service provisioning costs, such as General Supervision salary and associated loadings, administrative service costs, motor vehicle non-running costs, other tools and work equipment

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<sup>4</sup> In response to Commission interrogatories dated 14 November 2003 regarding Phase II Costing Information Requirements, by letter dated 9 January 2004, TCI provided an estimate of a portfolio expense factor of 48.65 percent using Bell Canada's portfolio factor methodology.



costs and general furniture and office equipment costs greater than \$1,500.00. The Competitors submitted further that it was not clear why these costs were causal to the DC service and that they should be treated as fixed and common costs.

93. Bell Canada et al. submitted on behalf of Aliant Telecom in reply that Aliant Telecom's capital-related expenses comprised expense items associated with the labour components of capital. Bell Canada et al. submitted further that these expenses were for indirect resources required to support direct resources required by a service and therefore were causal to those services. Bell Canada et al. argued that its treatment of these costs was consistent with Directive 4.3 of Decision 79-16 and that the Competitors' proposal to adjust Aliant Telecom's service provisioning costs should be dismissed.

#### **Commission's analysis and determination**

94. The Commission considers that Bell Canada et al.'s reply to the Competitors' proposal for an adjustment to Aliant Telecom's service provisioning costs supports the approach taken by Aliant Telecom. Accordingly, in the Commission's view, the costing adjustment proposed by the Competitors is not required.

#### *SaskTel's service provisioning costs*

##### *Positions of parties*

95. The Competitors submitted that SaskTel's service provisioning costs exceeded those of other ILECs and included activities such as providing network support, network provisioning and network planning and assigning facilities and technical support. The Competitors submitted further that SaskTel's service provisioning costs included cost elements that were inappropriate and that, at most, SaskTel's service provisioning costs should include costs associated with network provisioning and assigning facilities. The Competitors submitted that the ILECs generally recovered order processing through service order charges; that the costs associated with technical support were causal to all service collectively that used switching and routing but were not causal to the DC service or DC demand; that network planning was more related to short-term and long-term planning of future implementations of equipment or configuration, and was not causal to the DC service but was a fixed or common cost; and that network support costs appeared to be recovered through installation costs and maintenance.
96. SaskTel submitted that the majority of expenses related to technical support and network planning were not fixed costs, but rather were costs driven by the all-carrier demand for AT and DC related network facilities. SaskTel argued that technical support and network planning costs were causal to all services that used switching and routing, including the AT and DC services. SaskTel submitted that a proportion of these costs applicable to the AT and DC services combined was derived based on estimates from its activity-based costing. SaskTel further submitted that these costs were assigned to the AT and DC services based on minutes of these services.
97. With respect to the Competitors' concern that network support appeared to be captured by a combination of maintenance and capitalized installation costs, SaskTel argued that the Competitors were more concerned with double-counting than with the costs themselves.

SaskTel submitted that this was not the case. With respect to the Competitors' concern that order processing costs might be recovered through service connection charges, SaskTel submitted that these costs were causal to the DC service as the majority of these costs were related to network orders required to provision trunking between its Class 5 switches and remotes and that these orders were issued in response to overall demand for all services collectively that used transmission facilities in question. SaskTel therefore requested that the Commission dismiss the Competitors' request to adjust its service provisioning costs.

#### **Commission's analysis and determination**

98. The Commission notes that SaskTel's per-minute service provisioning costs of \$0.00023 per-minute are high compared to those of other ILECs, which are between \$0.00004 to \$0.00005 per-minute for Aliant Telecom, \$0.00004 for Bell Canada, \$0.00002 for MTS Allstream, and \$0.00005 for TCI. As the service provisioning expenses relate to comparable activities undertaken by all ILECs, the Commission considers that the significant differences in these estimates between ILECs, as expressed on a per-minute basis, are not appropriate.
99. The Commission therefore considers it appropriate to set SaskTel's service provisioning costs at a lower level of \$0.00005 per-minute, having regard to the level of per-minute cost estimates proposed by Aliant Telecom and TCI for these activities.
100. Accordingly, the Commission adjusts SaskTel's service provisioning costs to \$0.00005 per-minute.

#### **Final rates and deferral account issues**

##### *Final rates and related issues*

##### *Positions of parties*

101. The Competitors noted that TCI indicated in a letter dated 25 August 2005 that it was unable to provide responses to Commission interrogatories dated 26 July 2005 because of its labour disruption. The Competitors submitted, among other things, that there should be no further delays in the finalization of rates for the DC service and that the Commission should approve rates on a final basis for the ILECs' DC service with an effective date of 1 June 2002, the date the rates were made interim in Decision 2002-34.
102. Bell Canada et al. submitted that the Commission should adopt final rates as follows: (a) for the period 1 June 2002 to 16 December 2003, the rates approved on an interim basis in Order 2002-384 on the basis that, as of 1 June 2002, the 2000 cost studies were the best available evidence upon which to base final rates, and (b) for the period 17 December 2003 onward, the interim rates approved in Decision 2003-83, effective 17 December 2003, and that these rates should be based on the 2003 cost studies. Bell Canada et al. submitted further that any other approach to the finalization of rates for the DC service would not be equitable to the ILECs as there was no means of knowing whether the 2003 cost studies were applicable to the DC service as of 1 June 2002.

103. SaskTel submitted that the 2003 cost studies represented the appropriate cost base for finalizing rates for the DC service going forward from 1 June 2003 and that rates should not be finalized with retroactive effect based on these studies. SaskTel submitted further that the rates approved on an interim basis in Order 2002-384 should be approved on a final basis for the period 1 June 2002 to 31 May 2003. SaskTel submitted further that the I-X constraint should apply on a going-forward basis.
104. TCI submitted that the effective date for the final DC rates should be 1 June 2002.

**Commission's analysis and determinations**

105. The Commission notes that TCI provided responses to certain key interrogatories and that, in the Commission's view, it is in a position to approve rates on a final basis for each ILEC's DC service.
106. In paragraph 254 of Decision 2002-34, the Commission noted that all tariffed rates for the ILECs' services were made interim in that decision, effective 1 June 2002, and that, consequently, the changes to the Category I Competitor Service rates would be effective on that date. The Commission notes, however, that while the Competitors and TCI proposed an effective date of 1 June 2002, Bell Canada et al. proposed an effective date of 17 December 2003 and SaskTel proposed an effective date of 1 June 2003 for implementing final rates for the DC service developed based on the 2003 cost studies. The Commission notes that Bell Canada et al. also proposed that the rates set out in paragraph 242 of Decision 2002-34 should be approved on a final basis for the period 1 June 2002 to 16 December 2003 and SaskTel proposed that these rates should be approved for the period 1 June 2002 to 31 May 2003.
107. The Commission notes that, for certain other Competitor Services, it has approved rates retroactive to 1 June 2002 that were developed using cost studies conducted after that date. In these cases, the Commission applied the I-X constraint to determine proxy rates for each year prior to the initial year of the cost study on the basis that costs in each of these earlier years, and thus the rates, would be greater than those in the cost study by the amount of this constraint. In the case of the DC service, however, the Commission notes that there are two sets of cost estimates: the 2000 cost studies (comprising the January 2000 cost studies and SaskTel's 2000 cost study) and the 2003 cost studies. The Commission notes that these studies show that all ILECs' costs for the DC service declined between 2000 and 2003 and notes further that most ILECs proposed significant cost reductions, ranging from 20 to 50 percent, between the 2000 and 2003 cost studies. In the Commission's view, therefore, applying the relevant I-X constraint to rates based on the ILECs' 2003 cost studies in order to develop rates for 1 June 2002 would, for most ILECs, significantly under-estimate the level of those rates.
108. In the circumstances of this case, the Commission therefore considers that the 2003 cost studies should not be used as the basis for rates as at 1 June 2002. The Commission therefore considers that the rates for the DC service set out in paragraph 242 of Decision 2002-34 should be approved on a final basis for the period 1 June 2002 to 16 December 2003, the period during which rates based on the 2000 cost studies were in effect on an interim basis.

109. Accordingly, the Commission **approves on a final basis**, for the period 1 June 2002 to 16 December 2003, the rates set out in paragraph 242 of Decision 2002-34 for the DC service. The Commission further **approves on a final basis**, effective 17 December 2003, the rates set out in the Attachment to this Decision for the DC service (17 December 2003 rates).
110. The Commission notes that rates approved for the DC service effective 17 December 2003 are based on the ILECs' 2003 cost studies. Consistent with Decision 2002-34, the Commission finds that the applicable I-X constraint is to be applied to adjust the ILECs' 17 December 2003 rates for 2004 and each year thereafter.
111. The Commission directs each ILEC to issue, within 20 days of the date of this Decision, revised tariff pages for the DC service that reflect the Commission's determinations in this Decision.

### *Deferral account issues*

#### *Positions of parties*

112. Bell Canada et al. submitted that the Commission should not approve final rates retroactive to 1 June 2002 based on their 2003 cost studies. Bell Canada et al. submitted further that there was no means of knowing whether the costs that underlay the 17 December 2003 rates were applicable to the DC service as of 1 June 2002, and that, if the costs at 1 June 2002 were greater than the May 2003 costs used to set rates as of 17 December 2003, the companies would be unjustly deprived of revenues needed to recover those costs. Bell Canada et al. argued therefore that, if the Commission approved the 17 December 2003 rates retroactive to 1 June 2002, the ILECs should receive compensation from their deferral accounts to offset any revenue loss that was not attributable to a cost change.
113. TCI argued that the deferral account draw-down for its DC service should be determined using the 31 December 2001 demand levels and the full rate changes resulting from the Commission's decision in this proceeding, not just the difference in rates resulting in the reduction in mark-up to 15 percent. TCI submitted that the previous DC rate was not based on Phase II costs, but was a national rate of \$0.003 per-connection minute. TCI submitted further that, once its allowed going-in revenue amount was set at the beginning of the second price cap period, any revenue reductions caused by rate reductions effective at the outset of the price cap period (1 June 2002) should be offset by rate increases in other services or by a draw-down from the deferral account, which TCI had requested in this proceeding.
114. TCI submitted further that a Commission decision to deny recovery of these revenue reductions would amount to a retroactive decrease in its allowed going-in revenues and would be inconsistent with the way in which the Commission had approved the initialization of the second price cap period.

### **Commission's analysis and determinations**

115. The Commission notes that the rates approved on a final basis in this Decision for the DC service will replace the final rate of \$0.003 per-minute in effect prior to Decision 2002-34 for all ILECs except SaskTel; the Commission notes that for SaskTel the rates approved on a final

basis in this Decision for the DC service will replace the final rate of \$0.005 per-minute in effect prior to Decision 2002-34. In Decision 2002-34 the Commission determined that, because revenue losses attributable to the reduction in mark-up for Category I Competitor Services resulted from policy considerations as opposed to cost reductions, the ILECs should be compensated for revenue losses attributable to that reduction in mark-up.

116. The Commission also notes that the national \$0.003 per-minute rate in place prior to Decision 2002-34 for all ILECs except SaskTel was a uniform rate that was not based on each ILEC's Phase II cost plus the 25 percent mark-up generally specified for Category I Competitor Service at that time. The Commission therefore considers that its approval on a final basis in this Decision of ILEC-specific rates for the DC service based on Phase II costs plus a mark-up of 15 percent represents a change in pricing policy for this service. Consequently, the Commission considers that Aliant Telecom, Bell Canada, MTS Allstream and TCI should be compensated for the entire revenue loss attributable to this pricing policy change.
117. The Commission notes further that in Order 2000-1080 it approved on an interim basis a rate for SaskTel's service of \$0.005 per-minute, having regard both to SaskTel's 2000 cost study and to the range in costs for the other ILECs' 2000 cost studies. In these circumstances, the Commission considers that, consistent with the other ILECs, SaskTel should be compensated for the reduction in its rate for the DC service from \$0.005 per-minute to the rate based on Phase II costs plus a mark-up of 15 percent set out in paragraph 242 of Decision 2002-34, which is approved on a final basis in this Decision for the period 1 June 2002 to 16 December 2003.
118. Accordingly, the Commission confirms that each ILEC is to be compensated from its deferral account for the entire revenue losses associated with the reduction in its rate for the DC service from \$0.003 per-minute and, in the case of SaskTel from \$0.005 per-minute, to the rate set out in paragraph 242 of Decision 2002-34 and approved on a final basis in this Decision for the period 1 June 2002 to 16 December 2003. The Commission notes that the 17 December 2003 rates are less than the rates set out in paragraph 242 of Decision 2002-34 and that these further rate reductions are attributable to cost reductions. Accordingly, consistent with Decision 2002-34, the ILECs' associated revenue losses are not eligible for compensation from their deferral accounts.

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>*

**Final 2003 rates per-connect minute per end for the DC service**

<b>ILEC</b>	<b>Final DC Rate</b>
Aliant Telecom-NB	\$0.00128
Aliant Telecom-NL	\$0.00112
Aliant Telecom-NS	\$0.00111
Aliant Telecom-PEI	\$0.00121
Bell Canada	\$0.00097
MTS Allstream	\$0.00144
SaskTel	\$0.00157
TCI-AB	\$0.00116
TCI-BC	\$0.00117