



Telecom Notice of Consultation CRTC 2017-92

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Call for comments

Phase-out of the local service subsidy regime

Deadline for submission of interventions: 25 May 2017

[\[Submit an intervention or view related documents\]](#)

The Commission invites comments on its proposed approach to the phase-out of the local service subsidy regime, as well as on associated policies that could have an impact on the subsidy amounts.

Introduction

1. Telecommunications services play an important role in the lives of all Canadians. Modern telecommunications enable Canadians to participate in today's digital economy and provide access to services, such as health care, education, government, public safety, and banking services. As the regulator of Canada's communication system, the Commission seeks to ensure that all Canadians have access to a world-class communication system and engages in activities which, among other things, aim to ensure that Canadians are able to connect to quality and innovative communications services at affordable prices.
2. The Commission's mandate focuses on achieving the policy objectives established in the *Telecommunications Act* (the Act). For example, the policy objective stated in paragraph 7(a) of the Act is to facilitate the development of a telecommunications system that serves to safeguard, enrich and strengthen the social and economic fabric of Canada and its regions; and the policy objective stated in paragraph 7(b) is to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada.
3. The local service subsidy regime, along with the associated contribution mechanism and the National Contribution Fund (NCF),¹ were established to ensure that Canadians in high-cost serving areas (HCSAs)² could benefit from the same

¹ The current local service subsidy regime was established in Decision 2000-745. A summary of this regime can be found in Telecom Circular 2007-15.

² An HCSA is a clearly defined geographical area where the incumbent local exchange carrier's monthly costs to provide basic local service are greater than the associated revenues generated by service rates.

residential local telephone services as Canadians in urban areas, at reasonable prices. In some rural and remote areas of Canada, the cost of providing residential local telephone service is higher than the price paid by subscribers. In Decision 2000-745, pursuant to subsection 46.5(1) of the Act, the Commission directed certain telecommunications service providers to contribute to a fund supporting continuous access to this service.

4. Currently, subsidies are available only to incumbent local exchange carriers (ILECs). These subsidies ensure that the ILECs are compensated for the provision of residential local telephone service in cases where the Commission-approved rate charged for this service does not recover the associated costs of providing the service.

The Commission's determination to phase out the local service subsidy regime

5. In Telecom Regulatory Policy 2016-496, the Commission, among other things, established a new universal service objective³ to recognize the importance of fixed and mobile wireless broadband Internet access services to Canada's economic, social, democratic, and cultural fabric. To assist in expanding the availability and adoption of broadband Internet access services, the Commission stated that it would begin to shift the focus of its current regulatory frameworks from wireline voice services to broadband Internet access services. In particular, to support continued access to broadband Internet access services in underserved areas, the Commission stated that it would establish a new funding mechanism for broadband Internet access services and phase out the local service subsidy regime.
6. The Commission also indicated that it would launch a follow-up proceeding to examine the phase-out of the local service subsidy regime. Accordingly, with this notice, the Commission outlines its proposed approach regarding the phase-out of the local service subsidy regime to determine where subsidy is no longer required, including the associated policies to be examined that could have an impact on the subsidy amounts.

Commission's proposed approach to phasing out the local service subsidy regime

Qualification for forbearance in regulated HCSA exchanges

7. In Telecom Regulatory Policy 2016-496, the Commission stated that local voice service subsidy would be eliminated in regulated HCSA exchanges if it determines that they qualify for forbearance, as set out in Telecom Decision 2006-15 and Telecom Regulatory Policy 2009-379.

³ This objective is that Canadians, in urban areas as well as in rural and remote areas, have access to voice services and broadband Internet access services, on both fixed networks and mobile wireless networks.

8. Pursuant to subsection 34(2) of the Act, the Commission must refrain from exercising certain powers and performing certain duties if it determines that the market for a telecommunications service or class of services is sufficiently competitive.
9. In light of the above, the Commission will examine the competitive market for residential local telephone service in regulated HCSA exchanges (i) that currently receive subsidy, and (ii) where competition has been established to determine which of these exchanges qualify for forbearance (and would therefore no longer qualify for local service subsidy). For those exchanges that are found to qualify for forbearance, it is the Commission's intention to eliminate subsidies as of 1 January 2018.⁴

Evaluation of the availability of a reliable Internet service

10. In Telecom Regulatory Policy 2016-496, the Commission stated that in regulated HCSA exchanges that are determined not to qualify for forbearance, the Commission does not intend to remove the local service subsidy for a network access service (NAS)⁵ unless reliable broadband Internet access service is available.
11. At present, it is possible for ILECs using various technologies to offer many services, such as broadband Internet access service,⁶ voice over Internet Protocol (VoIP) service, or Internet Protocol television (IPTV) service, on the same access line that they use to provide local telephone service. Thus, by using technologies such as digital subscriber line (DSL),⁷ a combination of fibre to the node (FTTN) and DSL, fibre to the home (FTTH), or cable technologies (collectively, the digital wireline technologies), ILECs' revenues from the provision of other services can contribute to recovering the costs associated with providing residential local telephone service.
12. While broadband Internet access service is available through other technologies, such as fixed wireless, mobile wireless, and satellite technologies, the performance and reliability of these technologies is more variable than that of the digital wireline technologies.
13. As a result, it is the Commission's preliminary view that NAS with access to the digital wireline technologies have access to reliable broadband Internet access service and that it would be appropriate to remove the local service subsidy for these NAS.

⁴ For exchanges that are found to qualify for forbearance, ILECs will be required, following this proceeding, to file for Commission approval the list of tariffs to which forbearance should apply and the required communications plans.

⁵ A NAS is a connection or line that provides customers with access to the public switched telephone network.

⁶ In Canada, broadband Internet access service is generally considered to offer a download speed of 1.5 megabits per second (Mbps) or greater.

⁷ This technology uses a telecommunications network and enables high data transmission speeds, generally in the order of several Mbps, on the copper wires traditionally used for analog telephony.

Policies related to the local service subsidy regime

14. Over the years, the Commission has adapted its local service subsidy regime to address the particular circumstances of individual service providers or classes of service providers. Since the Commission will be examining how to phase out the local service subsidy regime, it is also necessary for the Commission to examine whether this phase-out should affect other related policies.

Subsidy paid to Northwestel Inc. as part of its service improvement plan

15. In Telecom Decision 2007-5, the Commission concluded that Northwestel Inc. (Northwestel) should continue to receive funding for the non-access portion of its service improvement plan (SIP).⁸ The Commission approved an annual SIP funding requirement of \$10.1 million from the NCF.

Subsidy policies specific to the small ILECs' operating territories

16. Following the implementation of local competition or wireless number portability (WNP) in an exchange, small ILECs receive 50% of the subsidy for each NAS that they no longer serve in that exchange (lost NAS), for three years. After this period, the subsidy is paid only for the NAS served. In addition, small ILECs are entitled to recover up to \$2 per NAS per month from the NCF for the ongoing costs of local competition or WNP.

Other subsidy-related matters

Application of appropriate regulatory framework

17. In recent years, some small ILECs have been bought by other companies (e.g. Bell Aliant Regional Communications, Limited Partnership's purchase of DMTS and KMTS; the purchase by Bragg Communications Incorporated, operating as Eastlink, of Amtelecom Limited Partnership and People's Tel Limited Partnership; and Sogetel Inc.'s purchase of various small ILECs in Quebec).
18. The local service subsidy regime for small ILECs is slightly different than that for large ILECs. For example, the small ILECs use proxy costs⁹ to calculate the subsidy, instead of their own Phase II costs, so the subsidy they receive per NAS is generally higher.
19. In the case where a large ILEC buys a small ILEC, which then ceases to be a separate legal entity, the current policy framework does not specify which subsidy regime should apply (i.e. the one for small ILECs or for large ILECs).

⁸ In Decision 2000-746, the Commission approved a SIP for Northwestel, which was an initiative undertaken by the company to meet the basic service objective. The non-access portion of the SIP included the provision of dial-up Internet, transport, switching, and toll services. For more information, see paragraphs 231 to 237 of Telecom Decision 2007-5.

⁹ The proxy costs were developed based on the national average of the large ILECs' 2001 costs.

Subsidies for the obligation to serve

20. Currently, with respect to local telephone service, subsidies are available only to ILECs since they have the obligation to serve.¹⁰ The obligation to serve requires ILECs to provide local telephone service to (i) existing customers, (ii) new customers requesting service where the ILECs have facilities, and (iii) new customers requesting service beyond the limits of the ILECs' facilities. The terms and conditions associated with these extensions of services are set out in the ILECs' general tariffs.
21. Bell Canada is also subject to the *Bell Canada Act*, which requires the company to provide local telephone service upon request by any person or organization in a municipality or other jurisdiction in which the company provides general telephone service, subject to certain exceptions.
22. Regardless of whether local competition is present or the Commission has forborne from regulation, ILECs have the obligation to serve.¹¹ Further, if a competitor ceases to operate in an exchange, the ILEC in the exchange is obligated to be prepared to serve that competitor's customers (carrier of last resort). There is no specific compensation provided from the NCF for both of these obligations.

Call for comments

23. The Commission hereby initiates a proceeding to address the issues associated with the phase-out of the local service subsidy regime. Specifically, the Commission calls for comments on the following:
 1. the Commission's proposed approach to phasing out the local service subsidy regime outlined above.
 2. whether reliable broadband Internet access service should be defined as broadband Internet access service at a minimum of 1.5 megabits per second (Mbps) download provided through the digital wireline technologies, or based on a different approach.
 3. whether the policies related to the local service subsidy regime outlined above should continue, be modified, or be eliminated.
 4. whether, and if so when, the remaining subsidies should be phased out.
24. In their interventions, parties should provide supporting rationale and all evidence on which they rely to formulate their position. Although the topics above may be interrelated and interdependent, parties should structure their submissions as set out above.

¹⁰ See Telecom Regulatory Policy 2011-291.

¹¹ In forborne exchanges, ILECs are required to provide a residential stand-alone local telephone service.

25. The Commission will review the matters raised in this proceeding in light of the policy objectives set out in section 7 of the Act and taking into consideration the Policy Direction.¹² Parties should also take these into account and address their relevant aspects, as applicable, when submitting their responses.

Procedure

26. The *Canadian Radio-television and Telecommunications Commission Rules of Practice and Procedure* (the Rules of Procedure) apply to this proceeding. The Rules of Procedure set out, among other things, the rules for the content, format, filing, and service of interventions, answers, replies, and requests for information; and the procedure for filing confidential information and requesting its disclosure. Accordingly, the procedure set out below must be read in conjunction with the Rules of Procedure and related documents, which can be found on the Commission's website at www.crtc.gc.ca, under "[Statutes and Regulations](#)." The guidelines set out in Broadcasting and Telecom Information Bulletin 2010-959 provide information to help interested persons and parties understand the Rules of Procedure so that they can more effectively participate in Commission proceedings.
27. The small and large ILECs and Northwestel are made parties to this proceeding and may file interventions with the Commission by **25 May 2017**. Shortly following the release of this notice, the Commission will request information from these ILECs in the form of interrogatories by way of a separate letter.
28. Interested persons who wish to become parties to this proceeding must file an intervention with the Commission regarding the above-noted issues by **25 May 2017**. The intervention must be filed in accordance with section 26 of the Rules of Procedure.
29. Parties are permitted to coordinate, organize, and file, in a single submission, interventions by other interested persons who share their position. Information on how to file this type of submission, known as a joint supporting intervention, as well as a [template](#) for the accompanying cover letter to be filed by parties, can be found in Telecom Information Bulletin 2011-693.
30. All documents required to be served on parties to the proceeding must be served using the contact information contained in the interventions.
31. The Commission and parties may request information, in the form of interrogatories, from any party to the proceeding. The requesting party must file its request for information with the Commission, and serve the request on the party to whom it is addressed, by **22 June 2017**.

¹² *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006

32. Responses to requests for information are to be filed with the Commission, and served on all parties, by **20 July 2017**.
33. Parties may request (i) further responses to interrogatories, specifying in each case why a further response is necessary, and (ii) the public disclosure of information that has been designated confidential, setting out in each case the reasons for disclosure. These requests must be filed with the Commission, and served on the parties to whom they are addressed, by **27 July 2017**.
34. Responses to requests for further responses to interrogatories and responses to requests for public disclosure must be filed with the Commission, and served on the parties making the requests, by **3 August 2017**.
35. Determinations regarding requests for further responses and requests for public disclosure will be issued as soon as possible. Any information to be provided pursuant to such determinations must be filed with the Commission, and served on the parties making the requests, by **21 August 2017**.
36. All parties may file final submissions with the Commission on any matter within the scope of this proceeding by **31 August 2017**. Final submissions, excluding an executive summary, are not to exceed 15 pages.
37. All parties may file final replies with the Commission by **8 September 2017**. Final replies are not to exceed 10 pages.
38. The Commission encourages interested persons and parties to monitor the record of this proceeding, available on the Commission's website at www.crtc.gc.ca, for additional information that they may find useful when preparing their submissions.
39. Submissions longer than five pages should include a summary. Each paragraph of all submissions should be numbered, and the line *****End of document***** should follow the last paragraph. This will help the Commission verify that the document has not been damaged during electronic transmission.
40. Pursuant to Broadcasting and Telecom Information Bulletin 2015-242, the Commission expects incorporated entities and associations, and encourages all Canadians, to file submissions for Commission proceedings in accessible formats (for example, text-based file formats that enable text to be enlarged or modified, or read by screen readers). To provide assistance in this regard, the Commission has posted on its website [guidelines](#) for preparing documents in accessible formats.
41. Submissions must be filed by sending them to the Secretary General of the Commission using **only one** of the following means:

by completing the
[\[Intervention form\]](#)

or

by mail to
CRTC, Ottawa, Ontario K1A 0N2

or

by fax to
819-994-0218

42. Parties who send documents electronically must ensure that they will be able to prove, upon Commission request, that service/filing of a particular document was completed. Accordingly, parties must keep proof of the sending and receipt of each document for 180 days after the date on which the document is filed. The Commission advises parties who file and serve documents by electronic means to exercise caution when using email for the service of documents, as it may be difficult to establish that service has occurred.
43. In accordance with the Rules of Procedure, a document must be received by the Commission and all relevant parties by 5 p.m. Vancouver time (8 p.m. Ottawa time) on the date it is due. Parties are responsible for ensuring the timely delivery of their submissions and will not be notified if their submissions are received after the deadline. Late submissions, including those due to postal delays, will not be considered by the Commission and will not be made part of the public record.
44. The Commission will not formally acknowledge submissions. It will, however, fully consider all submissions, which will form part of the public record of the proceeding, provided that the procedure for filing set out above has been followed.
45. The Commission expects to publish a decision on the issues raised in this notice within four months of the close of record.

Important notice

46. All information that parties provide as part of this public process, except information designated confidential, whether sent by postal mail, facsimile, email, or through the Commission's website at www.crtc.gc.ca, becomes part of a publicly accessible file and will be posted on the Commission's website. This includes all personal information, such as full names, email addresses, postal/street addresses, and telephone and facsimile numbers.
47. The personal information that parties provide will be used and may be disclosed for the purpose for which the information was obtained or compiled by the Commission, or for a use consistent with that purpose.
48. Documents received electronically or otherwise will be posted on the Commission's website in their entirety exactly as received, including any personal information contained therein, in the official language and format in which they are received. Documents not received electronically will be available in PDF format.

49. The information that parties provide to the Commission as part of this public process is entered into an unsearchable database dedicated to this specific public process. This database is accessible only from the web page of this particular public process. As a result, a general search of the Commission's website with the help of either its search engine or a third-party search engine will not provide access to the information that was provided as part of this public process.

Availability of documents

50. Electronic versions of the interventions and other documents referred to in this notice are available on the Commission's website at www.crtc.gc.ca by using the file number provided at the beginning of this notice or by visiting the "Participate" section of the Commission's website, selecting "Submit Ideas and Comments," then selecting "our open processes." Documents can then be accessed by clicking on the links in the "Subject" and "Related Documents" columns associated with this particular notice.
51. Documents are also available at the following address, upon request, during normal business hours.

Les Terrasses de la Chaudière
Central Building
1 Promenade du Portage
Gatineau, Quebec
J8X 4B1
Tel.: 819-997-2429
Fax: 819-994-0218

Toll-free telephone: 1-877-249-2782
Toll-free TDD: 1-877-909-2782

Secretary General

Related documents

- *Modern telecommunications services – The path forward for Canada's digital economy*, Telecom Regulatory Policy CRTC 2016-496, 21 December 2016
- *Filing submissions for Commission proceedings in accessible formats*, Broadcasting and Telecom Information Bulletin CRTC 2015-242, 8 June 2015
- *Filing of joint supporting interventions*, Telecom Information Bulletin CRTC 2011-693, 8 November 2011
- *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

- *Guidelines on the CRTC Rules of Practice and Procedure*, Broadcasting and Telecom Information Bulletin CRTC 2010-959, 23 December 2010
- *Framework for forbearance from regulation of retail local exchange services in the serving territories of the small incumbent local exchange carriers*, Telecom Regulatory Policy CRTC 2009-379, 23 June 2009
- *The Canadian revenue-based contribution regime*, Telecom Circular CRTC 2007-15, 8 June 2007
- *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007
- *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
- *Long-distance competition and improved service for Northwestel customers*, Decision CRTC 2000-746, 30 November 2000
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000