



## Telecom Decision CRTC 2008-115

Ottawa, 10 December 2008

### **TELUS Communications Company – Application seeking exogenous treatment of wireline-related costs associated with the implementation of wireless number portability**

Reference: 8661-T66-200807240

*In this Decision, the Commission finds that its directive to TCC to implement wireless number portability (WNP) meets the criteria for an exogenous event, and that the wireline-related costs incurred by TCC for the implementation of WNP qualify for exogenous treatment. The Commission also finds that the costs associated with Canadian Local Ordering Guidelines, Version 6 do not qualify for exogenous treatment beyond that previously provided, and denies TCC's request to recover these costs.*

*The Commission approves the use of an exogenous adjustment of \$2.1 million per year for a six-year period that will allow TCC to recover its WNP implementation costs, and approves an increase to the price ceilings on stand-alone residential primary exchange service in forborne markets of \$0.05/network access service/month.*

### **Introduction**

1. The Commission received an application by TELUS Communications Company (TCC), dated 21 May 2008, in which the company requested that the Commission approve the recovery of the costs it incurred to modify its wireline network to enable wireless number portability (WNP). TCC estimated these costs at \$13.9 million,<sup>1</sup> and proposed an annual exogenous adjustment of \$2.8 million over a six-year period in order to recover these costs.
2. The Commission received no comments on this application. The record of this proceeding, which closed on 29 August 2008, is available on the Commission's website at [www.crtc.gc.ca](http://www.crtc.gc.ca) under "Public Proceedings."
3. The Commission has identified the following three issues to be addressed in its determinations:
  - I. Does the implementation of WNP qualify for exogenous treatment?
  - II. Does the implementation of Canadian Local Ordering Guidelines, Version 6 (CLOGv6), qualify for exogenous treatment?
  - III. Are TCC's costs reasonable, and is the method by which TCC proposed to recover its wireline-related WNP costs appropriate?

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<sup>1</sup> This amount represents the total present worth of annual costs (PWAC).

## **I. Does the implementation of WNP qualify for exogenous treatment?**

4. TCC noted that, in Telecom Decision 2002-34, the Commission outlined the following criteria for determining whether events or initiatives qualified for exogenous treatment under the price cap framework adopted in that Decision:
  - they were legislative, judicial, or administrative actions which were beyond the control of the company;
  - they were addressed specifically to the telecommunications industry; and
  - they had a material impact as measured against the total company.
5. TCC argued that the implementation of WNP met all of these conditions. In addition, TCC noted that the Commission had approved the recovery of WNP implementation costs by Bell Canada via an exogenous adjustment in Telecom Decision 2007-88.
6. In Telecom Decision 2005-72, the Commission, among other things, directed all local exchange carriers (LECs) to support the porting-in and porting-out of telephone numbers with wireless service providers within the time frames set out in that Decision.
7. The Commission finds that its directive to TCC to implement WNP satisfies the criteria for an exogenous event set out in Telecom Decision 2002-34, and maintained in Telecom Decision 2007-27, and that the wireline-related costs incurred by TCC for the implementation of WNP therefore qualify for exogenous treatment.

## **II. Does the implementation of CLOGv6 qualify for exogenous treatment?**

8. Initially, TCC, as part of its WNP cost recovery proposal, included costs associated with the implementation of CLOGv6. These costs included CLOGv6 project development costs, software costs related to updating the local service request system, and related interfacing systems to accommodate changes outlined in CLOGv6.
9. In response to Commission interrogatories, TCC submitted that the CLOGv6 costs do not relate specifically to WNP, but include enhancements to support local competition as well as WNP. TCC stated that its application should have been characterized as an application to recover both WNP and CLOGv6 costs.
10. TCC further submitted that local competition start-up costs have previously qualified for cost recovery via exogenous adjustments under a number of Commission decisions. TCC therefore submitted that it should not be necessary to perform a detailed separation of CLOGv6 costs into WNP and non-WNP components.

11. The Commission notes that the CRTC Interconnection Steering Committee (CISC) Business Process Working Group (BPWG) identified that CLOGv6 would enhance the existing local ordering guidelines by streamlining order processing for LECs. In addition to process improvements, CLOGv6 would include any new functionality required for WNP. The Commission approved a BPWG consensus report on final revisions to CLOGv6 in Telecom Decision 2008-61.
12. The Commission notes that these CISC initiatives were to be implemented by all industry participants that use the processes and guidelines as defined in the CLOG to transfer customers to and from their services.
13. With respect to TCC's submission regarding the recovery of local competition start-up costs, the Commission notes that in Telecom Order 99-239 it determined that local competition start-up and local number portability (LNP) initiatives qualified for exogenous factor adjustment. In Telecom Order 99-239 and Order 2000-143, the Commission approved exogenous adjustments that allowed TCC to recover its local competition and LNP start-up and ongoing costs, including costs related to ongoing methods and procedures, and system modifications to ordering and billing systems. The Commission subsequently approved rate increases that enabled TCC to recover, among other things, its ongoing costs associated with local competition.
14. The Commission considers that costs related to CLOGv6 are ongoing order processing costs related to local competition for which cost recovery has already been permitted pursuant to Order 2000-143. The Commission considers that TCC has not provided any evidence to demonstrate that the recovery of additional amounts for CLOGv6-related costs is necessary. Furthermore, CLOGv6 is intended to streamline order processing by LECs to the benefit of all industry participants, including TCC.
15. Accordingly, the Commission **denies** TCC's request to include its CLOGv6 implementation costs as part of the costs it will be entitled to recover through an additional exogenous adjustment.

### **III. Are TCC's costs reasonable, and is the method by which TCC proposed to recover its wireline-related WNP costs appropriate?**

#### **Reasonableness of TCC's costs**

16. TCC filed a cost study in support of its application in which it proposed to recover the wireline portion of the costs to implement WNP and the costs to implement CLOGv6 over a period of six years.
17. TCC stated that it applied the Commission's costing determinations in Telecom Decision 2007-88 in calculating its WNP costs. TCC also stated that it did not apply annual expense increase factors or productivity factors to its WNP implementation costs over the study period.

18. TCC submitted that its WNP implementation costs included the start-up costs for the development, implementation, and support of this service, including switch upgrades, network modifications and system modifications, as well as costs associated with help desk and business office functions.
19. The Commission has reviewed the WNP-related costs identified by TCC in its economic study and is satisfied that they reflect causal costs associated with WNP implementation, and that the costing approach used by TCC is consistent with the Commission's Phase II costing methodology.
20. As noted above, the Commission is denying TCC's request to include its CLOGv6 implementation costs as part of the costs it will be entitled to recover through an exogenous factor adjustment. The Commission has therefore revised TCC's costs to be recovered through an exogenous factor from \$13.9 million to \$10.1 million.

#### **Implementation period**

21. The Commission notes that TCC's proposal to recover its WNP implementation costs over a six-year period is consistent with the recovery of costs associated with implementing WNP by Bell Canada approved in Telecom Decision 2007-88. The Commission considers that TCC's proposal is reasonable.

#### **Allocation of costs to services**

22. TCC proposed to allocate its exogenous adjustment for WNP costs to the Residential High-Cost Serving Areas (HCSAs) Services basket, the Residential Non-High-Cost Serving Areas (Non-HCSAs) Services basket, the Business Services basket, the Uncapped Services basket, and services that are forborne from regulation on the basis of single-line residential and business network access service (NAS) attributed to these baskets or services. TCC submitted that this allocation would be consistent with the Commission's determinations in Telecom Decision 2007-88.
23. In Telecom Decision 2007-88, the Commission considered that the most competitively neutral methodology for recovering Bell Canada's exogenous adjustment associated with WNP implementation would be to allocate these costs to the appropriate services. The Commission also determined that, consistent with the approach taken in Telecom Order 99-239, NAS would be the best means of allocating these costs to residential and business primary exchange service (PES).
24. In the Commission's view, TCC's proposal to allocate its wireline-related WNP implementation costs to single-line residential and business PES, in the manner it proposed, is consistent with the Commission's directive to Bell Canada in Telecom Decision 2007-88, and is reasonable.

25. Accordingly, the Commission determines that TCC's wireline-related WNP implementation costs are to be allocated to the Residential HCSAs Services basket, the Residential Non-HCSAs Services basket, the Business Services basket, the Uncapped Services basket, and services that are forborne from regulation on the basis of single-line residential and business NAS attributed to these baskets or services.

**Residential PES in exchanges forborne from regulation**

26. TCC noted that, in Telecom Decision 2007-88, the Commission determined that a portion of Bell Canada's costs associated with WNP implementation should be allocated to services that were forborne from regulation. TCC proposed that the portion of WNP costs allocated to forborne residential services be used to increase the price ceilings that were set when forbearance was granted, and that these price ceilings be increased by \$0.07/NAS/month.
27. TCC submitted that although the Commission retained its powers under subsection 27(1) of the *Telecommunications Act* in Telecom Decision 2006-15 in respect to forborne residential PES in order to protect certain classes of customers against "unreasonable price increases," there is no suggestion that the Commission shut the door to all price increases for stand-alone PES, rather only to "unreasonable" price increases.
28. TCC noted that if the Commission maintains the price ceilings for forborne residential services set out in Telecom Decision 2006-15, the company would be required to recalculate its WNP implementation costs excluding forborne residential services from the calculation, which would result in increasing the per NAS distribution from \$0.07/NAS/month to \$0.12/NAS/month for the remaining NAS categories.
29. The Commission notes that, in establishing the local forbearance framework in Telecom Decision 2006-15, it considered it important to ensure that the affordability of essential residential PES not be compromised in a forborne market. The Commission therefore imposed price ceilings on stand-alone residential PES in forborne markets in order to provide vulnerable and uncontested customers with a safeguard against unreasonable price increases. The Commission directed that price ceilings would apply to the most recently approved rates at the time of forbearance for stand-alone residential PES, including touch-tone, primary directory listing, and connection charges.
30. In Telecom Decision 2007-88, the Commission directed Bell Canada to allocate a portion of its WNP costs to services that were forborne from regulation on the basis of single-line residential and business NAS attributed to these baskets or services.
31. As noted above in paragraph 20, the Commission has revised TCC's WNP implementation costs. As a result, TCC's proposed increase to the price ceilings for forborne PES in non-HCSAs has been revised from \$0.07/NAS/month to \$0.05/NAS/month.
32. The Commission considers that were it to deny TCC's request to increase stand-alone residential PES in forborne markets, it could limit TCC's ability to recover these costs in forborne areas. The Commission further considers that, in the circumstances, an increase of \$0.05/NAS/month to the applicable price ceilings will give TCC the opportunity to recover its adjusted WNP implementation costs, and thus would not constitute an unreasonable rate

increase within the meaning of Telecom Decision 2006-15. Therefore, the Commission considers that an increase in the price ceilings for TCC's stand-alone residential PES in forborne markets of \$0.05/NAS/month would be reasonable. This will increase the price ceilings on stand-alone residential PES in TCC's forborne markets as set out in Telecom Decision 2006-15.

## **Conclusion**

33. In light of the above, the Commission **approves** the use of an exogenous adjustment of \$2.1 million per year for a six-year period that will allow TCC to recover its wireline-related WNP implementation costs, and **approves** an increase to TCC's price ceilings on stand-alone residential PES in forborne markets of \$0.05/NAS/month.
34. The Commission directs TCC to issue an update to its 2008 Service Band Limits to reflect the allocation of costs associated with WNP implementation across the service baskets identified above within 30 days of the date of this Decision.

Secretary General

## **Related documents**

- *CRTC Interconnection Steering Committee – Consensus items*, Telecom Decision CRTC 2008-61, 4 July 2008
- *Bell Canada – Application seeking exogenous treatment of wireline-related costs associated with the implementation of wireless number portability*, Telecom Decision CRTC 2007-88, 14 September 2007
- *Price cap framework for large incumbent local exchange carriers*, Telecom Decision CRTC 2007-27, 30 April 2007
- *Forbearance from the regulation of retail local exchange services*, Telecom Decision CRTC 2006-15, 6 April 2006, as amended by Order in Council P.C. 2007-532, 4 April 2007
- *Implementation of wireless number portability*, Telecom Decision CRTC 2005-72, 20 December 2005
- *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002, as amended by Telecom Decision 2002-34-1, 15 July 2002
- *Local competition start-up and LNP costs established*, Order CRTC 2000-143, 23 February 2000

- *Local competition start-up costs proceeding, Telecom Public Notice CRTC 98-10, Telecom Order CRTC 99-239, 12 March 1999*

*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>*