



Telecom Decision CRTC 2007-99

Ottawa, 23 October 2007

Saskatchewan Telecommunications - Application for a subsidy adjustment for the period 1 January 2002 to 31 December 2006

Reference: 8695-S22-200708365

In this Decision, the Commission approves a request by Saskatchewan Telecommunications (SaskTel) for a subsidy adjustment for the period from 1 January 2002 to 31 December 2006. The Commission directs the Central Fund Administrator to remit \$1.464 million in additional subsidy to SaskTel, as a priority payment, within 30 days from the date of this Decision.

Introduction

1. In Decision 2000-745, the Commission determined that, effective 1 January 2002, the subsidies paid to the local exchange carriers by the Central Fund Administrator (CFA) would be calculated based on a subsidy per residential network access service (NAS) methodology in the territories of the incumbent local exchange carriers (ILECs).¹ On an annual basis, the Commission approves the final subsidy per residential NAS amounts for these ILECs.
2. The Commission received an application by Saskatchewan Telecommunications (SaskTel), dated 30 May 2007, requesting that the Commission direct the CFA to remit \$1.5 million in retroactive subsidy from the National Contribution Fund (NCF) as a priority payment, for the period from 1 January 2002 to 31 December 2006 (the Relevant Period), to correct for an inadvertent error made by SaskTel in its subsidy calculations.
3. No comments were received with respect to this application.
4. The Commission considers that the following issues are associated with SaskTel's application:
 - I. The appropriateness of Sasktel's request for a subsidy adjustment; and
 - II. The amount of the subsidy adjustment.

I. The appropriateness of Sasktel's request for a subsidy adjustment

5. SaskTel noted that the band-specific subsidy per residential NAS calculations included, among other things, the average residential local rate by band. The company also noted that the annual subsidy requirement was then determined by multiplying the subsidy per residential NAS amounts by the corresponding number of residential NAS in that band. SaskTel further noted that any misstatement of the average residential local rate would have resulted in a misstatement of the subsidy per residential NAS amounts and, therefore, of the annual subsidy requirement.

¹ These companies are now known as Bell Aliant Regional Communications, Limited Partnership; Bell Canada; MTS Allstream Inc.; Saskatchewan Telecommunications; and TELUS Communications Company.

6. SaskTel indicated that it had reported its average residential local rates based upon the actual monthly recurring rates billed to residential customers. Sasktel, however, noted that it had recently realized that these amounts included \$0.15 per NAS per month for its Message Relay Service (MRS) that was embedded in the monthly local rate when the MRS surcharge was introduced in 1987.
7. SaskTel submitted that, since the cost component of the subsidy calculations did not include MRS costs, the revenue component should not include the MRS surcharge.
8. SaskTel also submitted that its situation was akin to that of MTS Allstream Inc. (MTS Allstream) when that company had realized that a number of wire centres had been inadvertently assigned to Band D (a non-high-cost band), instead of to Band F (a high-cost band). In Telecom Decision 2006-20, the Commission directed the CFA to remit to MTS Allstream a retroactive subsidy adjustment from the NCF as a priority payment.

Commission's analysis and determinations

9. The Commission notes that SaskTel provided service to its residential customers in high-cost serving areas during the Relevant Period.
10. The Commission finds that SaskTel, in providing this service, contributed to the achievement of the policy objective set out in paragraph 7(b) of the *Telecommunications Act*, namely, to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada. The Commission acknowledges that SaskTel provided the residential service in question at retail rates that included the \$0.15 per NAS per month for MRS, but that the monthly equivalent costs for residential service used in the subsidy per NAS calculation did not include the costs for MRS. The Commission finds that, like other ILECs that received subsidy for the provision of residential service in their high-cost bands during the Relevant Period, SaskTel would have received additional subsidy if it had correctly calculated its band-average residential local rates during the Relevant Period.
11. The Commission considers that the error that led to SaskTel's mistake was an inadvertent mistake made many years after the MRS rate had been embedded in the residential local rate (i.e. the MRS rate had not just recently been embedded in the residential local rate).
12. Under the circumstances of this case, the Commission concludes that SaskTel should receive a subsidy adjustment for the Relevant Period.

II. The amount of the subsidy adjustment

13. SaskTel provided calculations showing that the inadvertent inclusion of the MRS surcharge in its subsidy calculations had resulted in it receiving \$1,477,238 less in subsidy over the years 2002 to 2006 than it would have received had the MRS surcharge not been included.

Commission's analysis and determinations

14. The Commission notes that the subsidy calculation methodology for 2002 to 2006 set out in Telecom Decision 2002-34 included the recovery of costs associated with the revenue-percent charge from the NCF. For SaskTel, this cost recovery was done annually by multiplying the annual revenue-percent charge by the average residential local rates used in the subsidy calculation, and then adding the resultant amount to the costs in the subsidy calculation.
15. The Commission also notes that, in determining the amount of the subsidy adjustment that would be required if its request was found to be reasonable, SaskTel did a simple calculation of \$0.15 per NAS per month times the number of NAS.
16. The Commission is of the opinion that SaskTel's subsidy adjustment should be calculated in accordance with Telecom Decision 2002-34 and not by simply making a \$0.15 per NAS per month adjustment. Based upon its determinations in this Decision and in Telecom Decision 2002-34, the Commission has calculated that SaskTel is entitled to \$1.464 million in additional subsidy from the NCF for the Relevant Period.

Conclusion

17. In light of the above, the Commission **approves** a subsidy adjustment of \$1.464 million for SaskTel and directs the CFA to remit this amount to SaskTel, as a priority payment, within 30 days of the date of this Decision.

Secretary General

Related documents

- *MTS Allstream – Application to review and vary part of Telecom Decision CRTC 2005-52, Telecom Decision CRTC 2006-20, 24 April 2006*
- *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*
- *Changes to the contribution regime, Decision CRTC 2000-745, 30 November 2000*

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