



## Telecom Decision CRTC 2007-33

Ottawa, 17 May 2007

### Finalization of the assignment of Northwestel Inc.'s services to the service baskets

Reference: 8638-C12-200701913

*In this Decision, the Commission finalizes the assignment of Northwestel Inc.'s services to the service baskets established in Price cap regulation for Northwestel Inc., Telecom Decision CRTC 2007-5, 2 February 2007.*

#### Background

1. In *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007 (Decision 2007-5), the Commission, among other things, set out the price cap regime applicable to Northwestel Inc. (Northwestel) and established a service basket structure which included six service baskets<sup>1</sup> with associated pricing constraints.
2. In Decision 2007-5, the Commission stated that its determinations with respect to the basket structure and pricing constraints, as well as the assignment of services to each of the baskets, took into consideration other determinations made in the Decision. The Commission stated that it relied on the service basket structure and pricing constraints set out in the Decision to provide the company with the appropriate incentives to be efficient and to provide adequate protection to consumers. The Commission considered that its approved basket structure would provide the company with adequate incentives to increase efficiencies, a degree of certainty, and a level of simplicity to the price cap framework, as well as substantially reduce the regulatory burden.
3. Parties to the proceeding that led to Decision 2007-5 were given the opportunity to comment on the Commission's assignment of services to the six service baskets.<sup>2</sup>
4. Northwestel filed its comments on 16 February 2007. Northwestel proposed that certain services that had been assigned to the Other Capped Services basket in Decision 2007-5 be reassigned to the Uncapped Services basket. The company also proposed assignments for services not dealt with in Decision 2007-5, but for which there were currently tariffs.
5. Northwestel submitted that, in *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997, *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001 (Decision 2001-756), and *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34,

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<sup>1</sup> In Decision 2007-5, the Commission established the following service baskets for Northwestel: Residential Services basket, Business Services basket, Other Capped Services basket, Services with Frozen Rate Treatment basket, Competitor Services basket, and Uncapped Services basket.

<sup>2</sup> Paragraph 155 of Decision 2007-5.

30 May 2002, as amended by Telecom Decision CRTC 2002-34-1, 15 July 2002 (Decision 2002-34), the Commission took into account a number of important considerations when designing the basket structures for the large and small southern incumbent local exchange carriers (ILECs). Northwestel submitted that these same considerations should also apply to the company, with modifications to be made only to reflect the unique operating environment of the North.

6. The Government of the Northwest Territories (GNWT) filed reply comments on 5 March 2007.
7. The Commission considers that the submissions made by Northwestel and the GNWT raise the following issues:
  - I. The reasonableness of Northwestel's proposed reassignments of a number of services from the Other Capped Services basket to the Uncapped Services basket.
  - II. The reasonableness of Northwestel's proposed assignments for services that were not dealt with in Decision 2007-5.

**I. Reassignment of services from the Other Capped Services basket to the Uncapped Services basket**

8. Northwestel proposed to reassign a number of services from the Other Capped Services basket to the Uncapped Services basket. Each of these proposals is discussed in detail below.

***A. Centrex Access and Business and Centrex Optional Features***

9. Northwestel opposed the assignment of Centrex Access service and Business and Centrex Optional Features, including Business Prestige Numbers and Web listings, to the Other Capped Services basket. Northwestel argued that the pricing constraint imposed by their inclusion in the Other Capped Services basket was more stringent than the pricing constraint on services in the Business Services basket and was not consistent with the pricing constraints established for the ILECs in the South. Northwestel submitted that these services should be assigned to the Uncapped Services basket.
10. Northwestel noted that the services in the Other Capped Services basket were constrained by the weighted average price, which cannot increase, while services in the Business Services basket were constrained by inflation overall and a 10 percent rate element constraint. Northwestel argued that Centrex Access service was a business access service with competition faced from substitute Multi-line services, including private branch exchange, key systems, and software based customer premise telephone systems. Northwestel submitted that the constraint on Centrex Access service was administratively redundant because a constraint already applied to Multi-line services and pricing of alternative services would constrain its ability to adjust Centrex Access rates independently of Multi-line services.

11. Northwestel noted that, in Decision 2002-34, the Commission assigned Centrex service to the Uncapped Services basket. Northwestel noted that the Commission considered that Centrex service was a premium business service that was used as a substitute for single-line and multi-line business local exchange services. Northwestel also noted that the Commission determined that since business services were subject to a basket constraint and a rate element constraint, the Commission did not consider it necessary to subject Centrex services to such constraints.
12. Northwestel submitted that, as the nature of Multi-line services and Centrex Access service were the same in the North as they were in the South, the Commission's treatment of Centrex Access service should be consistent with that applied in the South. Northwestel argued that facilities-based competition was not necessary for Centrex competition, and that the opportunity for Centrex resale in the North would be an adequate market constraint to keep pricing in line with market conditions.
13. With respect to Business and Centrex Optional Features, Northwestel noted that, in Decision 2002-34, the Commission assigned these services to the Uncapped Services basket stating that it was not necessary to apply constraints to such services in view of the fact that there were substitutes available. Northwestel submitted that its Business Optional Features were discretionary and in many cases competed directly with high-end equipment features which could provide many of the optional features provided by switch-based technologies. Northwestel further submitted that Centrex Optional Features must be priced appropriately to compete with features provided by substitute phone systems.
14. With respect to Business Prestige Numbers and Web Listings, Northwestel submitted that these services were highly discretionary and were not capped for any other large ILEC.
15. The GNWT opposed Northwestel's proposal to reassign Centrex Access service and Business and Centrex Optional Features to the Uncapped Services basket. The GNWT noted the Commission's determinations that, given that facilities-based local competition would not be permitted at this time, it was appropriate to assign residential and business optional services, voice messaging services, calling features, and Centrex services to the Other Capped Services basket. The GNWT submitted that Northwestel had failed to demonstrate that the Commission's finding was in error.
16. The GNWT noted that it was a major user of Business and Centrex Optional services and that the financial impact on it could be severe if adequate pricing constraints were not retained for these services until such time as facilities-based local competition emerged. The GNWT submitted that, until that time, it remained appropriate to assign Centrex Access service and Business and Centrex Optional Features to the Other Capped Services basket.

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

17. The Commission notes that Centrex Access service and Business and Centrex Optional Features were assigned to the Uncapped Services basket in Decision 2002-34.<sup>3</sup> In that Decision, the Commission was of the view that providing regulatory protection to customers of primary exchange service where market forces were not sufficient was an important consideration. The Commission noted that Centrex Access service was a premium business service that was used as a substitute for single-line and multi-line business local exchange services, and since these services were subject to a basket constraint and a rate element constraint, the Commission did not consider it necessary to subject Centrex Access services to such constraints. With respect to Business Optional Local services or to service bundles that included a business local exchange service or a business optional local service, the Commission stated that it did not consider it necessary to apply constraints given the availability of substitutes.
18. In the case of Decision 2001-756, Centrex service and Business and Centrex Optional Features were assigned to the fourth basket for the small ILECs (SILECs). The SILECs were permitted to propose rate changes to services in this basket to match the rate approved for the same service offered by another ILEC or SILEC.
19. The Commission remains of the view that single-line and multi-line business services would be a substitute for Centrex Access services and would serve to constrain the pricing for Centrex Access services. The Commission considers that assigning Northwestel's Centrex Access service to the Uncapped Services basket would provide the company with pricing flexibility similar to that which is available to the other ILECs and SILECs. Accordingly, the Commission finds that it would be reasonable to reassign Northwestel's Centrex Access service to the company's Uncapped Services basket. The Commission further finds that, consistent with this assignment, it is also reasonable to assign Centrex Optional Features to the Uncapped Services basket.
20. The Commission considers that, in the absence of facilities-based local competition and with no cap on Centrex Optional Features, approval of Northwestel's proposal to uncap business optional services, such as Voice Messaging Service, Enhanced Calling Features, Business Prestige Numbers, and Web Listings, would remove any price protection and reduce the incentive for Northwestel to achieve efficiencies for these services. Further, the Commission notes that Business Prestige Numbers have been included in the Other Capped Services basket for the large ILECs.
21. Accordingly, the Commission finds that Business Optional Features, including Business Prestige Numbers and Web Listings, are to remain assigned to the Other Capped Services basket.

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<sup>3</sup> The assignment of such services remains the same in *Price cap framework for large incumbent local exchange carriers*, Telecom Decision CRTC 2007-27, 30 April 2007.

### ***B. Competitive equipment***

22. Northwestel noted that the Commission had included a number of equipment services in the Other Capped Services basket, which it submitted should be uncapped. Northwestel submitted that imposing a price cap on equipment was unnecessary given that the telecommunications equipment market for both residential and business equipment was extremely competitive and that there were a number of other sources where such equipment could be purchased, such as, outlets, box stores, and retail outlets. Northwestel submitted that the competitive equipment market in the North was as competitive as in the South.

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

23. The Commission notes that, in *Review of regulatory framework*, Telecom Decision CRTC 94-19, 16 September 1994, it found it appropriate to forbear from the regulation of competitive terminal equipment for the large southern ILECs.
24. The Commission considers that the equipment identified in the tariffs is generally available for purchase from competitive equipment providers. The Commission is of the view that it would be appropriate to assign such equipment to the Uncapped Services basket.
25. However, with respect to Emergency Alerting Systems, Westcom 931 Alerting System – Multi-plan Service,<sup>4</sup> the Commission notes that this equipment/service is used in remote sites and is related to safety issues. Accordingly, the Commission considers that it is appropriate to retain this service in the Other Capped Services basket.
26. In light of the above, the Commission finds it appropriate to reassign the competitive equipment identified by Northwestel, with the exception of Emergency Alerting Systems, Westcom 931 Alerting System – Multi-plan Service, to the Uncapped Services basket. Emergency Alerting Systems, Westcom 931 Alerting System – Multi-plan Service will remain in the Other Capped Services basket.

### ***C. Labour-based services***

27. Northwestel submitted that the residential and business inside wire market was highly competitive and that in virtually all communities there were electricians who provided this service. Northwestel argued that labour services for which the company faced significant competition, such as labour services for inside wire and maintenance of business equipment services, should therefore be assigned to the Uncapped Services basket.
28. Northwestel submitted that core labour services associated with the provision of its local access services, which are generally not subject to competition, should continue to be included in the Other Capped Services basket.

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<sup>4</sup> General Tariff 3001, item 1406.

29. The GNWT opposed Northwestel's proposal to move inside wire labour services to the Uncapped Services basket, citing the limited availability of alternatives in some remote communities.

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

30. The Commission notes that, 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, the Commission denied the large ILECs' proposals to reassign several labour-based services to the Uncapped Services basket from the Other Capped Services basket. In reaching its conclusions in that Decision, the Commission considered that (a) productivity improvements would be reflected in the time required to perform the associated tasks, (b) moving these services to the Uncapped Services basket was not an acceptable solution as customers often had no alternative but to go to the ILECs to obtain such services, and (c) the constraint on other capped services applied at the basket level which permitted ILECs to choose whether to adjust the rates for services rated on the basis of an hourly labour rate.
31. In addition, the Commission noted, with respect to the inside wire market, that while competition was permitted, it was not persuaded that there was sufficient evidence to conclude that pricing constraints were not required to discipline the prices for various Jack and Plug services.
32. In the case of Northwestel, the Commission considers that maintaining labour-based services in the Other Capped Services basket will encourage the company to improve efficiencies in offering these services to the greatest extent possible. In addition, as noted by the GNWT, there could be concerns as to availability of such services in some remote communities. In light of this, and for the same reasons outlined in Decision 2002-34 with respect to the classification of such services, the Commission determines that these services will remain in the Other Capped Services basket.

## **II. Assignment of services previously not listed**

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

33. The Commission has reviewed Northwestel's list of services for which there are currently tariffs but which were not included in the list of assigned services in Decision 2007-5. The Commission considers that the proposed assignments are consistent with the treatment of such services for the other ILECs and SILECs and are consistent with the determinations in this Decision and in Decision 2007-5. Accordingly, the Commission finds the proposed assignment of these services to be appropriate.

#### **Other matters**

34. The Commission notes that it has removed from the service baskets several general items that do not require assignment as there are no rates associated with the item or the item references other tariffed items for the appropriate rates. In addition, some services have been reassigned in order to better reflect the Commission's determinations in Decision 2007-5 and this Decision.

35. The revised assignment of Northwestel's services to baskets, reflecting the Commission's determinations in Decision 2007-5 and this Decision, is provided in the appendix.
36. Northwestel is directed to file, within 10 business days from the date of this Decision, its service basket limits and service basket indices, with supporting calculations, formulae and spreadsheets, for each basket of services, as applicable.

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>*

**Classification of Services**

**Northwestel Inc.**

**Residential Services basket**

<b>Tariff</b>	<b>Item no.</b>	<b>Description</b>
3001	202	Extended Area Service
3001	207	Individual-line Service
3001	207	Two-party and Multi-party Line Service
3001	902, 903, 904	Suspension of Services
3001	1408	Ruraltel
3003	601	Short Term Rural Radio Telephone Service
3003	602	Two Channel Rural Radio Telephone Service
3006	201	Manual Mobile Service

**Business Services basket**

3001	202	Extended Area Service
3001	207	Individual-line Service
3001	207	Multi-Line Service
3001	207	Two-party and Multi-party Line Service
3001	805	Hotel Service
3001	902, 903, 904	Suspension of Services
3001	1408	Ruraltel
3003	601	Short Term Rural Radio Telephone Service
3003	602	Two Channel Rural Radio Telephone Service
3006	201	Manual Mobile service

**Other Capped Services basket**

3000	Section 4	Sale of Northwestel Tariffs
3001	104	Non-sufficient Funds Cheque Charge
3001	220	Digital Exchange Access
3001	230	Primary Link Service
3001	302 B	Non-Recurring Charges
3001	302 C	Non-Recurring Charges Diagnostic Maintenance Service
3001	305	Non-Recurring Charges - Installation, Maintenance, Move, Rearrangements, Escort and Repair Service
3001	306	Non-Recurring Charges - Construction Charges
3001	307	Non-Recurring Charges - Construction on Public Thoroughfares
3001	308	Interior Construction - Two-party and Multi-party
3001	308.1	Inside Wire and Jacks
3001	401	Directory Listings Primary - Business
3001	402	Monthly Rates for Extra Listings
3001	402	Directory Web Listings



**Other Capped Services basket (cont'd)**

<b>Tariff</b>	<b>Item no.</b>	<b>Description</b>
3001	404	Omission of Primary Listings - Business
3001	405	Local Directory Assistance Service
3001	406	Long Distance Directory Assistance (LDDA)
3001	407	Prestige Number Service
3001	701	Voice Channel Mileage
3001	705	Foreign Exchange Service
3001	806	Direct-in-Dial (DID) Service
3001	809	Meridian Business Services - Features
3001	1101-1102	Key Telephone Systems Intercommunication Circuit
3001	1201	Secretarial Answering Unit Service
3001	1203	Voice Messaging Service (Residential)
3001	1203	Voice Messaging Service (Business)
3001	1204	Integrated Voice Messaging Access
3001	1406	Supplemental Equipment, Emergency Alerting Services
3001	1407	Enhanced Calling Features - Residential
3001	1407	Enhanced Calling Features - Business
3001	1413	Set Replacement Charge
3001	1501	Maintenance of Business Equipment
3001	1502	Maintenance of Business Equipment - Vintage 2000
3001	1503	Maintenance of IP-PBX and PBX Business Equipment
3001	1601	Data56 Service
3002	106 C	Duplicate Statement Charge
3002	204 B	Time and Charges Surcharge
3002	204 C	Operator Number Identification
3002	303	900 Service
3002	305	Reverse-a-call service
3002	306	Remote Call Forwarding
3002	311	FaxCom Service
3002	400	Ship Service
3002	406	INMARSAT Service (International Maritime Satellite Service) (except toll charges)
3002	501	Teleconferencing Service
3002	502	Video Conferencing Dial-up Service
3003	201	Voice Channels - General
3003	202	Voice Grade Channels
3003	205	Mileage Charges Temporary Service
3003	207	Channels for Signal Transmission
3003	301-304	Data Transmission Service Arrangement
3003	402	Teleprinter Service: Station Equipment - 5-Level
3003	402	Teleprinter Service: Station Equipment - 8-Level
3003	402	Teleprinter Service: Station Equipment - Infomode Equipment
3003	403	Teleprinter Service - Miscellaneous Equipment
3003	404	Teleprinter Service - Selector Equipment

**Other Capped Services basket (cont'd)**

<b>Tariff</b>	<b>Item no.</b>	<b>Description</b>
3003	701, 702, 703	Private Line Telephone Service
3003	903	Digital Direct-Community™ Satellite Service
3003	1002	Program Transmission Service - Station Equipment
3003	1003	Program Transmission Service - Local Channels
3003	1111	Digital Private Line Services - Digital Network Access (DNA)
3003	1112	Digital Private Line - Transmission Service
3003	1113	Managed Digital Private Line - Transmission Service
3003	1114	Digital Private Line Extension Access Service
3003	1115	Digital Private Line Extension Features
3003	1117	Digital Private Line North Customer Volume Pricing Plan
3003	1118	Ethernet Metropolitan Area Network (MAN) Service
3003	1119	10 Mbps LAN Interconnection Service
3003	1120	Fractional DS-1 Access
3006	203	Horn Relay
3008	502, 601, 701	Public Message Service
3010	401	Direct Line Advertising
3010	510	Construction Charges
3010	601	Ancillary Services and Service Features
3010	701	Miscellaneous Services and Service Features

**Services with Frozen Rate Treatment basket**

3001	501	Public Telephone Services
3001	502	Customer Requested Public Telephone Service
3001	503	Charge-a-call Telephone service
3001	504	Payphone Analogue Cellular Network Service
3001	505	Semi-public Pay Telephone Service
3001	209	Relay services
3001	307	Special Outside Construction: Service Improvement Plan (SIP) Locality Charges - Contribution Charges
3001	307	Construction Payment Plan
3001	401	Directory Listings - Residential
3001	404	Omission of Primary Listing - Residence
3001	1407	Call Display Blocking
3001	1410	Toll Denial
3002	207.1	Rate for Certified Hearing and Speech Impaired Users
3002	207.2	Rates for Certified Hearing and Speech Impaired Users in the Eastern Northwest Territories
3010	722	9-1-1 public Emergency Reporting Service

**Competitor Services basket**

*Wireless Services*

<b>Tariff</b>	<b>Item no.</b>	<b>Description</b>
3001	1309	Interconnection of Intra Exchange systems
3001	1310	Switched Access Types for Conventional Public Mobile Radio Systems
3001	1311	Wireless Telephone Numbers
3001	1311	Digital Access Channel
3001	1311	Analogue Access Channel
3001	1311	WSP Link
3001	1311	WSP Network Access - Line-side Access
3001	1311	WSP Network Access - Trunk-side Access
3001	1311	Number Block Routing
3001	1311	Wireless Telephone Numbers
3001	1311	Digital Access Channel
3001	1311	CCS7 Interconnection Rates

*Co-location Services*

3010	702	Occupancy Rates for Radio Sites
3010	706	Interconnection with the Equipment and Facilities of Telesat Canada
3010	713	Use of Support Structures by Cable Television Undertakings and Telecommunications Carriers
3010	725	56 Kbps and 32 Kbps ADPCM Digital Circuit
3010	745	Central Office Co-location for ADSL Transmission Equipment
3010	746	Co-location Arrangements for Interconnecting Canadian Carriers - Service Order Charge
3010	746	Entrance Conduit
3010	746	Floor Space
3010	746	Power Consumption
3010	746	Riser Space
3010	746	Application Charge
3010	746	Power Delivery
3010	746	Construction Fee
3010	746	Project Management Fee
3010	746	Site Preparation Fee
3010	746	Escort
3010	746	Cable Pulling/Splicing
3010	750	Co-Location Arrangements for Internet Service Providers – Service Order Charge
3010	750	Floor Space
3010	750	Power Consumption
3010	750	Application Charge
3010	750	Power Delivery

**Competitor Services basket (cont'd)**

*Co-location Services (cont'd)*

<b>Tariff</b>	<b>Item no.</b>	<b>Description</b>
3010	750	Project Management Fee
3010	750	Site Preparation Fee
3010	750	Construction Fee
3010	750	Escort Charges

*Interconnection Services*

21480	40.1	Interconnecting Circuits with Trunk-side Access - Inward Order
21480	40.1	Interconnecting Circuits with Trunk-side Access - Change Order
21480	40.2	Bundled CAT
21480	40.2	Satellite Proxy Transport Charge
21480	40.3	Toll-free Carrier Identification Charge
21480	40.4	PIC Processing
21480	41	Operator Services
21480	50	Standby Circuits
21480	80	Facilities for Dedicated Access Lines
21480	90	Compensation per Call
21480	200	Billing and Collection Service - Processing Charge: Billed to a customer
21480	200	Billing and Collection Service - Processing Charge: Returned prior to billing
21480	200	Billing and Collection Service - Processing Charge: Returned or charged back to the IXC

*Other Competitive Wholesale Services*

3001	408	Directory File Service
3001	409	Electronic Directory Database Access (EDDA) Service
3003	1122	Asymmetric Digital Subscriber Line (ADSL) Access service

**Uncapped Services basket**

3001	104	Late Payment Charge
3001	207	Centrex II Service Access Rates
3001	807	Centrex II Service
3001	808	SL-1 Telephone Sets/Meridian 5000 Telephone Sets/Meridian 2000 Telephone Sets (Centrex Equipment Rental)
3001	813	Supplemental Equipment for PBX Service
3001	816	Mitel SX-50
3001	817	Meridian 1
3001	1103	Logic Type Key Telephones

**Uncapped Services basket (cont'd)**

<b>Tariff</b>	<b>Item no.</b>	<b>Description</b>
3001	1202	Automatic Call Answering and Recording Equipment
3001	1205	Centrex Voice Messaging Service (Yellowknife)
3001	1304	Voice Recorder Connecting Equipment
3001	1305	Broadcast Coupler Equipment
3001	1308	Alarm Sending Equipment
3001	1402	Auxiliary Signals
3001	1403	Miscellaneous Equipment and Service
3001	1405.3	Supplemental Equipment: Synchronous Modems, Stand-alone Terminals
3001	1405.4	Supplemental Equipment: Asynchronous/synchronous Modems, Stand alone and Rack Mounted Terminals
3001	1405.5	Data Connector Equipment
3001	1411	Loud Speaker Systems
3002	406	INMARSAT Service - Toll Charges
3002	302	Toll Free Service
3006	203	Manual Mobile Equipment

*Special Services – Customer Specific Arrangement*

3010	708	Private VHF Radio Repeater Station
3010	710	Digital Radio Facilities - Alascom
3010	714	Eastern Northwest Territories Rate Stability Plan Contracts
3010	716	Customer Designed Private Packet Network
3010	717	Special Assembly Contracts
3010	720	Digital Circuit
3010	721	Audio Feed (Conference Bridge interface)
3010	727	CSU/DSU for DSI Circuit
3010	729	Comprehensive Communications Package at Ekati (Koala)
3010	731	Digital Communications Network Service to Ardicom Digital Communications Inc.
3010	732	Multi-drop Packet Network
3010	733	Voice Grade Channels for Yukon Territorial Government
3010	735	Centrex Automatic Call Distribution
3010	736	Local DS-3 Access
3010	737	Local Ring-Based Multiple DS-3 Access
3010	741	Municipal Area Network for Indian and Northern Affairs
3010	742	Upper Halfway Digital Circuit
3010	743	Municipal Area Data Network Switch
3010	744	Occasional Use Broadcast service
3010	751	Digital High Speed Satellite Circuit