



Telecom Decision CRTC 2007-37

Ottawa, 1 June 2007

Service connection charges

Reference: 8661-C12-200610057, Bell Canada TN 6967, Bell Aliant TN 18,
TCC TN 572 (former TCI) and TN 4258 (TCBC)

In this Decision, the Commission denies applications by Bell Canada, Bell Aliant Regional Communications, Limited Partnership, and TELUS Communications Company to eliminate the service connection charges applicable to new and moving residential primary exchange service (PES) customers and to increase the monthly rates of all residential PES customers to offset the resultant revenue loss.

Introduction

1. In *Elimination of service connection charge applicable to Residential Primary Exchange Service customers*, Telecom Public Notice CRTC 2006-11, 11 August 2006, as amended by Telecom Public Notice CRTC 2006-11-1, 12 October 2006, the Commission invited parties to comment on proposals by three companies to eliminate service connection charges (SCCs) that apply to primary exchange service (PES) customers.
2. Bell Canada and Bell Aliant Regional Communications, Limited Partnership (Bell Aliant) (collectively, the Companies) filed two tariff applications, dated 7 July 2006, in which they proposed to eliminate the \$55 SCC that applies to new and moving residential PES customers in Ontario and Quebec. The Companies also proposed to increase the monthly rates for residential PES by \$0.80 so that, overall, this initiative would be revenue neutral.
3. TELUS Communications Company (TCC) subsequently filed two applications, for the former TELUS Communications Inc. and TELUS Communications (B.C.) Inc., both dated 15 September 2006. TCC proposed to eliminate the service charges that apply to residential local exchange customers in Alberta and British Columbia who request moves, new installations, changes, or reconnections. It also proposed to increase the monthly rates for residential local exchange service on a revenue-neutral basis. The proposed rate increases range from \$0.58 to \$1.00. In addition, TCC proposed to eliminate the instalment payment plan (IPP) option.
4. The Commission received comments, interrogatories, and/or responses to interrogatories from the Companies; TCC; the Public Interest Advocacy Centre, on behalf of the Consumers' Association of Canada and the National Anti-Poverty Organization (the Consumer Groups); MTS Allstream Inc. (MTS Allstream); and Union des consommateurs (l'Union). The Commission also received approximately 2,600 comments from customers. The record of this proceeding closed with the Companies' and TCC's reply comments, dated 12 January 2007.

5. While the positions of parties have necessarily been summarized in this Decision, the Commission has carefully reviewed and considered the submissions of all parties.
6. The Commission considers that in order to determine whether it is appropriate to eliminate the SCCs applicable to residential customers, it must consider the following issues:
 - I) The effect of these proposals on residential customers; and
 - II) The appropriateness of approving these proposals in the current regulatory environment.

I) The effect of these proposals on residential customers

Positions of parties

7. The Companies submitted that they were the only providers of telephony services in their territories that applied a service charge to connect new or moving customers and that their proposals would align their pricing practices with those of their competitors. The Companies also submitted that the SCC was an economic barrier for low-income customers to obtain service initially or to maintain service when they moved and that this initiative would remove that obstacle. The Companies suggested that their proposals would simplify contact with their customers by reducing the number of pricing elements they would have to explain and by eliminating the need for affordability programs, such as the IPP option associated with the SCC.
8. The Companies submitted that based on their analysis of Statistics Canada data and their own information, younger age groups accounted for a disproportionate number of new installations and moves. They also submitted that the effect of their proposal on senior citizens would be revenue neutral.
9. TCC submitted that its proposal would improve the affordability of its residential local exchange services, simplify pricing, and align its pricing with that of its competitors in the residential local service market. It also submitted that the proposed changes would benefit both new customers, by making initial service requests more affordable, and existing customers, by removing the service charges that applied when customers moved, changed, or reconnected their service. TCC noted that its proposal included discontinuation of the IPP option for service charges that applied to residential customers since it would no longer be necessary.
10. The Consumer Groups noted that the results of a poll they had commissioned in August 2006 indicated that a majority of Canadians were content to pay for moves and other installation charges as one-time expenses and did not support the changes proposed by the Companies and TCC.
11. The Consumer Groups submitted that the proposed rate structures would increase rates for all customers. They also submitted that customers who stayed at one location would be paying service connection charges in their rates in perpetuity, which was unfair. The Consumer Groups further submitted that the result of the proposals amounted to an annual rate increase of up to

\$12.00 per year for TCC's customers and \$9.60 per year for the Companies' customers. They argued that this was a significant increase for low-income customers and would impose additional unwarranted financial burdens upon many other customers.

12. L'Union submitted that the proposed monthly rate increase was discriminatory for rural residents since, proportionately, these customers moved less often than urban residents. It suggested that, as a result, rural customers would benefit less from the elimination of the SCC, while still paying the additional \$0.80 per month. L'Union also submitted that the proposal was advantageous for Bell Canada in regions where it was in a monopoly position since its customers could not turn to a competitor. L'Union submitted, therefore, that Bell Canada would be able to maintain high rates in regulated regions, while lowering rates in deregulated regions. It argued that, as such, captive customers would finance the Companies' price wars in the deregulated regions.
13. Approximately 2,600 individual customers submitted comments opposing the Companies' and TCC's proposals. In general, these customers commented that they had already paid the SCC and objected to paying for other customers' costs. Many customers also commented that they had no plans to move. They argued that the Companies' and TCC's proposals to increase residential rates to offset the elimination of the SCC would cause them to incur, over the long term, additional SCC charges that they had not caused.

Reply comments

14. The Companies disagreed with the Consumer Groups' comments that public opinion was against their proposals. The Companies submitted that customer comments posted on the Commission's website represented a negligible number of their residential customers.
15. The Companies argued that the proposals to eliminate the SCC for new installations and moves associated with residential PES would remove the economic barrier to customers being able to obtain or reinstall residential service after a move. The Companies submitted that, given that a larger proportion of households that moved had lower incomes than those that did not move, their proposal would significantly benefit low-income households. The Companies also argued that the proposed change advanced an important public policy objective – access to basic service – by increasing access to local telephone service for lower-income customers to whom the SCC was a financial obstacle.
16. The Companies argued that the proposed changes would not materially disadvantage or provide material preference to any group of customers. The Companies submitted that residential PES was available on a non-discriminatory basis and all customers who ordered a new installation from the Companies or moved an existing service would have an equal opportunity to do so under the same terms and conditions. The Companies submitted that this arrangement was similar to the charge for 9-1-1 service that all customers paid, even though it was not used to the same extent by all customers.
17. Regarding l'Union's comments that the proposal discriminated against those living in rural areas, the Companies submitted that l'Union had provided no data to substantiate its claim that urban customers moved more than those in rural areas. The Companies also submitted that they

had no disaggregated data regarding moves by urban versus rural customers. Based on a rough calculation using what data was available to them, the Companies concluded that urban customers might move only slightly more often than those in rural areas.

18. The Companies noted that some customers – those who moved more often than average – would benefit at the expense of others – those who moved less often than average. The Companies submitted that since their proposals were revenue neutral, they would have no effect on the average customer and it was incorrect to infer that the Companies were targeting any particular segment of customers.
19. TCC noted that during the proceeding that resulted in *Local service pricing options*, Telecom Decision CRTC 96-10, 15 November 1996, as amended by Telecom Decision CRTC 96-10-1, 29 November 1996 (Decision 96-10), the Fédération nationale des associations de consommateurs du Québec, the National Anti-Poverty Organization, and One Voice – the Canadian Seniors' Network (FNACQ/NAPO/One Voice) had argued against connection fees and service charges, claiming that they represented significant problems for low- and high-income households. TCC noted that FNACQ/NAPO/One Voice had submitted that, on average, low-income households incurred connection fees and services charges more frequently than other residential customers, which validated a key rationale for TCC's proposal.
20. TCC submitted that the Consumer Groups represented the same constituency as FNACQ/NAPO/One Voice. TCC also submitted that, in contrast to what FNACQ/NAPO/One Voice had previously submitted, the Consumer Groups were now arguing that connection fees and service charges were not a problem for consumers, nor did they represent a barrier to connection or reconnection for low-income customers. It submitted, further, that the Consumer Groups were also now arguing that the rate increase would represent a significant burden, while they had previously argued that lump sum charges were an affordability burden.

Commission's analysis and determinations

21. The Commission notes that paragraph 7(b) of the *Telecommunications Act* sets out the Canadian telecommunications policy objective "to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada."
22. In Decision 96-10, the Commission found that the major obstacles to obtaining telephone service for low-income Canadians were up-front installation charges and security deposits. In that Decision, the Commission ordered the telephone companies to file tariffs for bill management tools that would allow customers to have free toll-restriction service and to spread payment of up-front charges over six months. The Commission notes that these measures are still in place.
23. In *Modification to the affordability monitoring program for residential telephone service in Canada*, Telecom Decision CRTC 2004-73, 9 November 2004 (Decision 2004-73), the Commission cited comments by Bell Canada on behalf of itself, Aliant Telecom Inc. (now Bell Aliant), MTS Communications Inc. (now MTS Allstream Inc.), Northwestel Inc. (Northwestel), and TELUS Communications Inc. and TELUS Communications (Québec) Inc.

(now TCC) (collectively, Bell Canada et al.). Specifically, Bell Canada et al. claimed that, according to Statistics Canada's *Residential Telephone Service Survey* (RTSS) over the monitoring period from November 1997 to May 2003, where affordability was reported as the primary reason for non-subscription, the reasons most often reported by non-subscribers were installation charges and basic monthly charges.

24. In that Decision, the Commission noted Bell Canada et al.'s comments that, on average over the monitoring period, 69 percent of respondents cited installation charges, 66 percent cited basic monthly charges, 53 percent cited the security deposit, 34 percent cited toll charges, 29 percent cited optional features, and 18 percent cited other charges as the reason for non-subscription. In Decision 2004-73, the Commission agreed with Bell Canada et al.'s assessment that the reasons for non-subscription had remained consistent over the monitoring period.
25. The Commission notes that, according to the June 2006 *Affordability Monitoring Report* submitted to the Commission by Bell Canada on behalf of the reporting companies,¹ an estimated 0.8 percent of households in Canada in December 2005 did not have telephone service and gave affordability as the primary reason for not subscribing. The charges that non-subscribing households cited most frequently as difficult to afford in December 2005 were the basic monthly charge, at 80.6 percent, and the installation charge, at 74.9 percent.
26. According to the *Affordability Monitoring Report*, the number of customers opting for the IPP decreased significantly over the four-year period from 2002 to 2006, in the operating territories of both the Companies and TCC. The Commission considers that this indicates that the SCCs are not as significant a barrier as they once were.
27. The Commission notes that in 2004, 51 percent of non-subscribing households indicated that the reason for not subscribing was that they did not want or need telephone service. The Commission also notes that the *Affordability Monitoring Report* Disconnect Survey Tracking Results for 2005 show that very few customers cite affordability concerns for voluntarily disconnecting telephone service, but of those who cite affordability concerns, the basic monthly charge is the charge cited most frequently as being difficult to afford.
28. The Commission further notes that under the Companies' and TCC's proposals, all of their residential customers in Ontario, Quebec, Alberta, and British Columbia would experience an increase in the monthly rate for residential local exchange service. The Commission considers that although eliminating the SCCs would benefit some low-income households, the increase in monthly rates might cause other low-income households to disconnect service.
29. On balance, the Commission considers that the evidence in this proceeding and in the RTSS does not conclusively demonstrate that low-income households would be better off under the Companies' and TCC's proposals than under the bill management tools required by Decision 96-10.

¹ Bell Canada, Bell Aliant, MTS Allstream, Northwestel, and TCC.

II) The appropriateness of approving these proposals in the current regulatory environment

Positions of parties

30. The Companies submitted that making the rate changes revenue neutral at a corporate level was the most equitable way to implement the proposed changes. They noted that rounding rate changes for residential PES to the nearest \$0.05 would increase residential PES rates by \$0.80 per month. The Companies provided a revision to their price cap model in support of their applications.
31. The Companies proposed that it would be appropriate to exclude the impact of the increase to the monthly rate for residential PES from the subsidy calculation so that it would continue to exclude the functionalities associated with the SCCs, from both revenue and cost perspectives.
32. TCC also provided a revision to its price cap model. It submitted that the proposed rate changes would comply with the pricing constraints applicable to residential local exchange services in both high-cost serving areas (HCSAs) and non-HCSAs, as set out in *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002, as amended by Telecom Decision CRTC 2002-34-1, 15 July 2002 (Decision 2002-34).
33. TCC noted that it had limited the proposed rate increases to below the five percent annual limit established by the Commission in Decision 2002-34 and that the proposed rate changes would generally be revenue neutral on a per-band basis for all HCSA and non-HCSA bands in Alberta and British Columbia.
34. The Consumer Groups submitted that the Companies' and TCC's applications in this matter were premature, given the Commission's recent determinations in *Forbearance from the regulation of retail local exchange services*, Telecom Decision CRTC 2006-15, 6 April 2006 (Decision 2006-15). The Consumer Groups noted that the Companies and TCC would be free to compete without pricing constraints when they met the 25 percent market share loss threshold and, should the Governor in Council's proposed Order in Council regarding Decision 2006-15 proceed, such pricing options as those proposed in this proceeding might become possible even sooner.
35. The Consumer Groups submitted that the Companies and TCC were seeking a pricing scheme that would appear to consumers to be equivalent to offers of the cable voice over Internet Protocol providers. The Consumer Groups submitted that while discounting SCCs might be questionable, having the strategy financed by a general rate increase was unlikely to assist in establishing a competitive local telephone services market.

Reply comments

36. The Companies submitted that the proposed initiative was independent of any future forbearance rulings for local exchange services.
37. TCC argued that competitive responses were not anti-competitive; rather, they were the essence of competition. It submitted that since Decision 2002-34, the competitive landscape had changed dramatically, with cable entry into telephony and the introduction of pricing packages

that were not available from incumbent local exchange carriers (ILECs). TCC also submitted that Shaw Cablesystems Ltd. (Shaw), for example, priced its services at one monthly price, including installation and connection. TCC further submitted that Shaw had added 250,904 digital phone customers since its entry into the telephone business and it was to this environment that TCC sought to respond.

38. TCC noted that the significance of cable entry into the telephone market had been recognized by the Governor in Council's proposed Order in Council, dated 16 December 2006, proposing to vary Decision 2006-15. TCC submitted that, contrary to the Consumer Groups' comments, discounting or removing installation charges was a market response to intensifying competition and its proposal used the tools available to it under the price cap regime. TCC submitted that it was therefore incorrect to characterize its proposal as anti-competitive since it was merely acting within current constraints.

Commission's analysis and determinations

39. The Commission notes the Companies' and TCC's comments that they proposed to eliminate their SCCs in response to competition, to better position their residential services in a competitive marketplace. The Commission also notes that in a competitive market, it is common for service providers to reduce or eliminate barriers to customer acquisition, namely service charges.
40. The Commission agrees that the Companies' and TCC's proposals are competitive responses. While the Companies' and TCC's proposals generally comply with the price cap constraints in Decision 2002-34, the Commission notes that the regulatory environment has changed since these proposals were filed.
41. On 14 December 2006, the Governor in Council issued *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534 (the Policy Direction). The Policy Direction requires, among other things, that the Commission rely on market forces to the maximum extent feasible and, when relying on regulation, that it use measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet Canadian telecommunications policy objectives. The Policy Direction applies to this proceeding since the record of this proceeding closed on 12 January 2007.
42. On 4 April 2007, the Governor in Council issued the final *Order Varying Telecom Decision CRTC 2006-15*, P.C. 2007-532 (the Order). The Commission considers that the changes to the forbearance criteria set out in the Order will lead to earlier forbearance across the ILECs' territories. In forborne markets, the ILECs may choose to waive or eliminate SCCs. The Commission notes that prior to forbearance, the ILECs may file tariff applications to waive SCCs for winback and other service promotions.
43. Accordingly, the Commission considers that denying the Companies' and TCC's proposals would allow market forces to operate since these companies could select the geographic areas where they want to waive or eliminate SCCs. In the Commission's view, this outcome would be consistent with the Policy Direction since it would be efficient and proportionate to its purpose

and would interfere with the operation of competitive market forces to the minimum extent necessary to meet telecommunications policy objectives.

Conclusion

44. In light of the above, the Commission **denies** the Companies' and TCC's requests to eliminate the SCCs applicable to new and moving residential PES customers and to increase the monthly rates of all residential PES customers to offset the resultant revenue loss.

Secretary General

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