



Telecom Decision CRTC 2007-127

Ottawa, 10 December 2007

Northwestel Inc. – Residential primary exchange service costs for Band H1

Reference: 8661-N1-200708704

In this Decision, the Commission approves revised Band H1 primary exchange service (PES) costs for Northwestel Inc. (Northwestel) and determines that Northwestel will receive an annual subsidy of \$10.7 million from the National Contribution Fund for the provision of residential PES in its high-cost Band H1, effective 1 January 2008.

Introduction

1. The Commission received an application by Northwestel Inc. (Northwestel), dated 4 June 2007, in which the company requested that the Commission revise the residential primary exchange service (PES) costs determined in Telecom Decision 2007-5 in order to calculate a revised subsidy amount for its high-cost Band H1.¹ Based on the proposed residential PES costs for its high-cost Band H1, Northwestel submitted that the revised annual subsidy to be received from the National Contribution Fund (NCF) would be \$10.7 million.
2. Northwestel requested that its proposed adjustment to the annual subsidy associated with its high-cost Band H1 be made on a prospective basis, effective 1 January 2008. Northwestel submitted that if the Commission could not render a final decision by 31 December 2007, interim approval should be given to its proposed revised subsidy amount for its high-cost Band H1 as of that date.
3. The Commission received no comments with respect to this application. The record of the proceeding closed on 27 August 2007 with the filing of Northwestel's responses to Commission interrogatories. The public record of this proceeding is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings."
4. The Commission has identified the following two issues to be addressed in its determinations:
 - I. Are the proposed monthly residential PES costs per network access service (NAS) for Band H1 appropriate?
 - II. What should the annual subsidy for Northwestel's high-cost Band H1 be?

¹ In Telecom Decision 2007-5, the Commission established a price cap regime for Northwestel which set out an explicit subsidy amount to be received from the National Contribution Fund (NCF) associated with Northwestel's residential PES in its high-cost Band H1.

I. Are the proposed monthly residential PES costs per NAS for Band H1 appropriate?

5. Northwestel supported its application with revised residential PES cost studies for Bands D and H1. Northwestel submitted that the proposed revised residential PES costs for Bands D and H1 were based on data which supported more accurate disaggregation of its residential PES costs for Bands D and H1 compared to those furnished in the proceeding leading to Telecom Decision 2007-5. Northwestel further indicated that its revised residential PES cost studies provided a more accurate reflection of prospective incremental costs for information systems, power expenses, and revised present worth of demand.

Commission's analysis and determinations

6. The Commission notes that under its revised cost study for Band H1, Northwestel's monthly residential PES cost per NAS is estimated to be \$65.35 compared to the level of \$59.21 approved in Telecom Decision 2007-5. The Commission further notes that the proposed increase in Northwestel's monthly residential PES cost for Band H1, compared to that approved in Telecom Decision 2007-5, results from a correction to the present worth of demand, revisions to information systems costs and the power expense ratio, and revised expense attributions between Northwestel's high-cost Band H1 and non-high-cost Band D based on the company's review of its time reporting and cost centre information. The Commission has reviewed Northwestel's submission and considers that the proposed change to its monthly residential PES cost per NAS for its high-cost Band H1 is appropriate.

II. What should the annual subsidy for Northwestel's high-cost Band H1 be?

7. Northwestel requested that an annual subsidy amount of \$10.7 million for its high-cost Band H1 be received from the NCF, effective 1 January 2008.

Commission's analysis and determinations

8. Based on a revised Band H1 residential PES cost of \$65.35, a 15 percent mark-up for fixed and common costs, the cost recovery of the final 2007 revenue-percent charge,² the approved residential monthly rate of \$31.33, and a deemed implicit contribution amount of \$4 per NAS per month from other local residential services, the Commission calculates that Northwestel would be entitled to \$10.7 million per year in subsidy in Band H1, which is an increase of \$1.9 million from the subsidy amount approved in Telecom Decision 2007-5. Accordingly, the Commission **approves** a revised annual subsidy of \$10.7 million for the provision of residential PES in its high-cost Band H1, effective 1 January 2008.
9. The Commission notes that when the revised subsidy amount of \$10.7 million is added to the currently approved service improvement plan funding of \$10.1 million,³ Northwestel will be entitled to annual funding of \$20.8 million, effective 1 January 2008.

² In Telecom Decision 2007-103, the Commission approved a final 2007 revenue-percent charge of 0.94 percent.

³ Approved in Telecom Decision 2007-5.

10. In light of the above, the Commission **approves** revised annual funding for Northwestel of \$20.8 million for each of the years 2008 through 2010.⁴ The Commission directs the Central Fund Administrator to remit a monthly subsidy amount equivalent to 1/12th of \$20.8 million, on a final basis, effective 1 January 2008, and on an interim basis, effective 1 January 2011.

Secretary General

Related documents

- *Final 2007 revenue-percent charge and related matters*, Telecom Decision CRTC 2007-103, 2 November 2007
- *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007

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>

⁴ Per Telecom Decision 2007-5, the current price cap regime is in effect until the end of 2010.