Canadian Radio-television and Telecommunications Commission
Conseil de la radiodiffusion et des télécommunications canadiennes

Telecom Decision CRTC 2005-50

Ottawa, 2 September 2005

Follow-up to *Access to pay telephone service*, Telecom Decision CRTC 2004-47 - Saskatchewan Telecommunications' request to recover costs associated with upgrading pay telephones with teletypewriter units

Reference: 8678-S22-200502601

In this Decision, the Commission ***approves*** *for Saskatchewan Telecommunications the recovery of certain costs associated with upgrading pay telephones with teletypewriter units through draw downs from the company's deferral account.*

The application

1. The Commission received an application by Saskatchewan Telecommunications (SaskTel), dated 8 March 2005, pursuant to *Access to pay telephone service*, Telecom Decision CRTC 2004-47, 15 July 2004 (Decision 2004-47). The company requested an exogenous adjustment to recover the costs of upgrading certain pay telephones with teletypewriter (TTY) units. The company requested that the exogenous adjustment be achieved through an annual draw down of $1.3 million from its deferral account for four years to recover estimated costs of $4.2 million. In support of its application, the company filed a Phase II cost study.

Process

2. The Commission issued interrogatories to SaskTel, dated 1 April 2005. The Commission received SaskTel's response, dated 22 April 2005.

3. The Commission received no comments with respect to the application.

Background

4. In *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997 (Decision 97-9), the Commission determined that an exogenous factor would be a component of the price cap formula in the initial price cap regime. An exogenous factor flows through the impact associated with events not captured by other elements of the price cap formula, provided the events or initiatives:

   - are legislative, judicial or administrative actions which are beyond the control of the company;

   - are addressed specifically to the telecommunications industry; and

   - have a material impact on the Utility segment of the company.

5. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission concluded that the criteria for exogenous events set out in Decision 97-9, modified to measure materiality in relation to the total company, remained appropriate.

6. In Decision 2004-47, the Commission directed Aliant Telecom Inc., Bell Canada, MTS Allstream Inc. (MTS Allstream), SaskTel, Société en commandite Télébec, and TELUS Communications Inc. (TCI) to upgrade certain pay telephones with TTY units over a period from 2004 to the end of 2010. In that Decision, the Commission stated that the companies could file requests for an exogenous factor to recover the costs of upgrading their respective pay telephones with TTY units if the companies were of the view that they qualified for such treatment.

7. In *Follow-up to Access to pay telephone service, Telecom Decision CRTC 2004-47, 15 July 2004: Requests to recover costs associated with upgrading pay telephone with teletypewriter units*, Telecom Decision CRTC 2005-23, 14 April 2005 (Decision 2005-23), the Commission found that Bell Canada's, MTS Allstream's and TCI's costs of upgrading pay telephones with TTY units were significant and material for each company and found that the companies' proposals met the three criteria for exogenous treatment.

8. In Decision 2005-23, the Commission stated that, considering that the TTY upgrades would benefit consumers in general, it was of the view that the use of the deferral account to fund the TTY upgrade program would be consistent with Decision 2002-34. The Commission found it appropriate that the companies be compensated for the costs associated with their TTY upgrades through draw downs from their deferral accounts.

9. In determining the amounts that the companies would be permitted to draw down from their deferral accounts, the Commission made the following determinations with respect to Bell Canada's, MTS Allstream's and TCI's proposals.

- The TTY upgrade costs would only reflect the installed TTY equipment costs and the associated service provisioning costs. The operating expenses proposed by the companies in their TTY cost studies associated with the ongoing incremental operation of the TTY service were not costs to upgrade pay telephones with TTY units and were therefore omitted.

- A 10-year study period was appropriate as a common study period length in determining each company's annual draw down associated with the TTY upgrades.

- Their installation cost estimates for the TTY upgrades should be similar across the companies given that the procedures, expertise and labour rates to install TTY equipment would be similar across the companies. As a result, the Commission found it appropriate to reduce Bell Canada's and MTS Allstream's installation costs by 50 percent.

- One-time service provisioning expenses, defined as expenses related to the issuance of service orders and the dispatch of technicians to equip existing payphones with TTY units, were considered as part of the TTY upgrade costs. As a result, the Commission found it appropriate to include an annual service provisioning expense, based on Bell Canada's expense estimates, in the annual draw down amounts for each of the companies.

- The costs associated with the TTY upgrades would be recovered over a seven year period.

10. The Commission also found that the proposed TTY capital and service provisioning costs, as adjusted by the Commission, represented appropriate estimates of the TTY upgrade costs, and therefore, tracking of installation or other costs was not warranted.

Eligibility of TTY upgrade costs for treatment as an exogenous adjustment

11. SaskTel submitted that the TTY upgrade program costs qualified for treatment as an exogenous factor, given that the program met all the criteria identified in Decision 2002-34. The company noted that the Commission's first criterion was satisfied since the requirement for a mandatory TTY deployment program was a Commission policy determination. The company also noted that this requirement was specific to the telecommunications industry and that the operational and financial impacts of this type of undertaking were material to the company as a whole.

12. SaskTel noted that its proposed annual draw down amount would exceed the amount available in the company's deferral account. SaskTel further noted that the Commission would examine the amounts in the incumbent local exchange carriers' (ILECs') deferral accounts in *Review and disposition of the deferral accounts for the second price cap period*, Telecom Public Notice CRTC 2004-1, 24 March 2004 (Public Notice 2004-1). SaskTel submitted that it would determine if any material funding shortfall would exist following the conclusion of the Public Notice 2004-1 proceeding and make any necessary applications to recover such a funding shortfall.

Commission's analysis and determinations

13. The Commission notes that it has previously determined in Decision 2005-23 that the costs associated with upgrading pay telephones with TTY units met the first two exogenous event criteria. The Commission considered that the requirement to implement the upgrades resulted from the Commission's directives in Decision 2004-47, and therefore, qualified as a legislative, judicial or administrative action that was both beyond the control of the company and addressed specifically to the telecommunications industry.

14. The Commission notes SaskTel's estimation that the upgrade program will cost $4.2 million. Given the magnitude of the costs associated with this initiative, and consistent with Decision 2005-23, the Commission is of the view that the costs of upgrading pay telephones with TTY units are significant, material for the company, and meet the third criteria for an exogenous event. Accordingly, the Commission determines that these costs qualify for exogenous treatment and that it is appropriate for SaskTel to use its deferral account to fund the exogenous adjustment.

15. The Commission notes that, based on the adjustments to SaskTel's TTY upgrade costs discussed below, the company's concern that there would be a shortfall in the deferral account will not materialize.

The Phase II cost studies

16. In support of its proposal, SaskTel submitted a Phase II cost study reflecting the costs associated with upgrading its payphones with TTY units, pursuant to the TTY upgrade program detailed in Decision 2004-47. SaskTel included the installed TTY equipment costs for upgrades and the associated operating expenses, including service provisioning and maintenance expenses, in the cost study.

17. SaskTel proposed a 20-year study period. SaskTel stated that it had concerns regarding the Commission's determination that the TTY deployment program should be based on a 10-year study period. SaskTel noted that both Bell Canada and TCI considered TTY units non-fungible which ensured that the total capital costs of TTY units were recovered within their studies, regardless of the period used. SaskTel submitted that it had assigned the TTY units with the same life characteristics as all other pay telephone terminal equipment in order to properly reflect both equipment replacement capital costs and maintenance expenses beyond the initial equipment installation period.

18. SaskTel argued that limiting the study period to 10 years, without making adjustments to the costing methodology to ensure that the company had an opportunity to fully recover the TTY program capital costs, would be unfair and inequitable. SaskTel requested that the Commission accept the results filed using a 20-year study period and submitted that, failing that, the Commission should set the total costs of the TTY program equal to the present worth of annualized costs (PWAC) reported plus the end-of-study value reported.

19. SaskTel submitted that it had never installed a TTY unit in an outdoor location. SaskTel stated that it was working with Bell Canada to evaluate the suitability of a TTY unit for use in outdoor locations and to assess the reasonableness of the estimates in the cost study. SaskTel further stated that, in the event that the TTY units that Bell Canada was testing did not function appropriately or the actual installation and on-going costs varied significantly from the estimates in the cost study, SaskTel would reassess the program costs and advise the Commission accordingly.

20. In response to a Commission interrogatory which requested that SaskTel provide a revised Phase II cost study based on 10-year study period, with the maintenance and installation costs of the TTY units at 50 percent of the proposed value, SaskTel stated that it had significant concerns regarding the Commission's suggestion that the company could install and maintain the TTY equipment based on 50 percent of the costs included in its cost study. SaskTel noted that the time estimate was based on the company's actual experience installing TTY units. SaskTel submitted that the time estimate used to calculate the installation costs was reasonable and represented a very conservative estimate of the time required to perform such work. SaskTel argued that the Commission should maintain its estimated installation costs at the proposed level.

21. SaskTel stated that it had not included any costs for order preparation and distribution, dispatching company technicians, maintaining the pay telephone equipment database, or performing any pre-installation visits required to make necessary arrangements with the location provider. The company noted that, in Decision 2005-23, the Commission determined that these expenses should be considered part of the TTY program costs. SaskTel submitted that the Commission should adjust its costs upwards, based on Bell Canada's per unit costs for these functions, in order to incorporate the costs of the activities that SaskTel omitted in its initial cost estimates.

Commission's analysis and determinations

22. In Decision 2005-23, the Commission specified that it would permit Bell Canada, MTS Allstream, and TCI to recover only the costs specific to upgrading pay telephones with TTY units from their respective deferral accounts. In order to ensure that the companies are treated equitably, the Commission considers that the determinations in Decision 2005-23 should also apply to SaskTel with regard to determining the upgrade costs that the company will be permitted to draw down from its deferral account. Consistent with Decision 2005-23, the Commission considers that SaskTel's TTY upgrade costs should consist of the equipment costs for the TTY units, the associated installation costs, and the associated one-time order fulfilment process costs.

Upgrade costs

23. The Commission notes that SaskTel's TTY upgrade costs reflect the forecasted TTY demand estimates stemming from the requirements of Decision 2004-47. The Commission is of the view that the TTY demand estimates proposed by the company meet the requirements of Decision 2004-47.

24. The Commission notes that SaskTel's cost study relies on a 20-year study period. Consistent with Decision 2005-23, the Commission considers that a 10-year study period is appropriate for the TTY upgrade program.

25. The Commission notes that in response to an interrogatory, SaskTel proposed that if the Commission were to use its 10-year sensitivity results, the Commission should include the PWAC and the end-of-study value, so that SaskTel's capital costs could be recovered, consistent with the methodology adopted by Bell Canada and TCI. The Commission considers SaskTel's proposed approach to be appropriate. Accordingly, the Commission has calculated SaskTel's permitted annual draw down amount based on a 10-year sensitivity-run that reflects the capital PWAC from this sensitivity and the associated end-of-study value as proposed by SaskTel.

26. The Commission notes that SaskTel's proposed capital costs for the TTY units, including the costs associated with shelves and booths, are significantly higher than those approved in Decision 2005-23 for the other ILECs. The Commission considers that capital cost estimates should be fairly consistent among the ILECs. Accordingly, the Commission is of the view that it is appropriate to reduce SaskTel's capital costs to bring them more in line with those approved for the other ILECs. In light of the above, the Commission considers it appropriate to reduce SaskTel's capital costs by 35 percent.

27. The Commission notes that SaskTel's service provisioning expenses consist of installation for the TTY units, shelves, and booths, as required; power supply upgrades; and message relay expenses. Consistent with Decision 2005-23, the Commission considers that the installation and power supply upgrade expense components of SaskTel's service provisioning expenses should be considered as TTY upgrade costs. The Commission notes, however, that in Decision 2005-23, it considered message relay expenses to be ongoing incremental expenses associated with the provision of the service and accordingly, excluded message relay expenses from the costs permitted to be drawn down from the deferral account. Consistent with Decision 2005-23, the Commission considers that SaskTel's proposed message relay expenses do not qualify as TTY upgrade costs, and accordingly, excludes these from the permitted TTY upgrade costs.

28. In Decision 2005-23, the Commission stated that it expected the procedures and the costs to install TTY equipment to be similar across the companies. The Commission notes that SaskTel's proposed average installation cost estimates for TTY units, shelves, and booths are significantly higher than those approved for other companies in Decision 2005-23. In light of the above and consistent with Decision 2005-23, the Commission considers it appropriate to reduce SaskTel's installation costs by 50 percent, similar to the adjustment made to Bell Canada's and MTS Allstream's installation costs.

29. In Decision 2005-23, the Commission found it appropriate to include the costs associated with the order fulfilment process, based on Bell Canada's expense estimate, in each ILEC's annual draw down amount. The Commission notes that SaskTel did not include one-time expenses related to the issuance of service orders or the dispatch of technicians to equip existing payphones with TTY units, but rather, proposed that the Commission use Bell Canada's per unit cost for these functions as a proxy. Consistent with the approach used in Decision 2005-23, the Commission considers it appropriate to include a cost per TTY unit for the order fulfilment process, based on Bell Canada's per unit cost estimate, in SaskTel's annual draw down amount.

30. The Commission notes that SaskTel's TTY upgrade costs further reflect the corresponding changes to portfolio expense and percentage revenue charge costs, as a result of the above-mentioned adjustments.

Tracking of information

31. The Commission notes that SaskTel proposed to track costs associated with outdoor TTY units. Consistent with Decision 2005-23, the Commission does not consider it necessary to track installation or other costs. The Commission considers that the proposed TTY capital costs and service provisioning costs, as adjusted above, represent appropriate estimates of the TTY upgrade costs.

Recovery period

32. The Commission notes that SaskTel provided annual draw down estimates corresponding to its TTY PWAC for capital costs and operating expenses spread over a four-year recovery period. Consistent with Decision 2005-23, the Commission considers it appropriate for SaskTel to recover the costs of equipping pay telephones with TTY units over a seven-year recovery period.

Annual draw down amounts to the companies' deferral accounts

33. In light of the above, the Commission **approves** for SaskTel an annual draw down amount of $327,000, for a period of seven years, for the purpose of recovering the costs associated with upgrading pay telephones with TTY units.

Secretary General