



Telecom Decision CRTC 2019-395

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Final 2019 revenue-percent charge and related matters

*The Commission **approves on a final basis**, effective 1 January 2019, a 2019 contribution collection revenue-percent charge of 0.52% and the 2019 subsidy payments for the incumbent local exchange carriers (ILECs).*

The Commission has determined that its Broadband Fund will begin to operate in 2020, with up to \$100 million being made available in year one, and that the definition of contribution-eligible revenue will be expanded to include retail Internet access and paging service revenues, effective as of the January 2020 data-month.

*The Commission **approves on an interim basis**, effective 1 January 2020, a 2020 contribution collection revenue-percent charge of 0.45% and the 2020 subsidy payments for the ILECs.*

Introduction

1. Through a series of proceedings and decisions during the 1990s, the Commission opened up various telecommunications markets to competition, including the local telephone market. This enhanced the Canadian telecommunications system and enabled Canadians to benefit from 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)¹ in the territories of the incumbent local exchange carriers (ILECs).²
3. Telecommunications service providers (TSPs), or groups of related TSPs, that have \$10 million or more in Canadian telecommunications service revenue pay contribution into a national fund called the National Contribution Fund (NCF). Subsidy is then paid out from that fund 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

¹ 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.

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

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 provided through the NCF. The Commission also established a \$30 million funding cap to cover all administrative and service-related costs for VRS.
5. In Telecom Regulatory Policy 2018-213, the Commission determined that the phase-out of the local service subsidy would occur over a three-year transition period, from 1 January 2019 to 31 December 2021, through semi-annual reductions. Each ILEC's transition subsidy amount is calculated based on its total 2018 subsidy amount.
6. Each year, the Commission finalizes the subsidy payments for the ILECs providing residential local telephone service in regulated HCSAs. 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.
7. In Telecom Decision 2018-441, the Commission set, on a final basis for 2018, a revenue-percent charge of 0.54% and the subsidy per residential network access service amounts for the ILECs. The Commission set, on an interim basis for 2019, a revenue-percent charge of 0.60% and the transition subsidy payments for the ILECs.
8. The Commission received submissions from the Canadian Telecommunications Contribution Consortium Inc. (CTCC)³ and the Central Fund Administrator (CFA),⁴ which provided the information needed to finalize the 2019 revenue-percent charge.
9. The Commission addresses the following matters in this decision:
 - the estimated national subsidy and VRS requirements for 2019;
 - the final 2019 revenue-percent charge and subsidy payments from the NCF;
 - the interim 2020 revenue-percent charge and subsidy payments; and
 - the excess NCF funds after the December 2019 data-month is processed.

Estimated national subsidy and VRS requirements for 2019

10. The national subsidy and VRS requirements are based on the sum of (i) the HCSA total subsidy payments to the ILECs, (ii) the funding for VRS, and (iii) the administrative and operational costs of the CTCC and the CFA.

³ The 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.

⁴ The CFA is responsible for maintaining the system used by TSPs to report contribution-eligible revenue, calculating monthly contribution payments, collecting contribution, and paying subsidy and VRS funding.

HCSA total subsidy payments to the ILECs

11. As per the fourth quarter Central Fund Report, provided by the CFA and posted on the Commission's website, the total 2018 subsidy paid to the ILECs was \$77.3 million.
12. On the basis of the semi-annual subsidy reductions during the transition period outlined in Telecom Regulatory Policy 2018-213, the subsidy payments made to the ILECs will total \$60.7 million in 2019.
13. In Telecom Decision 2007-5, the Commission approved \$10.1 million in annual funding related to the non-access portion of Northwestel Inc.'s (Northwestel's) service improvement program (SIP), which was completed in 2005. This amount is in addition to Northwestel's 2019 subsidy payments.

Funding for VRS

14. In Telecom Decision 2018-440, the Commission approved an application from the Canadian Administrator of VRS (CAV), Inc. (CAV) requesting 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 amount of approximately \$2 million from 2018.

CTCC and CFA administrative and operational costs

15. The Commission received notification from the CTCC that the estimated CTCC and CFA administrative and operational costs would be approximately \$0.9 million for 2019. This amount is included in the national subsidy and VRS requirements.

Estimated 2019 national subsidy and VRS requirements

16. In light of the above, the Commission estimates the total of the 2019 national subsidy and VRS requirements to be \$94.2 million.

Final 2019 revenue-percent charge and subsidy payments from the NCF

17. 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.
18. The Commission considers that a final 2019 revenue-percent charge of 0.52% would be appropriate.
19. Accordingly, the Commission **approves** a final 2019 revenue-percent charge of 0.52%, effective 1 January 2019.

20. The Commission **approves on a final basis**, effective 1 January 2019, the subsidy payments for the ILECs, which are calculated based on the subsidy phase-out schedule in Telecom Regulatory Policy 2018-213. The total 2019 subsidy payments for the ILECs are \$60.7 million plus \$10.1 million for the Northwestel SIP.
21. The Commission **directs** the CFA to distribute the monthly subsidy phase-out amounts to the ILECs on a final basis, effective 1 January 2019, and one twelfth of the \$10.1 million for Northwestel's annual SIP funding every month for 12 months.

Interim 2020 revenue-percent charge and subsidy payments

22. Based on the continued subsidy phase-out reductions of the 2018 subsidy amounts received by each ILEC, the Commission estimates that the total interim subsidy to be paid during 2020 will be approximately \$38.7 million.
23. The Commission **directs** the CFA to make the 2020 subsidy payments to the ILECs on an interim basis. 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.
24. In Telecom Decision 2019-394, the Commission approved an application from the CAV, requesting approximately \$16 million in funding for 2020. The Commission notes that the approved funding amount of \$16 million for 2020 included a surplus carry-forward amount of approximately \$6 million from 2019.
25. In Telecom Regulatory Policy 2016-496, the Commission determined that a funding mechanism (the Commission's Broadband Fund) would be established to fund continuing access to the basic telecommunications services, with up to \$100 million in funding being made available during the first year of implementation. The Commission also determined that contribution-eligible revenue will be expanded to include retail Internet access and paging service revenues in the list of contribution-eligible revenues used to calculate the revenue-percent charge.⁵ This change to the calculation of the revenue-percent charge will take effect in the first year of the implementation of the Broadband Fund.
26. Since the Commission has determined that 2020 will be the first year of operation for its Broadband Fund, the year one funding amount of up to \$100 million will be made available and contribution-eligible revenue will be expanded to include retail Internet access and paging service revenues, effective as of the January 2020 data-month.

⁵ While the approved deduction is called Retail Paging Service, the Commission used the term "texting" in Telecom Regulatory Policy 2016-496 because the majority of retail paging revenues are texting revenues.

27. In Telecom Decision 2019-383, the Commission determined that the minimum Prescribed NCF Balance⁶ would increase from \$5 million to \$10 million during 2020, at a rate not to exceed \$500,000 per month.
28. Including the CTCC and CFA estimated costs of \$0.9 million, the Commission estimates that the total amount to be collected during 2020 is \$170.7 million.
29. Taking into account the estimated contribution-eligible revenues of all TSPs that are required to contribute, including their retail Internet access and paging service revenues, the Commission considers that an interim 2020 revenue-percent charge of 0.45%, effective 1 January 2020, would be appropriate.
30. Accordingly, the Commission **approves on an interim basis** a 2020 revenue-percent charge of 0.45%, effective 1 January 2020.

Excess NCF funds after the December 2019 data-month is processed

31. In Telecom Decision 2007-98, the Commission approved revised procedures for the operation of the NCF, which resulted in funds in excess of the 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.
32. For 2019, the CTCC's current requested NCF minimum balance is \$5 million.
33. Therefore, the Commission considers that any uncalled contribution in excess of the \$5 million minimum balance after the December 2019 data-month is processed is not required by the NCF and can be released.
34. Accordingly, the Commission **directs** the CFA to release any 2019 uncalled contribution after it has processed the December 2019 data-month.

Secretary General

Related documents

- *Canadian Administrator of VRS (CAV), Inc. – Application requesting video relay service funding for 2020*, Telecom Decision CRTC 2019-394, 4 December 2019
- *Revised procedures for the operation of the National Contribution Fund, effective 1 January 2020*, Telecom Decision CRTC 2019-383, 28 November 2019

⁶ The Prescribed NCF Balance is money held by the NCF in reserve to ensure that sufficient funds are available each month to make the required payments.

- *Final 2018 revenue-percent charge and related matters*, Telecom Decision CRTC 2018-441, 29 November 2018
- *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 CRTC 2018-213, 26 June 2018
- *Modern telecommunications services – The path forward for Canada’s digital economy*, Telecom Regulatory Policy CRTC 2016-496, 21 December 2016
- *Video relay service*, Telecom Regulatory Policy CRTC 2014-187, 22 April 2014
- *Revised procedures for the operation of the National Contribution Fund, effective January 2008*, Telecom Decision CRTC 2007-98, 11 October 2007
- *Price cap regulation for Northwestel Inc.*, Telecom Decision CRTC 2007-5, 2 February 2007
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000