



## Telecom Decision CRTC 2009-505

Ottawa, 20 August 2009

### **TELUS Communications Company – 2009 application to update its funding requirements for its service improvement plan and related matters**

File number: 8638-C12-73/02

*In this decision, the Commission approves TCC's application to update its service improvement plan rollout schedule. The Commission also approves TCC's request to adjust its total subsidy requirement and its drawdown from its deferral account to reflect actual capital expenditures for 2008 and projected 2009 capital expenditures.*

### **Introduction**

1. On 31 March 2009, TELUS Communications Company (TCC) filed its service improvement plan (SIP) tracking report for the year 2008, pursuant to the Commission's directives in Telecom Decision 2002-34.
2. In its SIP tracking report, TCC provided new information on the 17 communities for which the Commission had directed the company to propose a rollout schedule and funding requirements in Telecom Decision 2009-89, reported on the SIP qualifying criteria for the Quesnel Lake community, and reported on the construction projects scheduled for eight remaining communities in 2008. In addition, TCC provided its actual capital expenditures for 2008 and the projected capital expenditures required for completing its SIP in 2009. On 13 May 2009, TCC submitted an amendment adjusting its projected capital expenditures.
3. TCC requested approval of (1) an adjustment to the funding it receives from the National Contribution Fund regarding the total subsidy requirement (TSR) for high-cost serving areas (HCSAs), and (2) an adjustment to the drawdown from its deferral account for non-HCSAs.
4. The Commission received no comments regarding this application. TCC's application is available on the Commission's website at [www.crtc.gc.ca](http://www.crtc.gc.ca) under "Public Proceedings" or by using the file number provided above.

### **Background**

5. In Telecom Decision 2002-34, the Commission addressed the implementation of the incumbent local exchange carriers' (ILECs) SIPs, the aim of which was to provide residential customers with telephone service that would meet the Commission's basic service objective in unserved and underserved areas. Specifically, the Commission directed the ILECs to start a SIP project in a locality that met the following criteria: (a) the maximum average cost per premises was \$25,000 using a 100 percent take rate; and (b) at least one customer requested service and was willing to contribute \$1,000.

6. In Telecom Decision 2002-34, the Commission (1) approved a SIP for unserved premises in TCC's territory of \$10.6 million in capital expenditures; (2) directed TCC to add its Phase II SIP costs for HCSAs to the costs that flowed into its TSR calculations; and (3) allowed the explicit recovery by TCC of the Phase II costs associated with its SIP in non-HCSAs by means of drawdowns from its deferral account. The Commission stated that it intended to review TCC's progress in implementing its SIP on a yearly basis, as reported in its tracking plan, to determine whether additional capital and funding were required. The Commission directed TCC to begin rolling out its SIP in 2002.
7. In Telecom Decision 2008-103, the Commission approved TCC's application to extend its SIP construction schedule to provide telephone service to 8 remaining communities during 2008 and to update its associated funding requirements. In Telecom Decision 2009-89, the Commission further extended TCC's SIP from 2010 to 2012 in order for the company to address 17 approved communities for which TCC had submitted it had been unable to start the provisioning of service, prior to the formal end of the SIP on 31 December 2006. The Commission directed the company to propose a revised rollout schedule, new cost estimates, and amended funding requests to permit it to provide telephone service to these 17 communities. The Commission also directed TCC to review the eligibility of the Quesnel Lake community, which the company had previously deemed ineligible for the SIP.

### **Issues**

8. The Commission has identified the following two issues to be addressed in this decision:
  - I. Does the new information regarding the 17 communities identified in Telecom Decision 2009-89 warrant further SIP changes?
  - II. Are TCC's requests for further scheduling and funding changes for the current SIP appropriate?

### **I. Does the new information regarding the 17 communities identified in Telecom Decision 2009-89 warrant further SIP changes?**

9. In its 2008 SIP tracking report, TCC submitted that in reviewing the status of the 17 communities identified in Telecom Decision 2009-89, it had uncovered additional pertinent information. TCC indicated that the communities of Bull Harbour, Henley Lake, Lower Cache, Meier Road, and Ruth Lake Road had each received telephone service when facilities were extended to them through ongoing service extension programs. TCC submitted that since this work had been performed outside of the SIP, it had not been reported in its previous annual tracking reports.

10. TCC submitted that it had previously written to the regional districts and/or individuals in each of the remaining 12 communities, requesting that they identify their interest in participating in the SIP. It noted that only 1 of these communities had responded by indicating that it had no interest in receiving telephone service because of the costs involved. TCC also noted that 11 communities had not responded and submitted that these should be deemed ineligible for the SIP.
11. TCC submitted that the projected cost per household to provide the Quesnel Lake community with telephone service exceeds the SIP eligibility criteria. It also submitted that following an engineering review, the cost per household, assuming a 100 percent take rate, was estimated to be \$48,200, which greatly exceeds the SIP criteria maximum of \$25,000. TCC submitted, therefore, that the Quesnel Lake community does not qualify for the SIP.
12. TCC submitted that because telephone service had already been provided to 5 of the communities and that there would be no additional planned construction for any of the remaining 12 communities or for Quesnel Lake, the SIP extension and reporting requirement approved by the Commission in Telecom Decision 2009-89 are no longer warranted.
13. The Commission has reviewed the updated information provided by TCC and is satisfied that no new SIP construction or funding is necessary for the 5 communities previously completed outside of the SIP, or the remaining 12 communities that have not indicated interest in the program. The Commission is also satisfied that the cost per household to provide telephone service to the Quesnel Lake community is higher than the SIP qualifying criteria. As a result, the Commission concludes that the 17 communities may be removed from TCC's SIP, and that the Quesnel Lake community remains ineligible for the SIP. Accordingly, the Commission determines that the 2010-2012 SIP extension and the reporting requirement approved in Telecom Decision 2009-89 are no longer necessary.

## **II. Are TCC's requests for further scheduling and funding changes for the current SIP appropriate?**

14. In Telecom Decision 2008-103, the Commission approved TCC's application for additional time and associated funding in order to complete projects to eight communities during 2008. In its tracking report, TCC provided an update on its progress regarding these projects and submitted its revised costing information.

### **a) TCC's progress update and scheduling change request**

15. In its tracking report, TCC reported that it had only completed construction projects for three of the outstanding eight communities in the previous year and that projects for the communities of Beaverfoot, Iron Mountain, Lytton, Nuchatlitz, and Passage Island remained outstanding as of 31 December 2008. TCC submitted that the company had experienced unusual difficulties in accessing sites and gaining the necessary approvals for construction in these remote locations. It also submitted that it anticipated having each of these remaining communities completed and in service by the end of 2009 or early 2010.

16. The Commission notes that TCC anticipates completing the approved construction projects in the five remaining communities by early 2010 at the latest. Accordingly, the Commission **approves** the schedule proposed by TCC.
17. However, the Commission notes that the residents of these five remaining communities have been waiting for telephone service since the communities were first approved in 2003. The Commission wants to ensure that the remaining SIP construction projects are concluded as expeditiously as possible. To that end, the Commission directs TCC to file a SIP tracking report by 30 September 2009, and semi-annually thereafter until its SIP is complete.

**b) TCC's revised total SIP expenditures**

18. TCC submitted that the delays with the five projects had resulted in lower actual 2008 SIP expenditures than the company had forecast. However, it also submitted that the overall SIP costs would increase from its 2008 forecast as the outstanding SIP projects were proving to be more expensive than anticipated. TCC forecasted that its total SIP capital expenditures for 2009 would increase by \$338,000 above the \$32.9 million approved in Telecom Decision 2008-103, to \$33.2 million.
19. TCC submitted that in non-HCSAs, the actual 2008 capital expenditures had been \$321,000, which was lower than the forecast of \$630,000. However, it forecasted the new capital expenditures for 2009 to be \$485,000, resulting in an overall \$176,000 increase from the amount approved in Telecom Decision 2008-103. The company also submitted that in HCSAs, the actual 2008 capital expenditures had been \$856,000, also lower than the forecast of \$1.4 million. However, it forecasted the new capital expenditures for 2009 to be \$706,000, resulting in an overall \$162,000 increase from the amount approved in Telecom Decision 2008-103. TCC also filed incremental Phase II cost studies that, in its view, would result in incremental increases to both the TSR and to the drawdown from its deferral account.
20. The Commission has reviewed the cost information filed by TCC in support of its application and considers that the increase in TCC's SIP capital expenditures is acceptable. Accordingly, the Commission **approves** the revised total SIP expenditures of \$33.2 million.

**c) TCC's revised SIP funding amounts**

21. TCC submitted that the incremental Phase II cost studies for residential service in non-HCSAs demonstrate an increase in the annual equivalent cost (AEC) amounts for certain rate bands in Alberta and British Columbia compared to those approved in Telecom Decision 2008-103. Specifically, the company restated the AEC amounts to \$1,922,879 in 2008 and to \$1,982,622 for 2009 and beyond.
22. TCC submitted that the incremental Phase II cost studies for HCSAs demonstrate an increase to the residential per network access service (NAS) monthly equivalent cost (MEC) amount to be included in the 2009 TSR calculation for certain rate bands in British Columbia.

23. The Commission has reviewed TCC's capital recovery amounts (AECs and MECs) and notes that these amounts have been calculated using the methodology approved in Telecom Decision 2006-63.
24. Accordingly, the Commission **approves** drawdowns from the deferral account of \$1,922,879 for 2008 and of \$1,982,622 for 2009 and beyond. The Commission directs TCC to issue an updated deferral account statement within 30 days of this decision.
25. The Commission also **approves**, starting in 2009, the following increases to the MEC for TCC's residential local exchange service in HCSAs in British Columbia as follows:

Band E: \$0.02 per NAS per month

Band G: \$0.12 per NAS per month

Secretary General

### **Related documents**

- *TELUS Communications Company – Follow-up to Telecom Decision CRTC 2008-103*, Telecom Decision CRTC 2009-89, 24 February 2009
- *TELUS Communications Company – 2008 application to update its funding requirements for its service improvement plan and related matters*, Telecom Decision CRTC 2008-103, 23 October 2008
- *TELUS Communications Company – Application to decrease the capital cost of its service improvement plan and related matters*, Telecom Decision CRTC 2006-63, 28 September 2006
- *Follow-up to price cap Decision 2002-34: TELUS' revised service improvement plan*, Telecom Decision CRTC 2003-64, 25 September 2003
- *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

*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>*