



## Telecom Decision CRTC 2021-384

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Ottawa, 17 November 2021

### Final 2021 revenue-percent charge and related matters

The Commission **approves on a final basis**, effective 1 January 2021, a 2021 contribution collection revenue-percent charge of 0.44% and the 2021 subsidy payments for the incumbent local exchange carriers, with the subsidy payments for Northwestel Inc. remaining interim.

The Commission **approves on an interim basis**, effective 1 January 2022, a 2022 contribution collection revenue-percent charge of 0.46% and funding for video relay service.

### 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 the incumbent local exchange carriers (ILECs)<sup>1</sup> for providing service in their high-cost serving areas (HCSAs).<sup>2</sup>
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.
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 annual funding cap to cover all administrative and service-related costs for VRS.
5. In Telecom Regulatory Policy 2016-496, the Commission determined that a funding mechanism would be established to support the expansion of fixed and mobile

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<sup>1</sup> Since Decision 2000-745, modifications have been made to various components of the subsidy regime.

<sup>2</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.

wireless broadband Internet access and wireless voice services (the Broadband Fund). The Commission also determined that, starting in the first year of the Broadband Fund, the definition of contribution-eligible revenue would be expanded to include retail Internet access and paging service revenues in the calculation of the revenue-percent charge.<sup>3</sup>

6. In Telecom Regulatory Policy 2018-377, the Commission determined that the Broadband Fund would be introduced within the NCF and administered by the Central Fund Administrator (CFA).<sup>4</sup>
7. 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.
8. Because the Commission determined that 2020 would be the first year of operation for the Broadband Fund, the definition of contribution-eligible revenue was expanded to include retail Internet access and paging service revenues, effective January 2020.
9. Each year, the Commission finalizes the subsidy payments to the ILECs for 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 subsidy, VRS, and broadband requirements.
10. In Telecom Decision 2020-395, the Commission set, on a final basis for 2020, a revenue-percent charge of 0.44% and the transition subsidy amounts for the ILECs, with the subsidy payments for Northwestel Inc. (Northwestel) becoming interim effective 2 November 2020. The Commission set, on an interim basis for 2021, a revenue-percent charge of 0.44% and the transition subsidy amounts for the ILECs.
11. The Commission received a submission from the Canadian Telecommunications Contribution Consortium Inc. (CTCC)<sup>5</sup> that provided the information needed to finalize the 2021 revenue-percent charge.
12. The Commission addresses the following matters in this decision:
  - the estimated national subsidy, VRS, and broadband requirement for 2021;
  - the final 2021 revenue-percent charge and subsidy payments from the NCF;
  - the interim 2022 revenue-percent charge and VRS funding; and

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<sup>3</sup> 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.

<sup>4</sup> 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, VRS funding, and broadband funding.

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

- the excess NCF funds after the December 2021 data-month is processed.

### **Estimated national subsidy, VRS, and broadband requirement for 2021**

13. The national subsidy, VRS, and broadband requirement is based on the sum of (i) the transition subsidy payments to the ILECs, (ii) the funding for VRS, (iii) the funding for broadband, and (iv) the administrative and operational costs of the CTCC and the CFA.

### **Transition subsidy payments to the ILECs**

14. 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.
15. On the basis of the semi-annual subsidy reductions during the transition period outlined in Telecom Regulatory Policy 2018-213, the transition subsidy payments made to the ILECs will total \$16.6 million in 2021.
16. In Telecom Notice of Consultation 2020-367, the Commission set, on an interim basis, the transition subsidy payments for Northwestel for the 14-month period beginning 2 November 2020 and ending 31 December 2021.

### **Funding for VRS**

17. In Telecom Decision 2020-394, the Commission approved an application from the Canadian Administrator of VRS (CAV), Inc. (CAV) requesting approximately \$27.3 million in funding for 2021. The Commission notes that the approved funding amount of \$27.3 million for 2021 included a deficit carry-forward amount of approximately \$1 million from 2020.

### **Funding for broadband**

18. Because the Commission determined that 2020 would be the first year of operation for the Broadband Fund, a funding amount of up to \$125 million will be available for 2021.

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

19. The Commission received notification from the CTCC that the estimated CTCC and CFA administrative and operational costs would be approximately \$1 million for 2021. This amount is included in the national subsidy, VRS, and broadband requirement.

### **Estimated 2021 national subsidy, VRS, and broadband requirement**

20. In light of the above, the Commission estimates the total 2021 national subsidy, VRS, and broadband requirement to be \$169.9 million.

## **Final 2021 revenue-percent charge and subsidy payments from the NCF**

21. The revenue-percent charge is calculated using the ratio of the national subsidy, VRS, and broadband requirement to the estimated total contribution-eligible revenues of all TSPs that are required to contribute, which as of 2020 includes their retail Internet access and paging service revenues.
22. The Commission considers that a final 2021 revenue-percent charge of 0.44% would be appropriate.
23. Accordingly, the Commission **approves** a final 2021 revenue-percent charge of 0.44%, effective 1 January 2021.
24. The Commission **approves on a final basis**, effective 1 January 2021, the transition subsidy payments for the ILECs, which are calculated based on the subsidy phase-out schedule in Telecom Regulatory Policy 2018-213, with the exception of Northwestel's transition subsidy payments, which will remain interim.
25. The Commission **directs** the CFA to distribute the monthly transition subsidy phase-out amounts to the ILECs on a final basis, effective 1 January 2021, with the exception of Northwestel's transition subsidy payments, which will remain interim.

## **Interim 2022 revenue-percent charge and VRS funding**

26. In its budget application, CAV requested \$30 million for 2022. Since the 2022 CAV budget application has not been approved at this time, the Commission considers that CAV should continue to receive funding so that it can continue to provide VRS. Therefore, the Commission **approves on an interim basis**, effective 1 January 2022, \$30 million in funding and **directs** the CFA to distribute monthly payments equal to 1/12<sup>th</sup> of this amount on an interim basis, effective 1 January 2022. This approval of the release of the funds on an interim basis allows the Commission to make a decision on CAV's budget based on a fulsome record and with due consideration of all the comments that have been or will be received. Interim approval also allows the Commission to set out a final funding amount once CAV's application is dealt with by the Commission, and to reconcile any differences in funding distributed to CAV at a later date.
27. In Telecom Regulatory Policy 2016-496, the Commission determined that the Broadband Fund would make \$100 million available in its first year of operation and would increase by \$25 million per year over the next four years, with the increases in years four and five contingent on a review of the Broadband Fund in year three to ensure that it is managed efficiently and is achieving its intended purpose. Because its first year of operation was 2020, up to \$150 million will be made available from the Broadband Fund in 2022.
28. Including the CTCC and CFA estimated costs of \$1 million, the Commission estimates that the amount to be collected in order to meet VRS and broadband requirements during 2022 is \$181 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 2022 revenue-percent charge of 0.46%, effective 1 January 2022, would be appropriate.
30. Accordingly, the Commission **approves on an interim basis** a 2022 revenue-percent charge of 0.46%, effective 1 January 2022.

### **Excess NCF funds after the December 2021 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. 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. While the Commission has made available a total of \$225 million in funding for the first two years of the Broadband Fund, not all of that amount will be paid out by the end of 2021. Any uncalled contribution associated with the unpaid portion of the Broadband Fund needs to be retained by the NCF for future payments.
33. In Telecom Decision 2019-383, the Commission approved the CTCC's request for a \$10 million minimum Prescribed NCF Balance.<sup>6</sup>
34. Therefore, the Commission considers that any uncalled contribution not associated with the Broadband Fund and in excess of the \$10 million minimum balance after the December 2021 data-month is processed is not required by the NCF and can be released.
35. Accordingly, the Commission **directs** the CFA to release any 2021 uncalled contribution that is not related to the Broadband Fund or the \$10 million minimum balance after it has processed the December 2021 data-month.

### **Conclusion**

36. The Commission **approves on a final basis**, effective 1 January 2021, a 2021 contribution collection revenue-percent charge of 0.44% and the 2021 subsidy payments for the incumbent local exchange carriers, with the subsidy payments for Northwestel Inc. remaining interim. The Commission also **approves on an interim basis**, effective 1 January 2022, a 2022 contribution collection revenue-percent charge of 0.46% and funding for video relay service.

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<sup>6</sup> 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.

## Policy Directions

37. The 2006 Policy Direction<sup>7</sup> and the 2019 Policy Direction<sup>8</sup> (collectively, the Policy Directions) state that the Commission, in exercising its powers and performing its duties under the *Telecommunications Act* (the Act), shall implement the telecommunications policy objectives set out in section 7 of the Act, in accordance with the considerations set out in the Policy Directions,<sup>9</sup> and should specify how its decisions can, as applicable, promote competition, affordability, consumer interests, and innovation.
38. The Commission considers that its determinations in this decision will help bring into effect its previous determinations, particularly those in Telecom Decision 2018-377 and Telecom Regulatory Policy 2014-187. The Commission considers that the determinations detailed therein are consistent with the 2006 Policy Direction and that their implementation promotes the objectives of the 2019 Policy Direction, by
- promoting the interests of consumers in areas benefiting from funding under the Broadband Fund, and promoting the affordability of service in those areas through securing the funding necessary to support the Broadband Fund; and
  - promoting the interests of consumers of VRS, including the affordability and technical accessibility of telecommunications services, through securing the funding necessary to implement VRS.
39. The Commission further considers, in accordance with subparagraph 1(a)(ii) of the 2006 Policy Direction, that in so doing it has employed a regulatory measure that is efficient and proportionate to its purpose, impairing market forces to the minimum required and allowing them to operate to the greatest extent possible. In particular, the Commission notes that it has established the revenue-percent charge only to the extent required to cover the documented and justified needs of the programs it is intended to support.

Secretary General

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<sup>7</sup> *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, SOR/2006-355, 14 December 2006.

<sup>8</sup> *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.

<sup>9</sup> The relevant considerations are the following: subparagraphs 1(a)(i) and 1(a)(ii) of the 2006 Policy Direction, which state that the Commission should rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives, using regulatory measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives; and paragraph 1(a) of the 2019 Policy Direction, which states that the Commission should consider how its decisions can promote competition, affordability, consumer interests, and innovation.

## Related documents

- *Final 2020 revenue-percent charge and related matters*, Telecom Decision CRTC 2020-395, 7 December 2020
- *Canadian Administrator of VRS (CAV), Inc. – Application requesting video relay service funding for 2021*, Telecom Decision CRTC 2020-394, 7 December 2020
- *Call for comments – Review of the Commission’s regulatory framework for Northwestel Inc. and the state of telecommunications services in Canada’s North*, Telecom Notice of Consultation CRTC 2020-367, 2 November 2020
- *Revised procedures for the operation of the National Contribution Fund, effective 1 January 2020*, Telecom Decision CRTC 2019-383, 28 November 2019
- *Development of the Commission’s Broadband Fund*, Telecom Regulatory Policy CRTC 2018-377, 27 September 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
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000