



Telecom Decision CRTC 2009-416

Ottawa, 10 July 2009

TELUS Communications Company – Application seeking recovery of administrative costs associated with the implementation of Competitor Digital Network Service

File number: 8678-T66-200905201

In this decision, the Commission finds that the administrative costs incurred by TCC to implement Competitor Digital Network Access services do not qualify for deferral account treatment or exogenous treatment beyond that previously provided, and denies TCC's requests to recover these costs.

Introduction

1. The Commission received an application by TELUS Communications Company (TCC), dated 20 March 2009, in which the company requested that the Commission approve the recovery of the administrative costs it incurred in implementing Competitor Digital Network Access (CDNA) and Competitor Digital Network (CDN) services, estimated at \$1.3 million. TCC proposed to recover these costs by drawing down the accumulated balance in its deferral account.
2. The Commission received no comments on this application. The public record of this proceeding, which closed on 5 May 2009, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

Do the administrative costs incurred by TCC as a result of implementing CDN services qualify for cost recovery?

3. TCC noted that, in Telecom Decision 2002-34, the Commission directed the incumbent local exchange carriers (ILECs) to develop a CDNA service which included an access and a link component, and that the scope of the services to be provided to competitors was expanded in Telecom Decision 2005-6 to include Digital Network Access (DNA) intra-exchange, Central Office (CO) channelization, non-forborne metropolitan interexchange (IX), copper and optical co-location links, and other CO connecting links (CDN service).
4. TCC noted that, in Telecom Decisions 2002-34 and 2005-6, the Commission determined that the ILECs would be compensated for revenue losses occasioned by the introduction of CDNA and CDN services from the ILECs' deferral accounts, based on the dates these services were made available to customers (1 June 2002 and 3 February 2005, respectively).

5. TCC also noted that there have been numerous proceedings, Commission rulings, and Part VII applications related to the definition and implementation of CDN services subsequent to Telecom Decision 2002-34, which resulted in a very long, complex, and costly process to migrate customers from DNA services to CDNA/CDN services.
6. TCC submitted that it expended significant time and incurred significant expense in developing processes and systems to receive and document customer requests to convert existing DNA services to CDNA/CDN services. In light of this, TCC has applied to recover the costs associated with these conversion activities as a drawdown from the accumulated balance in its deferral account. TCC argued that deferral account compensation is justified, and required, in the case where the Commission imposes additional costs on an ILEC.
7. TCC indicated that while the costs in question would fully qualify as an exogenous adjustment, it was not applying for an exogenous adjustment in this application because the Commission has previously determined that the costs associated with the introduction of CDN service will be recovered from the deferral account.

Commission's analysis and determinations

8. In Telecom Decision 2002-34, the Commission determined that in order to foster facilities-based competition, the ILECs were to develop the CDNA service as a Competitor Service, and approved interim rates for that service based on the ILECs' retail DNA service costs.
9. In that decision, the Commission noted that the creation of the CDNA service would reduce the revenues that the ILECs derived from their retail DNA service. Because these reduced rates resulted from policy considerations as opposed to cost reductions, the Commission considered it appropriate to compensate the ILECs for this reduction in revenues with funds drawn from the ILECs' deferral accounts.
10. As noted above, in Telecom Decision 2005-6, the Commission broadened the scope of the CDN access service to include other services. In that decision, consistent with its determination in Telecom Decision 2002-34 to compensate the ILECs for the revenues lost due to the introduction of the CDNA service, the Commission approved the following compensation for all ILECs except Saskatchewan Telecommunications:
 - (i) for the CDNA-eligible migrated demand, as at 1 June 2002, ILECs would be compensated based on the difference between the CDN access and link rates approved in Telecom Decision 2005-6 and the corresponding retail DNA access and link rates; and
 - (ii) for other CDN service migrated demand, as at 3 February 2005, ILECs would be compensated based on the difference between CDN rates approved in Telecom Decision 2005-6 and the corresponding retail rates.

11. The Commission notes that TCC has requested to recover administrative costs incurred to implement CDN services and has identified two types of costs, namely (i) labour costs effective 1 June 2002 and 3 February 2005,¹ and (ii) external billing system costs effective 3 February 2005.
12. The Commission further notes that in the cost studies filed in the CDN proceeding leading to Telecom Decision CRTC 2005-6, TCC estimated and included costs associated with implementing CDN services for the following two cost categories: expenses causal to demand, and expenses causal to service.
13. With respect to expenses causal to demand, TCC included maintenance expenses and functional operating expenses (FOEs)² associated with service provisioning, sales management,³ and billing⁴ in its CDN cost studies. The Commission notes that, in Telecom Decision 2005-6, it considered it appropriate to include TCC's proposed FOEs, with one exception, consistent with other ILECs.⁵ Therefore, the Commission is of the view that the associated CDN rates approved for TCC provide appropriate recovery of TCC's service provisioning, sales management, and billing expenses, including those identified by TCC in this application.
14. With respect to expenses causal to service, TCC included service development expenses in its CDN cost studies, whereas Aliant Telecom Inc. (Aliant Telecom),⁶ Bell Canada, and MTS Allstream Inc. (MTS Allstream) included expenses associated with billing/order systems modifications, creation of universal service order codes, as well as service development including the creation of methods and procedures. The Commission notes that in Telecom Decision 2005-6, it increased TCC's proposed expenses causal to service to a level consistent with those proposed by Aliant Telecom, Bell Canada, and MTS Allstream. Accordingly, the Commission is of the view that TCC's revised expenses causal to service included in the approved CDN rates provide appropriate recovery of TCC's CDN service implementation costs, including the external billing system expenses identified by TCC in this application.
15. In addition, in Telecom Decision 2005-6, the Commission allowed the compensation of the costs identified by TCC in its application retroactive to 1 June 2002, thereby effectively allowing TCC to recover costs from 1 June 2002 onwards.

¹ Labour costs are based on applicable labour rates in the years when implementation activities were performed and on the type of the employee performing the conversion requests.

² FOEs were developed using 2001 actual costs for sales and marketing and group B labour expenses associated with the capital labour component of local business service, as per paragraph 455 of Telecom Decision 2005-6.

³ As per TCC's Regulatory Economic Studies Manual, sales management expenses include expenses which vary with the demand for a service such as those associated with sales, as well as the associated ongoing administrative support activities.

⁴ As per TCC's Regulatory Economic Studies Manual, billing expenses include expenses which vary with the demand for a service, such as those associated with billing and collection as well as the associated ongoing administrative support activities.

⁵ In Telecom Decision 2005-6, the Commission considered it appropriate to include TCC's proposed FOEs with the exception of DS-0 and DS-1 access speeds, which were capped at \$8.00 per access.

⁶ Aliant Telecom is now part of Bell Aliant Regional Communications, Limited Partnership.

16. In light of the above, the Commission considers that the approved CDN rates provide sufficient recovery of the costs of implementing the CDN services set out in Telecom Decision 2005-6, including those identified by TCC in this application.
17. Accordingly, the Commission **denies** TCC's application.

Secretary General

Related documents

- *Competitor Digital Network Services*, Telecom Decision CRTC 2005-6, 3 February 2005, as amended by Telecom Decision CRTC 2005-6-1, 28 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

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