



# Telecom Decision CRTC 2018-441

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Ottawa, 29 November 2018

*File number: 8695-C12-201801936*

## Final 2018 revenue-percent charge and related matters

*The Commission approves on a final basis, effective 1 January 2018, a 2018 contribution collection revenue-percent charge of 0.54% and the 2018 subsidy per residential network access service amounts for the incumbent local exchange carriers (ILECs).*

*The Commission approves on an interim basis, effective 1 January 2019, a 2019 contribution collection revenue-percent charge of 0.60% and the 2019 subsidy payments for the ILECs.*

### Introduction

1. During the 1990s, through a series of proceedings and decisions, the Commission opened up various telecommunications markets to competition, including the local telephone market, to enhance the Canadian telecommunications system and to give Canadians the benefits of competition. The Commission also established a subsidy regime, whereby money collected from telecommunications companies is used to subsidize residential local telephone service.
2. In Decision 2000-745, the Commission modified the subsidy regime to introduce a national revenue-based contribution collection mechanism and a new methodology for calculating the subsidy afforded to high-cost serving areas (HCSAs)<sup>1</sup> in the territories of the incumbent local exchange carriers (ILECs).<sup>2</sup>
3. Contribution is paid into a national fund, known as the National Contribution Fund (NCF), by telecommunications service providers (TSPs), or groups of related TSPs, that have \$10 million or more in Canadian telecommunications service revenue. Subsidy is then paid out to the ILECs, who are also TSPs, for providing residential local telephone service in regulated HCSAs. While non-ILEC TSPs only pay into the fund, the ILECs can be either net payers into the fund or net receivers from the fund, depending on how much they have to pay in and how much they are entitled to receive.
4. In Telecom Regulatory Policy 2014-187, the Commission determined that a national video relay service (VRS) would be implemented in Canada with funding being

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<sup>1</sup> An HCSA is a clearly defined geographical area where the monthly costs to provide basic service are greater than the associated revenues generated by service rates.

<sup>2</sup> Since Decision 2000-745, modifications have been made to various components of the subsidy regime.

provided through the NCF. The Commission also established a \$30 million funding cap to cover all administrative and service-related costs for VRS.

5. Annually, the Commission finalizes the subsidy amounts/rates to be paid to ILECs providing residential local telephone service in regulated HCSAs. In order to provide this subsidy and VRS funding, the Commission establishes a final revenue-percent charge to ensure that the amount of money collected is sufficient to meet the subsidy and VRS payments.
6. In Telecom Decision 2017-438, the Commission set, on a final basis for 2017, a revenue-percent charge of 0.60% and the subsidy per residential network access service (NAS) amounts for the ILECs. The Commission set, on an interim basis for 2018, a revenue-percent charge of 0.54% and the subsidy per residential NAS amounts for the ILECs.
7. In Telecom Regulatory Policy 2018-213, the Commission determined that the phase-out of the local service subsidy will occur over a three-year transition period, from 1 January 2019 to 31 December 2021, through semi-annual reductions, with the total subsidy amounts for 2018 for each ILEC being used to calculate the amounts of subsidy to be paid during the transition period.
8. The Commission received submissions regarding subsidy amounts/rates from the ILECs, namely Bell Canada,<sup>3</sup> Saskatchewan Telecommunications (SaskTel), and TELUS Communications Inc. (TCI) [collectively, the large ILECs]; the small ILECs;<sup>4</sup> and Northwestel Inc. (Northwestel). The Commission also received a submission from Canadian Telecommunications Contribution Consortium Inc. (CTCC).<sup>5</sup>
9. The Commission addresses the following matters in this decision:
  - the estimated national subsidy and VRS requirements for 2018;
  - the final 2018 revenue-percent charge;
  - the final 2018 subsidy payments from the NCF;
  - the interim 2019 revenue-percent charge and subsidy payments; and
  - the excess NCF funds after processing the December 2018 data-month.

### **Estimated national subsidy and VRS requirements for 2018**

10. The national subsidy and VRS requirements are based on the sum of (i) the estimated HCSA total subsidy amount for the ILECs, (ii) the funding for VRS, and

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<sup>3</sup> Included Télébec, Limited Partnership (Télébec), the company formerly known as Bell Aliant Regional Communications, Limited Partnership (now Bell Aliant, a division of Bell Canada [Bell Aliant]), and the company formerly known as MTS Inc. (Bell MTS).

<sup>4</sup> See Table 2 for a list of the small ILECs.

<sup>5</sup> CTCC is responsible for establishing the procedures necessary for the operation of the NCF and contracting with a company to act as the Central Fund Administrator.

(iii) the administrative and operational costs of CTCC and the Central Fund Administrator (CFA).<sup>6</sup>

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

11. As stated earlier in this decision, ILECs receive subsidy for providing residential local telephone service in regulated HCSAs. This subsidy is based upon the monthly number of residential NAS in each ILEC HCSA band<sup>7</sup> and the corresponding subsidy per residential NAS amounts. The subsidy per residential NAS amounts are calculated annually and approved by the Commission. Each ILEC HCSA band subsidy per residential NAS amount, in simplified terms, is the net of the cost component less the revenue component. However, the calculations for these components can vary by ILEC or groups of ILECs.<sup>8</sup>

### **Large ILECs**

12. The large ILECs are required to file, by 31 March of each year, their subsidy per residential NAS calculations, which includes their residential NAS information from the previous year.
13. The Commission finds the 2018 subsidy calculations for the large ILECs to be in accordance with the directives set out in Telecom Decisions 2007-27 and 2007-60, and Telecom Regulatory Policy 2011-291.
14. The Commission estimates (a) the 2018 total subsidy amount for the large ILECs to be \$63.1 million, and (b) based on the 31 December 2017 NAS information, approximately 667,900 residential NAS would be subsidized.

### **Small ILECs**

15. The small ILECs are required to file, by 15 April of each year, information for their subsidy per residential NAS calculations, which includes their residential NAS information from the previous year.
16. The Commission finds the subsidy information filed by the small ILECs to be in accordance with the directives set out in Telecom Regulatory Policy 2011-291.
17. In Telecom Regulatory Policy 2013-160, the Commission determined that the small ILEC cost components used for subsidy calculation purposes would begin to be

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<sup>6</sup> The CFA is responsible for (i) maintaining the system used by TSPs to report contribution-eligible revenue and by ILECs to report subsidy-eligible NAS, (ii) calculating monthly contribution payments and monthly subsidy entitlements, (iii) collecting contribution, and (iv) paying subsidy and VRS funding.

<sup>7</sup> An HCSA band represents a group of exchanges or wire centres with similar characteristics, such as number of lines, remoteness, and, in some cases, loop length. Band costs may vary by ILEC or by region within ILEC territories. See Decisions 2001-238 and 2001-756, and Telecom Decisions 2005-4 and 2007-5 for more details.

<sup>8</sup> See Telecom Regulatory Policies 2011-291, 2013-160, and 2013-711 for decisions related to the large ILECs, the small ILECs, and Northwestel.

adjusted annually for inflation only when the large ILEC subsidy costs returned to their 2001 levels. The Commission notes that with the inflation adjustment this year, the large ILEC subsidy costs are now slightly above their 2001 levels. Therefore, the small ILEC cost components have been adjusted for the increase above the 2001 levels.

18. The Commission estimates (a) the 2018 total subsidy amount for the small ILECs to be \$9.7 million, and (b) based on the 31 December 2017 NAS information, approximately 88,000 residential NAS would be subsidized.

#### **Northwestel**

19. Northwestel is required to file, by 31 March of each year, its subsidy per residential NAS calculation, which includes its residential NAS information from the previous year.
20. The Commission finds Northwestel's subsidy calculation to be in accordance with the directives set out in Telecom Regulatory Policies 2011-771 and 2013-711. The Commission estimates (a) the 2018 total subsidy amount for Northwestel to be \$7.9 million, and (b) based on the 31 December 2017 NAS information, approximately 14,100 residential NAS would be subsidized.
21. In Telecom Decision 2007-5, the Commission approved \$10.1 million in annual funding related to the non-access portion of Northwestel's service improvement program (SIP) that was completed in 2005. This amount is in addition to Northwestel's 2018 total subsidy amount.

#### **Funding for VRS**

22. In Telecom Decision 2017-437, the Commission approved \$7.5 million in funding for VRS for 2018.

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

23. The Commission received notification from CTCC that the estimated CTCC and CFA administrative and operational costs would be approximately \$0.9 million for 2018. This amount has been included in the national subsidy and VRS requirements.

#### **Estimated 2018 national subsidy and VRS requirements**

24. In light of the above, the Commission estimates the total of the 2018 national subsidy and VRS requirements to be \$99.2 million.

#### **Final 2018 revenue-percent charge**

25. The revenue-percent charge is calculated using the ratio of the national subsidy and VRS requirements to the estimated total contribution-eligible revenues of all TSPs that are required to contribute.

26. The Commission considers that a final 2018 revenue-percent charge of 0.54% would be appropriate.
27. Therefore, the Commission **approves** a final 2018 revenue-percent charge of 0.54%, effective 1 January 2018.

### Final 2018 subsidy payments from the NCF

#### Subsidy payments for the large ILECs

28. The Commission **approves on a final basis**, effective 1 January 2018, the monthly subsidy per residential NAS amounts for each HCSA band for the large ILECs as shown in Table 1.

**Table 1**

**Final 2018 monthly subsidy per residential NAS amounts by HCSA band**

Large ILEC	HCSA Band (\$)		
	E	F	G
Bell Canada – New Brunswick	0.00	0.00	n/a
Bell Canada – Newfoundland and Labrador	0.81	0.87	6.38
Bell Canada – Nova Scotia	0.00	0.00	n/a
Bell Canada – Ontario and Quebec (formerly Bell Aliant)	0.06	0.05	15.11
Bell Canada – Prince Edward Island	0.17	1.57	n/a
Bell Canada	0.00	0.00	n/a
Bell MTS	15.63	8.19	63.20
SaskTel	18.29	9.75	27.42
TCI – Alberta	4.31	0.00	4.54
TCI – British Columbia	21.72	8.04	19.35
TCI – Quebec	10.12	0.00	45.58
Télébec	19.48	6.72	17.08

n/a: not applicable

29. The Commission **directs** the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2018.

**Subsidy payments for the small ILECs**

30. The Commission **approves on a final basis**, effective 1 January 2018, the monthly subsidy per residential NAS amounts for each HCSA band for the small ILECs as shown in Table 2.

**Table 2**

**Final 2018 monthly subsidy per residential NAS amounts by HCSA band**

**British Columbia**

Small ILEC	HCSA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
CityWest Telephone Corporation	n/a	n/a	n/a	n/a	0.00	n/a

**Ontario**

Small ILEC	HCSA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
Amtelecom Limited Partnership	14.59	13.95	n/a	n/a	6.32	n/a
Brooke Telecom Co-operative Ltd.	7.96	n/a	n/a	n/a	n/a	n/a
Bruce Telecom	1.70	1.18	n/a	0.00	n/a	n/a
Cochrane Telecom Services	n/a	n/a	0.00	n/a	n/a	n/a
Execulink Telecom Inc.	8.13	7.49	n/a	n/a	n/a	n/a
Gosfield North Communications Co-operative Limited	n/a	7.32	n/a	n/a	n/a	n/a
Hay Communications Co-operative Limited	8.62	7.98	n/a	n/a	n/a	n/a
Huron Telecommunications Co-operative Limited	7.96	n/a	n/a	n/a	n/a	n/a
Lansdowne Rural Telephone Co. Ltd.	n/a	7.32	n/a	n/a	n/a	n/a
Mornington Communications Co-operative Limited	n/a	9.32	n/a	n/a	n/a	n/a
Nexicom Inc.	7.96	7.32	n/a	n/a	n/a	n/a

North Frontenac Telephone Corporation Ltd.	11.86	n/a	n/a	n/a	n/a	n/a
NorthernTel, Limited Partnership	12.34	11.70	10.11	7.89	n/a	n/a
NRTC Communications	7.96	n/a	n/a	n/a	n/a	n/a
Ontera	8.43	n/a	n/a	n/a	n/a	29.79
People's Tel Limited Partnership	8.74	n/a	6.51	n/a	n/a	n/a
Quadro Communications Co-operative Inc.	7.96	n/a	n/a	n/a	n/a	n/a
Roxborough Telephone Company Limited	7.96	n/a	n/a	n/a	n/a	n/a
Tuckersmith Communications Co-operative Limited	8.68	n/a	n/a	n/a	n/a	n/a
Wightman Telecom Ltd.	9.20	n/a	n/a	n/a	n/a	n/a
WTC Communications	n/a	7.32	n/a	n/a	n/a	n/a

#### Quebec

Small ILEC	HCSA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
9315-1884 Québec inc.	8.13	n/a	n/a	n/a	n/a	n/a
CoopTel	9.32	n/a	7.09	n/a	n/a	n/a
Groupe Maskatel LP	8.13	7.49	7.21	n/a	n/a	n/a
Sogetel inc.	9.23	8.59	7.00	n/a	n/a	n/a
Sogetel inc. – Milot	9.38	8.74	n/a	n/a	n/a	n/a
Sogetel inc. – Nantes	19.45	n/a	n/a	n/a	n/a	n/a

n/a: not applicable

31. The Commission **directs** the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2018.

#### Subsidy payments for Northwestel

32. The Commission **approves on a final basis**, effective 1 January 2018, a monthly subsidy per residential NAS amount of \$46.83 for Northwestel's Band H1.
33. The Commission **directs** the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amount for 2018. The Commission also

**directs** the CFA to distribute on a final basis, effective 1 January 2019, one twelfth of the \$10.1 million for annual SIP funding every month for twelve months.

### **Interim 2019 revenue-percent charge and subsidy payments**

34. In Telecom Regulatory Policy 2018-213, the Commission determined that the local service subsidy would be phased-out over a three-year transition period from 1 January 2019 to 31 December 2021 through equal semi-annual reductions and that this phase-out would be based on each ILEC's 2018 subsidy amount.
35. By letter dated 24 September 2018, the Independent Telecommunications Providers Association (ITPA) filed an application to review and vary Telecom Regulatory Policy 2018-213 with respect to this phase-out of subsidy (the review and vary application). The proceeding associated with the review and vary application is ongoing and no determination with respect to the issues raised has been made yet.
36. Nonetheless, the Commission considers that it would be appropriate to make interim determinations with respect to the 2019 revenue-percent charge and subsidy payments, based on the policy set out in Telecom Regulatory Policy 2018-213, and that doing so will not predetermine the results of the review and vary application.
37. This will provide some guidance to NCF participants for the coming year and result in regulatory efficiencies. For instance it will allow, for the time being, the ILECs not to report their monthly subsidy-eligible NAS to the CFA, and the CFA not to perform monthly subsidy calculations.
38. However, given the interim nature of these determinations, they can be changed, if necessary, following the resolution of the review and vary application.
39. In the meantime, the ILECs are **directed** to track and retain their month-end subsidy-eligible residential NAS information until such time as a determination has been made with respect to the ITPA's review and vary application.
40. Accordingly, the Commission **directs on an interim basis** the CFA to make 2019 subsidy payments based on the 2018 subsidy amount received by each ILEC reduced by one seventh every six months with the first reduction occurring on 1 January 2019 and the last reduction, taking the subsidy amounts to zero, occurring on 1 January 2022. The Commission notes that these subsidy phase-out reductions do not apply to Northwestel's SIP amount of \$10.1 million, which continues on a final basis until 31 December 2020.
41. Based on the estimated 2018 total subsidy amount of \$80.7 million,<sup>9</sup> the Commission estimates that the total interim local service subsidy to be paid during 2019 will be approximately \$63.4 million plus \$10.1 million for Northwestel's SIP.

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<sup>9</sup> Comprised of \$63.1 million for the large ILECs, \$9.7 million for the small ILECs, and \$7.9 million for Northwestel.

42. In Telecom Decision 2018-440, the Commission approved an application from the Canadian Administrator of VRS (CAV), Inc. in which it requested approximately \$22.5 million in funding for 2019. The Commission notes that the approved funding amount of \$22.5 million for 2019 included a surplus carry-forward from 2018 of approximately \$2.0 million.
43. Taking into account changes in subsidy payments, VRS funding, and the estimated contribution-eligible revenues of all TSPs that are required to contribute, the Commission considers that an interim 2019 revenue-percent charge of 0.60%, effective 1 January 2019, would be appropriate. The Commission notes that, as per the approved procedures for the operation of the NCF, only the amount of money required for payout during 2019 will be collected with any uncalled contribution being released at year-end.
44. Therefore, the Commission **approves on an interim basis** a 2019 revenue-percent charge of 0.60%, effective 1 January 2019.<sup>10</sup>

#### **Excess NCF funds after processing the December 2018 data-month**

45. 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.
46. CTCC's current requested NCF minimum balance is \$5 million.
47. Therefore, the Commission considers that any uncalled contribution in excess of the \$5 million minimum balance after processing the December 2018 data-month is not required by the NCF and that the uncalled contribution can be released.
48. Accordingly, the Commission **directs** the CFA, after it has processed the December 2018 data-month, to release any 2018 uncalled contribution.

Secretary General

#### **Related documents**

- *Canadian Administrator of VRS (CAV), Inc. – Application requesting video relay service funding for 2019*, Telecom Decision CRTC 2018-440, 29 November 2018
- *Phase-out of the local service subsidy regime*, Telecom Regulatory Policy 2018-213, 26 June 2018

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<sup>10</sup> Changes to the contribution regime with respect to broadband funding, including the definition of contribution-eligible revenues and the timing of these changes, will be announced at a later date.

- *Final 2017 revenue-percent charge and related matters*, Telecom Decision CRTC 2017-438, 8 December 2017
- *Canadian Administrator of VRS (CAV), Inc. – Application requesting video relay service funding for 2018*, Telecom Decision CRTC 2017-437, 8 December 2017
- *Video relay service*, Telecom Regulatory Policy CRTC 2014-187, 22 April 2014
- *Northwestel Inc. – Regulatory Framework, Modernization Plan, and related matters*, Telecom Regulatory Policy CRTC 2013-711, 18 December 2013
- *Regulatory framework for the small incumbent local exchange carriers and related matters*, Telecom Regulatory Policy CRTC 2013-160, 28 March 2013
- *Northwestel Inc. – Review of regulatory framework*, Telecom Regulatory Policy CRTC 2011-771, 14 December 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
- *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
- *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007
- *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
- *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001
- *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