



Telecom Decision CRTC 2010-789

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Ottawa, 25 October 2010

Final 2010 revenue-percent charge and related matters

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In this decision, the Commission approves on a final basis, effective 1 January 2010, a 2010 contribution collection revenue-percent charge of 0.73 percent, the 2010 subsidy amounts for Northwestel and the small incumbent local exchange carriers (ILECs), and the 2010 subsidy per residential network access service (NAS) amounts for the territories of the large ILECs, Télébec, and People's Tel Limited Partnership (People's).

In addition, the Commission approves on an interim basis, effective 1 January 2011, a 2011 contribution collection revenue-percent charge of 0.73 percent, the 2011 subsidy amounts for Northwestel and the small ILECs, and the 2011 subsidy per residential NAS amounts for the territories of the large ILECs, Télébec, and People's.

Introduction

1. In Decision 2000-745, the Commission introduced a national revenue-based contribution collection mechanism and a new methodology for calculating the subsidy for high-cost serving areas (HCSAs) in the territories of the large incumbent local exchange carriers (ILECs)¹ and Télébec, Limited Partnership (Télébec).²
2. In Decision 2001-238, the Commission established the costing rules to be used for determining the subsidy per residential network access service (NAS) amounts for the territories of the large ILECs. The subsidy per residential NAS amounts for HCSAs is approved annually by the Commission.
3. In Telecom Decision 2009-702, the Commission set, on an interim basis for 2010, a revenue-percent charge of 0.81 percent and the subsidy per residential NAS amounts for the territories of the large ILECs, Télébec, and People's Tel Limited Partnership (People's).
4. The Commission received submissions from Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), Bell Canada, MTS Allstream Inc. (MTS Allstream), Saskatchewan Telecommunications (SaskTel), and TELUS Communications Company (TCC) (collectively, the large ILECs); Télébec; and the

¹ The carriers referred to as large ILECs in Decision 2000-745 are now known as Bell Aliant Regional Communications, Limited Partnership, Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications, and TELUS Communications Company.

² Télébec was known as Télébec ltée at the time Decision 2000-745 was issued.

Canadian Portable Contribution Consortium Inc. (CPCC). The public record of this proceeding, which closed on 10 June 2010, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

5. The Commission will determine the following in this decision:
 - I. The estimated national subsidy requirement for 2010;
 - II. The final 2010 and interim 2011 revenue-percent charge; and
 - III. The final 2010 and interim 2011 subsidy per residential NAS amounts.
6. In the final section of this decision, the Commission will address other matters.

I. The estimated national subsidy requirement for 2010

7. The national subsidy requirement is based on the sum of the administrative and operational costs of the CPCC and the Central Fund Administrator (CFA), the subsidy amount for Northwestel Inc. (Northwestel), the subsidy amounts for the small ILECs, the estimated HCSA total subsidy requirements for the territories of the large ILECs and Télébec, and adjustments.

CPCC and CFA administrative and operational costs

8. The Commission received notification from the CPCC, dated 18 March 2010, that the estimated CPCC and CFA administrative and operational costs would be approximately \$0.9 million for 2010.

Subsidy amount for Northwestel

9. In Telecom Decision 2007-127, the Commission determined that Northwestel would receive a revised fixed subsidy amount of \$20.8 million per year for each of the years 2008 through 2010. The Commission directed the CFA to make the related monthly subsidy payments to Northwestel.
10. In Telecom Decision 2010-274, the Commission extended Northwestel's regulatory framework until after a decision had been issued with respect to the proceeding initiated by Telecom Notice of Consultation 2010-43.

Subsidy amounts for the small ILECs

11. In Telecom Decision 2006-14, the Commission determined that the small ILECs would receive fixed subsidy amounts totalling approximately \$23.0 million per year for each of the years 2006 through 2009. The Commission directed the CFA to make the related monthly subsidy payments to the small ILECs.

12. In Telecom Regulatory Policy 2009-788, the Commission extended the small ILECs' regulatory framework until after a decision had been issued with respect to the proceeding initiated by Telecom Notice of Consultation 2010-43.
13. In Telecom Decision 2010-579, the Commission approved an application providing CityWest Telephone Corporation (CityWest) with an annual fixed subsidy amount of \$0.142 million per year, effective 1 January 2010. The Commission directed the CFA to make the related monthly subsidy payments to CityWest.

Estimated HCSA total subsidy requirements for the territories of the large ILECs and Télébec

14. In Telecom Decisions 2007-27 and 2007-60, the Commission directed the large ILECs and Télébec to file, by 31 March of each year, subsidy per residential NAS calculations that included annual costs adjusted (a) for inflation minus a productivity rate of 3.2 percent; (b) for any service improvement plan (SIP) cost changes; (c) upward to include a 15 percent markup; and (d) upward for the cost recovery of the revenue-percent charge. The Commission also directed the large ILECs and Télébec to impute HCSA residential local rate increases for subsidy calculation purposes, whether or not the rate increases were actually taken. This imputation was to be based upon the price cap constraints.
15. In Telecom Decision 2010-160, the Commission determined that if the annual inflation factor was negative, it should be applied to the cost component of the subsidy calculations, but not to the HCSA residential local rate component. The Commission directed the large ILECs to submit their subsidy per residential NAS calculations taking into account the determinations in that decision within 30 days.
16. The Commission received the 2010 HCSA subsidy calculations from the large ILECs and Télébec between 15 and 19 April 2010. The Commission received revised HCSA subsidy calculations from Bell Aliant and Bell Canada (collectively, the Bell companies), dated 10 May 2010.
17. In their revised subsidy calculations, the Bell companies proposed to de-average Bell Canada's Ontario and Quebec Band E and F primary exchange service (PES) costs to take into account a 2006 Bell Canada/Bell Aliant restructuring.³ The Bell companies proposed to (a) de-average Bell Canada's PES costs, approved in Decision 2001-238, on a "cost-neutral"⁴ basis, (b) de-average Bell Canada's SIP costs, approved in Telecom Decision 2003-43, on a demand basis, and (c) adjust the above costs to reflect the reduction in the tax rate applicable to telecommunications, gas distribution and electric power network in Quebec (QTGE), as mandated in Telecom Decision 2003-15.

³ In July 2006, Bell Aliant – Central region Bands E and F were established with the transfer of residential HCSA customers in Ontario and Quebec from Bell Canada to Bell Aliant.

⁴ The approved Bell Canada PES costs (which included the Bell Aliant – Central region costs at that time) were de-averaged into the revised Bell Canada and Bell Aliant – Central region costs such that the weighted-average of the PES costs for the two entities was equal to the approved PES costs of Bell Canada before the de-averaging.

18. By letter dated 7 June 2010, the Bell companies responded to interrogatories requesting additional information with respect to its cost de-averaging process.
19. The Commission notes that, in Telecom Decision 2003-70, it approved an application by MTS Allstream to reclassify 17 of its exchanges from Band D to Band F and accepted the revised subsidy calculations for Band F based on the de-averaging of the approved Band D residential PES costs into Band F and a revised Band D using a "cost-neutral" approach. Under this approach, the revised weighted-average residential PES costs for Band F and the revised Band D were equivalent to MTS Allstream's approved residential PES cost for the former Band D.
20. The Commission has reviewed the costing information provided for Bands E and F and considers the Bell companies' de-averaging proposal of the former Bell Canada residential PES and SIP costs into Bell Canada and Bell Aliant – Central region and the associated QGTE tax adjustments to the de-averaged costs to be cost neutral and appropriate.
21. Accordingly, the Commission **approves** the Bell companies' de-averaged residential PES costs for Bands E and F, of \$24.20 and \$23.65 for Bell Canada and \$28.54 and \$27.40 for Bell Aliant – Central region, for use as input into their 2010 subsidy calculations.
22. In its subsidy calculations, TCC included SIP cost adjustments and proposed revised residential PES costs for its high-cost bands in Alberta and British Columbia.
23. The Commission notes that TCC's SIP cost adjustments were subsequently approved by the Commission in Telecom Decision 2010-636.
24. With respect to the proposed revised PES costs, TCC noted that the maintenance expenses and functional operating expenses (FOEs) included in the residential PES costs set out in Decision 2001-238 for Alberta and British Columbia were capped. TCC also noted that, in Telecom Regulatory Policy 2009-80, the Commission confirmed that maintenance expenses and FOEs were no longer being capped and that company-specific cost measures would be allowed.
25. Therefore, TCC proposed to include the current cost estimates of its maintenance expenses and FOEs in its Alberta and British Columbia subsidy calculations. TCC noted that the remaining residential PES cost elements were not being updated at this time because, while the capital costs were still too low, adjustment of the capital costs is a much more complex process that would result in unreasonable delay in getting the subsidy calculations approved.
26. The Commission considers that the residential PES costs consist of both the expense- and capital-related costs and, without a complete review of both cost elements, it cannot assess whether the total residential PES costs would increase or decrease, as some individual costs may increase while others may decrease.

27. The Commission also considers that TCC's selective approach whereby only expense-related, but not capital-related, costs are updated is incomplete and inappropriate for purposes of revising its subsidy calculations.
28. Accordingly, the Commission **denies** TCC's request to include its current estimates of maintenance expenses and FOEs for Alberta and British Columbia in its subsidy calculations.
29. Excluding the proposed TCC maintenance expense and FOE adjustments, the Commission has reviewed the subsidy calculations for the large ILECs and Télébec and finds them to be in accordance with the directives set out in Telecom Decisions 2007-27, 2007-60, and 2010-160. For TCC in Alberta and British Columbia, the Commission has used the final 2009 subsidy cost information as input to the 2010 subsidy calculations.
30. The Commission notes that based upon the 2009 year-end NAS information, the 2010 total subsidy requirement for the territories of the large ILECs and Télébec is approximately \$125.2 million.

Adjustment

31. The Commission notes that the current CPCC requested National Contribution Fund (NCF) minimum balance is \$5 million. However, at the end of 2009, the NCF was \$5.7 million below this requested minimum balance. Therefore, the estimated 2010 national subsidy requirement needs to be increased by \$5.7 million to re-establish the CPCC requested NCF minimum balance.
32. Based on the above, the Commission finds that the estimated 2010 national subsidy requirement is approximately \$175.8 million.

II. Final 2010 and interim 2011 revenue-percent charge

33. The revenue-percent charge is calculated using the ratio of the national subsidy requirement to the total estimated contribution-eligible revenues of all telecommunications service providers that are required to contribute.
34. The Commission considers that a final 2010 revenue-percent charge of 0.73 percent would be appropriate to ensure the stability of the NCF. The Commission also considers that an interim 2011 revenue-percent charge of 0.73 percent, effective 1 January 2011, would also be appropriate.
35. Therefore, the Commission **approves** a final 2010 revenue-percent charge of 0.73 percent, effective 1 January 2010, and an interim 2011 revenue-percent charge of 0.73 percent, effective 1 January 2011.

III. Final 2010 and interim 2011 subsidy per residential NAS amounts

36. Based on the final 2010 revenue-percent charge of 0.73 percent, the Commission calculates the final 2010 subsidy per residential NAS amounts for each HCSA band in the territories of the large ILECs and Télébec to be as set out in Table 1.

Table 1

Territory	Final 2010 monthly subsidy per residential NAS amounts by HCSA Band (\$)		
	Band E	Band F	Band G
Bell Aliant			
New Brunswick	1.74	0.00	n/a
Newfoundland and Labrador	2.16	3.17	7.69
Nova Scotia	0.00	0.00	n/a
Ontario and Quebec	2.68	1.21	18.85
Prince Edward Island	0.86	2.14	n/a
Bell Canada	0.00	0.00	n/a
MTS Allstream	16.54	11.11	59.35
SaskTel	17.84	11.07	28.18
TCC			
Alberta	1.30	0.00	2.16
British Columbia	21.59	9.31	19.54
Quebec	10.98	0.00	42.59
Télébec	15.21	3.80	12.85

n/a: not applicable

37. The Commission **approves on a final basis**, effective 1 January 2010, and **approves on an interim basis**, effective 1 January 2011, the monthly subsidy per residential NAS amounts for each HCSA band for the territories of the large ILECs and Télébec as shown in Table 1.

38. The Commission directs the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2010. The Commission also directs the CFA to distribute the monthly subsidy on an interim basis, effective 1 January 2011.

Other matters

Finalize the annual fixed subsidy amount for Northwestel

39. The Commission notes that, in Telecom Decision 2007-127, the annual fixed subsidy amount for Northwestel was made interim, effective 1 January 2010, and that it needs to be made final for 2010.
40. The Commission **approves on a final basis**, effective 1 January 2010, and **approves on an interim basis**, effective 1 January 2011, an annual fixed subsidy amount of \$20.8 million for Northwestel.
41. The Commission directs the CFA to distribute 1/12th of the annual fixed subsidy amount on a monthly basis to Northwestel on a final basis, effective 1 January 2010, and on an interim basis, effective 1 January 2011.

Finalize the annual fixed subsidy amounts for the small ILECs

42. The Commission notes that, in Telecom Decisions 2006-14 and 2010-579, the annual fixed subsidy amounts for the small ILECs were made interim, effective 1 January 2010, and that they need to be made final for 2010.
43. The Commission **approves on a final basis**, effective 1 January 2010, and **approves on an interim basis**, effective 1 January 2011, the annual fixed subsidy amounts listed in Attachment 2 of Telecom Decision 2006-14 and the subsidy amount for CityWest identified in Telecom Decision 2010-579.
44. The Commission directs the CFA to distribute 1/12th of the annual fixed subsidy amounts on a monthly basis to the small ILECs on a final basis, effective 1 January 2010, and on an interim basis, effective 1 January 2011.

Small ILEC territories where a competitor is operating

45. In Telecom Decision 2006-14, the Commission approved interim subsidy per residential NAS amounts, for each band and sub-band, for the tax-paying and non-tax-paying small ILECs. The Commission directed the CFA to make interim subsidy payments, based upon the corresponding interim subsidy per residential NAS amounts, when a competitive local exchange carrier (CLEC) started to operate in a specific small ILEC territory. The Commission noted that it would establish the final subsidy per residential NAS amounts in the next revenue-percent charge decision after a CLEC started to operate in a specific small ILEC territory. The Commission also noted that any interim subsidy received by a CLEC prior to the final individual small ILEC subsidy per residential NAS amounts being published would be adjusted by the CFA to reflect the final subsidy per residential NAS amounts applicable for that particular small ILEC.

46. The Commission notes that there is a competitor operating in People's territory. Therefore, the Commission is publishing the final subsidy per residential NAS amounts, so that the CFA can make the necessary subsidy adjustments. The Commission notes that these subsidy per residential NAS amounts are the same amounts used by the Commission in Telecom Decision 2006-14 to establish People's annual subsidy amount.

Territory	Final monthly subsidy per residential NAS amounts by HCSA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
People's	12.17	n/a	9.95	n/a	n/a	n/a

n/a: not applicable

47. The Commission **approves on a final basis**, effective 1 January 2010, and **approves on an interim basis**, effective 1 January 2011, the monthly subsidy per residential NAS amounts as shown above.
48. The Commission directs the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2010. The Commission also directs the CFA to distribute the monthly subsidy on an interim basis, effective 1 January 2011.

Excess NCF funds after processing the December 2010 data-month

49. In Telecom Decision 2007-98, the Commission approved revised procedures for the operation of the NCF that resulted in funds in excess of the CPCC requested minimum balance being retained by the required contributors as uncalled contribution, rather than being held by the NCF as a cash surplus. In addition, the Commission indicated that it would direct the CFA to release the uncalled contribution at year-end because these amounts would not be needed by the NCF in that year.
50. The Commission notes that the current CPCC requested NCF minimum balance is \$5 million.
51. The Commission considers that any uncalled contribution in excess of the \$5 million minimum balance after processing the December 2010 data-month is not required by the NCF and that the uncalled contribution can be released.
52. Accordingly, the Commission directs the CFA, after it has processed the December 2010 data-month, to release any 2010 uncalled contribution.

Secretary General

Related documents

- *TELUS Communications Company – Application to update its funding requirements for its service improvement plan*, Telecom Decision CRTC 2010-636, 31 August 2010
- *CityWest Telephone Corporation – Application to modify its monthly subsidy per residential NAS*, Telecom Decision CRTC 2010-579, 13 August 2010
- *Northwestel Inc. – Application for an extension of the current price cap regulatory framework*, Telecom Decision CRTC 2010-274, 13 May 2010
- *Bell Aliant Regional Communications, Limited Partnership, Bell Canada, and Télébec, Limited Partnership – Effects of deflation on price cap mechanics*, Telecom Decision CRTC 2010-160, 17 March 2010
- *Proceeding to review access to basic telecommunications services and other matters*, Telecom Notice of Consultation CRTC 2010-43, 28 January 2010, as amended by *Obligation to serve and other matters*, Telecom Notices of Consultation CRTC 2010-43-1, 5 March 2010, 2010-43-2, 30 March 2010, and 2010-43-3, 23 July 2010
- *Regulatory framework for the small incumbent local exchange carriers*, Telecom Regulatory Policy CRTC 2009-788, 17 December 2009
- *Final 2009 revenue-percent charge and related matters*, Telecom Decision CRTC 2009-702, 10 November 2009
- *Review of the price floor test and certain wholesale costing methodologies*, Telecom Regulatory Policy CRTC 2009-80, 19 February 2009
- *Northwestel Inc. – Residential primary exchange service costs for Band H1*, Telecom Decision CRTC 2007-127, 10 December 2007
- *Revised procedures for the operation of the National Contribution Fund, effective January 2008*, Telecom Decision CRTC 2007-98, 11 October 2007
- *Follow-up to Decision 2007-27 – Show cause submission related to the application of the price cap regime to Télébec, Limited Partnership*, Telecom Decision CRTC 2007-60, 30 July 2007, as amended by Telecom Decision CRTC 2007-60-1, 10 August 2007
- *Price cap framework for large incumbent local exchange carriers*, Telecom Decision CRTC 2007-27, 30 April 2007
- *Revised regulatory framework for the small incumbent local exchange carriers*, Telecom Decision CRTC 2006-14, 29 March 2006

- *MTS Communications Inc. - Reclassification of Band D exchanges to Band F and related rate issues*, Telecom Decision CRTC 2003-70, 17 October 2003
- *Bell Canada – Revised service improvement plan*, Telecom Decision CRTC 2003-43, 27 June 2003
- *Bell Canada – 2002 Annual price cap filing*, Telecom Decision CRTC 2003-15, 18 March 2003, as amended by Telecom Decision CRTC 2003-15-1, 15 April 2003
- *Restructured bands, revised loop rates and related issues*, Decision CRTC 2001-238, 27 April 2001, as amended by Decisions CRTC 2001-238-1, 28 May 2001, and 2001-238-2, 7 August 2001
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000