



## Telecom Decision CRTC 2012-619

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Ottawa, 8 November 2012

### Final 2012 revenue-percent charge and related matters

File number: 8695-C12-201203710

*In this decision, the Commission approves on a final basis, effective 1 January 2012, a 2012 contribution collection revenue-percent charge of 0.63 percent, the 2012 subsidy amount for Northwestel, and the 2012 subsidy per residential network access service (NAS) amounts for the large incumbent local exchange carriers (ILECs).*

*In addition, the Commission approves on an interim basis, effective 1 January 2013, a 2013 contribution collection revenue-percent charge of 0.63 percent, the 2013 subsidy amount for Northwestel, and the 2013 subsidy per residential NAS amounts for the large ILECs.*

*The Commission notes that the small ILECs will continue to be paid subsidy on an interim basis during 2012 and 2013.*

#### Introduction

1. During the 1990s, through a series of proceedings and decisions, the Commission opened up various telecommunications markets, including the local telephone market, to competition to enhance the Canadian telecommunications system and to allow consumers the benefits of competition, including choice, lower prices, and innovation. The Commission also established a subsidy regime, whereby money is collected from telecommunications companies to subsidize residential telephone service. This subsidy regime allows residential local telephone service rates to be kept just and reasonable, as required by subsection 27(1) of the *Telecommunications Act*.
2. In Decision 2000-745, the Commission modified the subsidy regime and introduced a national revenue-based contribution collection mechanism and a new methodology for calculating the subsidy afforded to high-cost serving areas (HCSAs) in the territories of the large incumbent local exchange carriers (ILECs).<sup>1</sup>
3. Contribution (money) is paid into a national fund by telecommunications service providers (TSPs), or groups of related TSPs, that have \$10 million or more in Canadian telecommunications service revenue. Subsidy (money) is then paid out to the ILECs, who are also TSPs and provide residential telephone service in HCSAs.

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

While non-ILEC TSPs only pay into the fund, the ILECs can be either payers into the fund or receivers from the fund, depending on how much they have to pay in and how much they are entitled to receive.

4. Annually, the Commission finalizes the amount of subsidy to be paid to ILECs providing residential telephone service in HCSAs. In order to provide this subsidy, the Commission establishes a final revenue-percent charge to ensure that the amount of money collected is sufficient to meet the subsidy payments. A given year's final contribution and subsidy amounts/rates are made interim for the following year, so that the subsidy regime can continue to pay the ILECs subsidy until the following year's contribution and subsidy amounts/rates are finalized.
5. With regard to the 2012 calendar year, in Telecom Decision 2011-743, the Commission set, on an interim basis for 2012, a revenue-percent charge of 0.66 percent and the subsidy per residential network access service (NAS) amounts for the territories of the large ILECs. The Commission also set, on an interim basis for 2012, the annual subsidy amounts for Northwestel Inc. (Northwestel) and the small ILECs.
6. The Commission received submissions from Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), Bell Canada, MTS Inc. (MTS),<sup>2</sup> Saskatchewan Telecommunications (SaskTel), Télébec, Limited Partnership (Télébec), and TELUS Communications Company (TCC) (collectively, the large ILECs), Northwestel, and Canadian Telecommunications Contribution Consortium Inc. (CTCC).<sup>3</sup> The public record of this proceeding, which closed on 20 April 2012, 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.
7. The Commission determines the following in this decision:
  - I. The estimated national subsidy requirement for 2012;
  - II. The final 2012 and interim 2013 revenue-percent charge; and
  - III. The final 2012 and interim 2013 subsidy payments from the National Contribution Fund (NCF).
8. In the final section of this decision, the Commission addresses the matter of excess NCF funds after processing the December 2012 data-month.

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<sup>2</sup> In early 2012, MTS Allstream Inc. became two separate entities, MTS Inc. and Allstream Inc.

<sup>3</sup> Formerly Canadian Portable Contribution Consortium Inc., the name was changed in June 2012.

## **I. Estimated national subsidy requirement for 2012**

9. The national subsidy requirement is based on the sum of the administrative and operational costs of CTCC and the Central Fund Administrator (CFA), the estimated HCSA total subsidy amount for the large ILECs, the total subsidy amount for the small ILECs, and the subsidy amount for Northwestel.

### **CTCC and CFA administrative and operational costs**

10. The Commission received notification from CTCC, dated 6 April 2012, that the estimated CTCC and CFA administrative and operational costs would be approximately \$0.9 million for 2012.

### **Estimated HCSA total subsidy amount for the large ILECs**

11. In Decision 2001-238 and Telecom Decision 2005-4, the Commission established the costing rules to be used for determining the subsidy per residential NAS amounts for the territories of the large ILECs. The subsidy per residential NAS amounts for HCSAs is approved annually by the Commission.
12. In Telecom Decisions 2007-27 and 2007-60, the Commission directed the large ILECs 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 to impute HCSA residential local rate increases for subsidy calculation purposes, regardless of whether the rate increases were actually taken.
13. In Telecom Regulatory Policy 2011-291, the Commission directed the large ILECs to file, by 31 March of each year, their annual subsidy per residential NAS calculations, taking into account the determinations in that regulatory policy, including the elimination of the productivity offset factor, effective 1 June 2011, and the inclusion of imputed HCSA residential local rate increases, effective 1 August 2011 and 1 June 2012.
14. The Commission received the 2012 subsidy per residential NAS calculations from the large ILECs between 26 and 29 March 2012. The Commission notes that the estimated 2012 total subsidy amount for the large ILECs is \$100.1 million.
15. The Commission has reviewed the subsidy calculations for the large ILECs and finds them to be in accordance with the directives set out in Telecom Decisions 2007-27 and 2007-60, and Telecom Regulatory Policy 2011-291.<sup>4</sup>

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<sup>4</sup> Bell Aliant requested that, upon disposition of its June 2011 Part 1 application for updated costs, the updated costs be used for 2012 subsidy calculation purposes. The Commission notes that Bell Aliant's application was denied in Telecom Decision 2012-204.

### **Total subsidy amount for the small ILECs**

16. In Telecom Decision 2006-14, the Commission determined that the small ILECs would receive fixed subsidy amounts totalling \$23.046 million per year for each of the years 2006 through 2009.
17. In Telecom Regulatory Policy 2009-788, the Commission extended the small ILECs' fixed annual subsidy amounts until after a decision had been issued with respect to the proceeding initiated by Telecom Notice of Consultation 2010-43.
18. In Telecom Decision 2010-579, the Commission approved an application providing CityWest Telephone Corporation with a fixed annual subsidy amount of \$0.142 million per year, effective 1 January 2010.
19. In Telecom Regulatory Policy 2011-291, the Commission determined that NorthernTel, Limited Partnership and TBayTel would have their fixed annual subsidy amounts reduced, effective 1 June 2011, due to residential local exchange service rate forbearance. The Commission notes that these reductions equate to \$1.666 million on an annualized basis.
20. In Telecom Decision 2011-743, the Commission directed the CFA to continue to pay the interim 2011 subsidy amounts to the small ILECs, on an interim basis for 2012, until a determination has been made with respect to Telecom Notice of Consultation 2011-348. The Commission notes that a determination with respect to Telecom Notice of Consultation 2011-348 has not yet been made. The Commission notes that the total interim 2012 subsidy amount for the small ILECs is \$21.5 million.

### **Subsidy amount for Northwestel**

21. In Telecom Regulatory Policy 2011-771, the Commission established a separate subsidy for Northwestel and directed Northwestel to file, by 31 March of each year, a subsidy calculation based upon the previous year's 31 December Band H1 residential NAS information with the costs adjusted annually for inflation. The Commission notes that Northwestel also receives \$10.1 million annually to fund the ongoing requirements associated with the non-access portion of Northwestel's SIP that was completed in 2005.
22. Northwestel's 2012 subsidy calculation was submitted to the Commission on 20 April 2012. In its submission, Northwestel requested \$10.8 million in subsidy for 2012, for a total, including SIP funding, of \$20.9 million.
23. The Commission has reviewed Northwestel's subsidy calculation and finds it to be in accordance with the directives set out in Telecom Regulatory Policy 2011-771.

### **Estimated 2012 national subsidy requirement**

24. Based on its determinations set out above, the Commission estimates the total 2012 national subsidy requirement to be \$143.4 million.

## II. Final 2012 and interim 2013 revenue-percent charge

25. The revenue-percent charge is calculated using the ratio of the national subsidy requirement to the total estimated contribution-eligible revenues of all TSPs that are required to contribute.
26. The Commission considers that a final 2012 revenue-percent charge of 0.63 percent would be appropriate to ensure the stability of the NCF. The Commission also considers that an interim 2013 revenue-percent charge of 0.63 percent, effective 1 January 2013, would also be appropriate.
27. Therefore, the Commission **approves** a final 2012 revenue-percent charge of 0.63 percent, effective 1 January 2012, and an interim 2013 revenue-percent charge of 0.63 percent, effective 1 January 2013.

## III. Final 2012 and interim 2013 subsidy payments from the NCF

28. The following subsidy payments from the NCF are based upon the final 2012 revenue-percent charge of 0.63 percent.

### Subsidy payments for the large ILECs

29. Based on the final 2012 revenue-percent charge of 0.63 percent, the Commission calculates the final 2012 subsidy per residential NAS amounts for each HCSA band for the large ILECs to be as set out in Table 1.

**Table 1**

#### Final 2012 monthly subsidy per residential NAS amounts by HCSA band

Large ILEC	Band E (\$)	Band F (\$)	Band G (\$)
<b>Bell Aliant</b>			
New Brunswick	0.28	0.00	n/a
Newfoundland and Labrador	1.75	2.31	7.21
Nova Scotia	0.00	0.00	n/a
Ontario and Quebec	0.91	0.03	17.04
Prince Edward Island	0.83	2.16	n/a
<b>Bell Canada</b>	0.00	0.00	n/a
<b>MTS</b>	17.02	11.31	61.32
<b>SaskTel</b>	18.75	11.27	28.77
<b>TCC</b>			
Alberta	3.17	0.00	3.65
British Columbia	21.72	8.89	19.42
Quebec	10.71	0.00	43.91
<b>Télébec</b>	17.79	5.75	15.06

n/a: not applicable

30. The Commission **approves on a final basis**, effective 1 January 2012, and **approves on an interim basis**, effective 1 January 2013, the monthly subsidy per residential NAS amounts for each HCSA band for the large ILECs as shown in Table 1.
31. The Commission directs the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2012. The Commission also directs the CFA to distribute the monthly subsidy on an interim basis, effective 1 January 2013.

#### **Subsidy payments for the small ILECs**

32. The Commission notes that, in Telecom Regulatory Policy 2011-291, it determined that the small ILECs would move to a subsidy per-residential-NAS mechanism, effective 1 January 2012, and that the small ILECs would begin reporting their monthly residential NAS by wire centre to the CFA, effective with the December 2011 data-month.
33. The Commission notes, however, that the CFA currently does not have the information required to do the monthly subsidy calculations for 2012. The Commission intends to gather this information in the proceeding initiated by Telecom Notice of Consultation 2011-348.
34. Therefore, the Commission considers that the small ILECs should continue to receive interim subsidy until a determination has been made with respect to Telecom Notice of Consultation 2011-348.
35. The Commission directs the CFA to continue to distribute, on a monthly basis, 1/12<sup>th</sup> of the current fixed annual subsidy amounts<sup>5</sup> to the small ILECs on an interim basis until a determination has been made with respect to Telecom Notice of Consultation 2011-348.
36. The Commission notes that, once a determination has been made with respect to Telecom Notice of Consultation 2011-348, the subsidy paid to the small ILECs and competitors, since 1 January 2011, will be adjusted to reflect the final annual subsidy amounts for 2011 and the monthly subsidy per residential NAS amounts for 2012 and 2013. In the event of a subsidy overpayment, the small ILECs and competitors will be required to repay the overpayment to the CFA.

#### **Subsidy payments for Northwestel**

37. The Commission **approves on a final basis**, effective 1 January 2012, and **approves on an interim basis**, effective 1 January 2013, a funding amount of \$20.9 million for Northwestel, which includes its ongoing SIP funding.

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<sup>5</sup> See Telecom Decisions 2006-14 and 2010-579, and Telecom Regulatory Policy 2011-291.

38. The Commission directs the CFA to adjust the distribution of monthly subsidy to Northwestel to reflect the final 2012 funding amount. The Commission also directs the CFA to distribute, on a monthly basis, 1/12<sup>th</sup> of the final 2012 funding amount to Northwestel on an interim basis, effective 1 January 2013.

### **Excess NCF funds after processing the December 2012 data-month**

39. In Telecom Decision 2007-98, the Commission approved revised procedures for the operation of the NCF that resulted in funds in excess of CTCC's 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.
40. The Commission notes that CTCC's current requested NCF minimum balance is \$5 million.
41. The Commission considers that any uncalled contribution in excess of the \$5 million minimum balance after processing the December 2012 data-month is not required by the NCF and that the uncalled contribution can be released.
42. Accordingly, the Commission directs the CFA, after it has processed the December 2012 data-month, to release any 2012 uncalled contribution.

Secretary General

### **Related documents**

- *Bell Aliant Regional Communications, Limited Partnership – Proposal to update residential primary exchange service costs for subsidy calculation purposes*, Telecom Decision CRTC 2012-204, 4 April 2012
- *Northwestel Inc. – Review of regulatory framework*, Telecom Regulatory Policy CRTC 2011-771, 14 December 2011
- *Final 2011 revenue-percent charge and related matters*, Telecom Decision CRTC 2011-743, 1 December 2011
- *Review of regulatory framework for the small incumbent local exchange carriers and related matters*, Telecom Notice of Consultation CRTC 2011-348, 26 May 2011, as amended by Telecom Notices of Consultation CRTC 2011-348-1, 5 July 2011, 2011-348-2, 28 November 2011, 2011-348-3, 21 December 2011, and 2011-348-4, 30 July 2012
- *Obligation to serve and other matters*, Telecom Regulatory Policy CRTC 2011-291, 3 May 2011, as amended by Telecom Regulatory Policy CRTC 2011-291-1, 12 May 2011

- *CityWest Telephone Corporation – Application to modify its monthly subsidy per residential NAS*, Telecom Decision CRTC 2010-579, 13 August 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
- *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
- *Implementation of competition in the local exchange and local payphone markets in the territories of Société en commandite Télébec and the former TELUS Communications (Québec) Inc.*, Telecom Decision CRTC 2005-4, 31 January 2005
- *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