



Telecom Order CRTC 2008-305

Ottawa, 30 October 2008

Bell Aliant Regional Communications, Limited Partnership and Bell Canada – Elimination of the recurring balance in Bell Canada's deferral account

Reference: Bell Aliant Tariff Notice 164
Bell Canada Tariff Notice 7110

1. The Commission received applications by Bell Aliant Regional Communications, Limited Partnership and Bell Canada (collectively, Bell Canada et al.), dated 3 March 2008, proposing tariff revisions that would result in the elimination of the recurring balance in Bell Canada's deferral account (Bell Canada's recurring balance) as of 1 June 2007, pursuant to Telecom Decision 2006-9. As directed by the Commission in that Decision, Bell Canada et al. proposed to assign this balance to residential primary exchange services (PES) and residential optional local services in non-high-cost serving areas (non-HCSAs).
2. Bell Canada et al. submitted that the changes in the regulatory environment had, in effect, eliminated their Telecom Decision 2006-9 obligation to implement deferral account-related rate reductions associated with residential PES in forborne exchanges and residential optional local services in both forborne and non-forborne exchanges, corresponding to \$15 million of the \$16.3 million recurring balance in Bell Canada's deferral account. Bell Canada et al. also submitted that if they were directed to implement the required rate reductions in non-HCSAs for residential PES in forborne exchanges and residential optional local services in both forborne and non-forborne exchanges, they could, under the current regulatory environment, simply offset them by implementing corresponding rate increases to these services.
3. In light of this, Bell Canada et al. proposed to fully eliminate Bell Canada's recurring balance through modifications to their respective General Tariff item 70 – Rate Schedules for Primary Exchange (Local) Service to reduce the monthly rate for non-forborne residential PES in non-HCSAs by \$0.17 per network access service (NAS), corresponding to \$1.3 million of the \$16.3 million recurring balance in Bell Canada's deferral account.
4. The Commission received no comments regarding these applications.

Commission's analysis and determinations

5. In Telecom Decisions 2002-34 and 2002-43, the Commission considered it appropriate to subject the incumbent local exchange carriers' (ILECs) rates for residential local services in non-HCSAs to a productivity offset (X). The Commission established a basket constraint equal to inflation (I) less this productivity offset and applied it to revenues in the basket of Residential Local Services in non-HCSAs. When I was less than X, rate reductions would have been required to satisfy this constraint. However, the Commission was concerned that mandated rate reductions could have had an adverse effect on competition. To mitigate the potential for such an adverse effect, the Commission introduced a mechanism in these price cap decisions that required each ILEC to establish a deferral account. The ILECs were directed to assign to that account, in each year, an amount equal to any revenue reductions required under the I-X constraint applicable to the revenues in the basket of Residential Local Services in non-

HCSAs. The Commission notes that the amount assigned to the deferral account each year basically represents the sum of the rate reductions the residential local services customers in non-HCSAs would have received during that year, as a result of the application of the I-X constraint to residential and optional local services rates in non-HCSAs. The corresponding rate reductions would have been recurring, and therefore these amounts accumulated in the deferral account each year.

6. In Telecom Decision 2006-9, the Commission determined that:¹
 - the ILECs, with the exception of Télébec, Limited Partnership, were required to implement monthly rate reductions to eliminate the recurring amounts accruing to their deferral accounts;
 - the monthly rate reductions were to apply to PES and optional local services for residential subscribers in non-HCSAs;
 - the recurring amounts to be eliminated by rate reductions were to be assigned to the Residential Local Services in non-HCSAs basket and proportionally allocated, based on revenues, to the Residential Local Exchange Services in non-HCSAs and the Residential Optional Local Services in non-HCSAs sub-baskets;² and
 - all residential subscribers in non-HCSA bands were to benefit from these rate reductions.
7. The Commission notes that pursuant to its directions in Telecom Decision 2006-9, Bell Canada initially proposed to implement rate reductions to eliminate only a portion of its recurring balance. At that time, Bell Canada sought the Commission's approval to retain a portion of its recurring balance in recognition of the fact that certain proceedings with regard to competitor services that were outstanding at that time were likely to result in additional drawdowns to the recurring balance in its deferral account. The Commission approved Bell Canada's application in Telecom Order 2006-134.
8. The Commission's decisions in those proceedings reduced Bell Canada's recurring balance to the \$16.3 million at issue in this proceeding.
9. The Commission notes that, in Telecom Decision 2006-15, to ensure just and reasonable rates, it imposed a price ceiling on forborne residential PES rates. In particular, the Commission determined that the price ceilings to apply would be equivalent to the approved rates at the time of forbearance for PES.³

¹ The Commission's determinations in Telecom Decision 2006-9 were predicated on the basket structure established in Telecom Decision 2002-34.

² Paragraph 226 of Telecom Decision 2006-9

³ This included touch-tone and primary directory listings, as well as connection charges.

10. In Telecom Decision 2007-27,⁴ the Commission capped residential PES rates in non-HCSAs at existing levels and determined that a constraint of zero percent at the rate element level would apply in each year such that the rates for residential PES services in non-HCSAs could not be increased. However, in Telecom Decision 2007-27, the Commission did not subject residential optional local service and bundled service rates to any upper pricing constraints.
11. The Commission notes that the underlying principle of Telecom Decision 2006-9 is that the ILECs were required to implement monthly rate reductions to eliminate the recurring amounts accruing to their deferral accounts. The Commission considers that subsequent regulatory changes have not altered this fundamental principle.
12. The Commission is concerned that, under Bell Canada et al.'s proposal, only the residential PES customers in non-forborne exchanges would benefit from the elimination of Bell Canada's recurring balance. Residential subscribers to PES in exchanges located in non-HCSAs that are forborne would not benefit from any rate reductions. Further, the proposed rate reductions would amount to only \$1.3 million of the \$16.3 million of Bell Canada's recurring balance. Bell Canada et al. would therefore retain, for their own use, the remaining \$15 million of that balance for 2008 and every year thereafter.
13. In light of the above, the Commission considers that Bell Canada et al.'s proposal is not appropriate and that instead, all Bell Canada et al.'s residential PES customers⁵ in non-HCSAs in their serving territories in Ontario and Quebec should benefit from the elimination of Bell Canada's recurring balance in its entirety, corresponding to \$16.3 million.
14. As noted above, the Commission determined in Telecom Decision 2006-9 that the recurring amounts to be eliminated by rate reductions were to be assigned to the Residential Local Services in non-HCSAs basket and proportionally allocated, based on revenues, to the Residential Local Exchange Services in non-HCSAs and the Residential Optional Local Services in non-HCSAs sub-baskets.
15. The Commission notes that residential optional local services subscribers are necessarily residential PES customers and that most PES customers subscribe to one or more residential optional local services. The Commission considers that the elimination of Bell Canada's recurring balance assigned to residential optional local services through reductions in residential PES rates in non-HCSAs would spread the rate reductions over an acceptable base of customers in non-HCSAs.
16. The Commission is of the view that all residential PES customers in non-HCSAs benefiting from the elimination of Bell Canada's recurring balance in its entirety would ensure that PES rates in these areas would continue to be just and reasonable. The Commission therefore considers that a reduction in the price ceilings on forborne and non-forborne residential PES rates should be imposed. These reductions to PES rates applicable to residential customers in non-HCSAs should be by an amount sufficient to eliminate Bell Canada's recurring balance assigned to both residential PES and residential optional local services.

⁴ The Commission notes that a new basket structure was established in Telecom Decision 2007-27.

⁵ In this and subsequent paragraphs of this Order, whenever the Commission refers to the term "residential PES customers," it means residential primary exchange service customers, not including those who subscribe to any bundle that includes primary exchange service as one of its components.

17. In light of the above, the Commission **denies** Bell Canada et al.'s applications and directs the companies to evenly distribute the \$16.3 million recurring balance in Bell Canada's deferral account among Bell Aliant's and Bell Canada's forborne and non-forborne residential PES customers in non-HCSAs residing in Bell Aliant's Ontario and Quebec serving territory and Bell Canada's serving territory on the basis of the most current NAS count.
18. The Commission further directs Bell Canada et al. to reduce, by the amount calculated pursuant to the Commission's direction above,
 - (a) the price ceilings and the rates on non-forborne residential PES in non-HCSAs in their respective General Tariff item 70 – Rate Schedules for Primary Exchange (Local) Service
 - (b) the price ceilings and the rates on forborne residential PES in non-HCSAs.
19. The Commission further directs Bell Canada et al. to issue revised tariff pages, file with the Commission the new price ceilings on forborne residential PES rates in non-HCSAs, and update their websites to reflect both the revised tariff pages and the price ceilings by **1 December 2008**. The revised rates for non-forborne residential PES in non-HCSAs will become the new price cap on rates for those services.
20. In the Commission's view, its determinations in this Order advance the telecommunications policy objectives set out in paragraphs 7(a), 7(b), and 7(h) of the *Telecommunications Act*, namely
 - 7(a) to facilitate the orderly development throughout Canada of a telecommunications system that serves to safeguard, enrich and strengthen the social and economic fabric of Canada and its regions;
 - 7(b) to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada; and
 - 7(h) to respond to the economic and social requirements of users of telecommunications services.
21. The Commission notes that the purpose of Bell Canada et al.'s applications and the Commission's determinations in this Order is to wind up the outstanding recurring balance in Bell Canada's deferral account. The Commission considers that, in order to ensure that all residential customers in non-HCSAs benefit from the elimination of that balance, it cannot rely on market forces.
22. The Commission considers that its determinations with respect to the proposed changes are consistent with the requirements of the Governor in Council's Policy Direction⁶ to rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives and that regulatory measures, when relied upon, be

⁶ *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006.

efficient and proportionate to their purpose, interfere minimally with competitive market forces, and neither deter economically efficient entry nor promote economically inefficient entry into the market.

Secretary General

Related documents

- *Price cap framework for large incumbent local exchange carriers*, Telecom Decision CRTC 2007-27, 30 April 2007
- Telecom Order CRTC 2006-134, 1 June 2006
- *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
- *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9, 16 February 2006
- *Implementation of price regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002
- *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

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