



Telecom Order CRTC 2020-327

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Application of the Commission's determinations set out in Telecom Decision 2008-14 to Northwestel Inc.: development of a Regulatory Economic Studies Manual and company-specific appendices

*The Commission **approves** the common manual component of Northwestel Inc.'s Phase II Regulatory Economic Studies Manual and certain company-specific appendices.*

Background

1. In Telecom Decision 79-16, the Commission concluded the second phase of an inquiry into costing and accounting procedures with respect to the costing of new telecommunications services based on prospective incremental costs. This methodology is referred to as Phase II. In that decision, the Commission also provided incumbent local exchange carriers (ILECs) new service costing guidance, which included a basic costing framework, as well as specific directives to assist in the implementation of the framework. Since it issued that decision, the Commission has used Phase II as the incremental costing methodology for wholesale rate setting within the Canadian telecommunications environment.
2. In Telecom Decision 2008-14, the Commission, among other things, determined the appropriate expense inclusions and associated approaches and methodologies to estimate causal expenses for inclusion in Phase II regulatory economic studies as well as the appropriate capital asset lives to be used in these studies. The decision applied to the major ILECs at the time: Bell Aliant Regional Communications, Limited Partnership; Bell Canada; MTS Allstream Inc.; Saskatchewan Telecommunications; and TELUS Communications Company. The Commission further required that each ILEC document and file, in a Phase II Regulatory Economic Studies Manual (Manual), costing methodologies reflecting the determinations in the decision.¹

¹ Cable carriers, such as Cogeco Cable inc.; Quebecor Media Inc., on behalf of Videotron Ltd.; Rogers Communications Canada Inc.; and Shaw Communications Inc., have not been mandated to develop Manuals. However, they have applied Phase II costing methodology concepts in their third-party Internet access service costing submissions, consistent with Telecom Decision 99-8. In that decision, the Commission directed cable carriers to provide supporting cost studies developed using, to the extent possible, the incremental Phase II costing approach set out in Telecom Decision 79-16.

3. Pursuant to Telecom Decision 2008-14, each ILEC filed its own Manual for Commission approval. The Commission approved the Manuals in Telecom Order 2008-237.
4. Subsequent to the issuance of Telecom Decision 2008-14 and Telecom Order 2008-237, various modifications to the Manuals and the directives for their submission were made through a series of letters (the 2013 letters).² The modifications included information in support of wholesale service tariff applications, methodologies used to estimate company-specific working fill factors, and the recovery of past introduction costs that had not been fully recovered.
5. In Telecom Order 2018-338, the Commission considered it appropriate for Northwestel Inc. (Northwestel) to deviate from the approved ILEC Manuals and use a specific costing factor to estimate the company's variable common expenses³ in the context of its tariff application (Tariff Notices 976 and 976A). The Commission recognized that Northwestel was not a party to the proceeding that culminated in the issuance of Telecom Decision 2008-14 and therefore had no approved Manual.
6. Concurrent with the issuance of Telecom Order 2018-338, the Commission issued Telecom Notice of Consultation 2018-339. In that notice, it directed Northwestel to show cause as to why all of the Commission's determinations in Telecom Decision 2008-14 should not apply to Northwestel as well.
7. Telecom Notice of Consultation 2018-339 culminated with the issuance of Telecom Regulatory Policy 2019-69, in which the Commission found that all of the determinations set out in Telecom Decision 2008-14 should also apply to Northwestel. Accordingly, the Commission directed Northwestel to develop its own Manual and file for Commission approval the company-specific appendices identified in Appendix 3 of Telecom Decision 2008-14.

Northwestel's Manual

8. Northwestel filed its Manual on 13 March 2020 for Commission approval. Northwestel's Manual contains the following information, which is similar to the approved Manuals submitted by the ILECs following the issuance of Telecom Decision 2008-14 and modified by the 2013 letters:
 - sections 1.0 to 5.0 and appendices A to F, which describe the general framework for conducting regulatory economic studies (the common Manual component); and

² See letters dated [12 July 2013](#), [24 July 2013](#), [13 September 2013](#), and [30 September 2013](#).

³ Specifically, the Commission considered that Northwestel could use a variable common cost factor to calculate the variable common expenses incurred by the company, which vary with the scale of company operations, including the service represented in the cost study itself.

- company-specific appendices G through Z, which provide capital and expense methodologies and study parameters, as well as the additional documentation required pursuant to Telecom Decision 2008-14.
9. Northwestel's common Manual component includes a section (Section 4.0) on the process for Manual updates, pursuant to Telecom Decision 2008-14. In that section, Northwestel proposed that when it seeks to modify the Manual and/or its appendices, it is to file a submission with the Commission requesting the modification(s), with supporting rationale. Northwestel also proposed, as did other ILECs during prior proceedings, that any future updates with respect to the methodologies, costing models, and/or other regulatory study information contained in the Manual be subject to a public proceeding. Northwestel proposed a process that provides for the filing of comments by interveners within 30 days of the filing of Northwestel's initial submission, and the filing of reply comments by the applicant within 10 days of receipt of the interveners' comments.

Commission's analysis and determinations

10. Northwestel's proposed expense methodologies and the additional documentation that it included in its company-specific appendices comply with the determinations set out in Telecom Decision 2008-14 and the 2013 letters.
11. The Commission considers it appropriate for updates to the Manual to be subject to a public proceeding and Commission approval. This approach is consistent with the one adopted for other ILECs. The Commission also considers that the proposed timelines are appropriate.
12. Consistent with the approach for the ILECs in Telecom Order 2008-237, where the Commission indicated that many of the company-specific appendices were not within the scope of that proceeding and thus were not approved in that order, the Commission notes that many of Northwestel's company-specific appendices⁴ reflect methodologies and documentation that are similarly not within the scope of this proceeding and are not approved in this order. Further, some items contained in those appendices, such as working fill factors, are raised and considered in specific proceedings separate from the Manual review. Nevertheless, the Commission has no objection to Northwestel applying, at this time, the calculations and procedures documented in those appendices in the company's regulatory economic studies.
13. With respect to Appendix V, there are two separate components. The main component includes a description of the frequency of updates to company-specific unit costs, factors, and parameters. The other component consists of tables, which contain numerous costing inputs, parameters, factors, and unit costs.
14. Northwestel's asset lives, survivor curves, and other company-specific information provided in company-specific Appendix V are consistent with prior Commission

⁴ Appendices G, H, I, K, L, P, R, S, T, U, W, X, and Y.

decisions and orders, such as Decision 2000-746, Telecom Decision 2003-39, and Telecom Order 2018-338. The tables in Appendix V may be updated periodically by companies as new information is developed. Accordingly, the values in the tables are not approved in the present order; however, they may be reviewed when they are used in company-specific costing submissions so that their appropriateness can be considered.

15. Accordingly, effective the date of this order, the Commission **approves** the following components of Northwestel's Manual:

- the common Manual component, including Section 4.0; and
- company-specific Appendices J, M, N, O, Q, V (except for the information in the tables in Appendix V), and Z.

16. With respect to the other company-specific appendices, the Commission notes that the methodologies and documentation contained therein were not within the scope of this proceeding and are not approved in this order.

2019 Policy Direction

17. In accordance with the 2019 Policy Direction,⁵ the Commission considers that approval of the Manual will result in Northwestel applying a costing methodology that is consistent with those of the ILECs. This will contribute to ensuring just and reasonable rates for Northwestel's services, thereby promoting competition, affordability, consumer interests, and innovation throughout Northwestel's serving territory.

18. Further, the Commission considers that its conclusions in this order serve to further the achievement of the policy objectives set out in paragraphs 7(b), (c), (f), and (h) of the *Telecommunications Act*.⁶

Secretary General

⁵ *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives to Promote Competition, Affordability, Consumer Interests and Innovation*, SOR/2019-227, 17 June 2019

⁶ The cited policy objectives are 7(b) to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada; (c) to enhance the efficiency and competitiveness, at the national and international levels, of Canadian telecommunications; (f) to foster increased reliance on market forces for the provision of telecommunications services and to ensure that regulation, where required, is efficient and effective; and (h) to respond to the economic and social requirements of users of telecommunications services.

Related documents

- *Application of the Commission's determinations set out in Telecom Decision 2008-14 to Northwestel Inc.*, Telecom Regulatory Policy CRTC 2019-69, 11 March 2019
- *Show cause proceeding and call for comments – Applicability of the Commission's determinations set out in Telecom Decision 2008-14 to Northwestel Inc.*, Telecom Notice of Consultation CRTC 2018-339, 31 August 2018
- *Northwestel Inc. – Wholesale Connect service – Final rates*, Telecom Order CRTC 2018-338, 31 August 2018
- *Regulatory Economic Studies Manuals – Follow-up proceeding to Telecom Decision 2008-14*, Telecom Order CRTC 2008-237, 25 August 2008
- *Review of certain Phase II costing issues*, Telecom Decision CRTC 2008-14, 21 February 2008; as amended by Telecom Decision CRTC 2008-14-1, 11 April 2008
- *Northwestel Inc. – Initial annual review of supplemental funding*, Telecom Decision CRTC 2003-39, 20 June 2003
- *Long-distance competition and improved service for Northwestel customers*, Decision CRTC 2000-746, 30 November 2000
- *Regulations under the Telecommunications Act of cable carriers' access services*, Telecom Decision CRTC 99-8, 6 July 1999
- *Inquiry into Telecommunications Carriers' Costing and Accounting Procedures – Phase II: Information Requirements for New Service Tariff Filings*, Telecom Decision CRTC 79-16, 28 August 1979