



Telecom Decision CRTC 2005-52

Ottawa, 9 September 2005

MTS Allstream's application to review and vary certain decisions relating to its Band F subsidy

Reference: 8662-M3-200317661

*The Commission **approves** a request by MTS Communications Inc., now MTS Allstream Inc. (MTS Allstream), to review and vary MTS Communications Inc. - Reclassification of Band D exchanges to Band F and related rate issues, Telecom Decision CRTC 2003-70, 17 October 2003 (Decision 2003-70), to permit MTS Allstream to receive additional subsidy for Band F, effective 17 October 2003.*

*The Commission **denies** a request by MTS Allstream to review and vary Restructured bands, revised loop rates and related issues, Decision CRTC 2001-238, 27 April 2001, Restructured bands, revised loop rates and related issues - correction, Decision CRTC 2001-238-2, 7 August 2001, and Decision 2003-70 to permit MTS Allstream to receive subsidy in respect of Band F for the period 1 January 2002 to 16 October 2003.*

*The Commission also **approves** a revised Type A loop rate of \$19.69 for MTS Allstream's Band D and a revised Type A loop rate of \$32.99 for MTS Allstream's Band F, effective the date of this Decision.*

Introduction

1. The Commission received an application by MTS Communications Inc., now MTS Allstream Inc. (MTS Allstream), dated 25 November 2003, filed pursuant to sections 60 and 62 of the *Telecommunications Act*, requesting that the Commission review and vary certain determinations in *Restructured bands, revised loop rates and related issues*, Decision CRTC 2001-238, 27 April 2001 (Decision 2001-238), *Restructured bands, revised loop rates and related issues - correction*, Decision CRTC 2001-238-2, 7 August 2001 (Decision 2001-238-2), and *MTS Communications Inc. - Reclassification of Band D exchanges to Band F and related rate issues*, Telecom Decision CRTC 2003-70, 17 October 2003 (Decision 2003-70).
2. MTS Allstream also requested that the Commission review and vary certain determinations in *Final 2002 revenue-percent charge and related matters*, Telecom Decision CRTC 2002-71, 22 November 2002 (Decision 2002-71) and *Final 2003 revenue-percent charge and related matters*, Telecom Decision CRTC 2003-84, 19 December 2003 (Decision 2003-84).
3. MTS Allstream requested that the Commission review and vary these decisions to permit MTS Allstream to receive subsidy in the amount of \$11.8 million, in respect of the exchanges that were reassigned from Band D to Band F in Decision 2003-70, for the period 1 January 2002 to 16 October 2003 (2002 and the Unpaid Portion of 2003), and to permit MTS Allstream to receive additional subsidy in respect of Band F for the period 17 October to 31 December 2003

(Paid Portion of 2003). If the Commission were to vary MTS Allstream's Band F residential subsidy per network access service (NAS) amount as requested, MTS Allstream would receive additional subsidy for 2004 and on a going-forward basis.

4. MTS Allstream submitted revised cost information for Bands D and F and requested that the Commission base its revised Band F subsidy amount on this information with the result that MTS Allstream's residential subsidy per NAS amount would be \$14.46. MTS Allstream also requested that the Commission vary its Type A loop rate for Band D (Band D loop rate) to \$19.69, vary its Type A loop rate for Band F (Band F loop rate) to \$32.99, and vary its Band F residential primary exchange service (PES) cost to \$38.37.

Process

5. The Commission received comments from Allstream Corp. (Allstream), now MTS Allstream,¹ dated 21 January 2004.
6. The Commission received reply comments from MTS Communications Inc., now MTS Allstream, dated 4 February 2004.

Background

7. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000, the Commission introduced a subsidy per residential NAS calculation that allowed subsidy to be paid to local exchange carriers (LECs) that provided residential telephone service in high-cost rural and remote areas of Canada.
8. In Decision 2001-238, the Commission established the criteria to be used by the large incumbent local exchange carriers (ILECs) to assign exchanges to high-cost rate bands for subsidy payment purposes. The criteria for a wire centre or an exchange to be assigned to Band F, a high-cost band, are that the associated total NAS must be greater than 1,500 but less than 8,000 and the average loop length must be greater than four kilometres. In Decision 2001-238, the Commission also approved Type A and B loop rates by band for the large ILECs, including MTS Allstream, and approved residential PES costs by band for the large ILECs. In Decision 2001-238-2, the Commission disclosed the residential PES costs by band for each large ILEC.
9. To determine the amount of monthly subsidy payable in respect of each high-cost band, the Commission calculates residential subsidy per NAS amounts annually for each ILEC. The amount of an ILEC's residential subsidy per NAS for each high-cost band is based on the ILEC's residential PES cost for that band, adjusted annually to reflect inflation, productivity, cost recovery of the revenue-percent charge, and service improvement plan (SIP) costs as required. Subsidy is then paid based on the residential subsidy per NAS amount and the number of residential NAS served.

¹ Manitoba Telecom Services Inc., the parent company of MTS Communications Inc., acquired all of the issued and outstanding shares of Allstream Inc. effective 4 June 2004. As part of the transaction, MTS Communications Inc., MTS Media Inc., and Allstream Corp. amalgamated effective 4 June 2004 to form a company operating under the name MTS Allstream Inc.

10. In Decision 2003-70, the Commission approved two related applications filed by MTS Allstream in March 2003 (the March 2003 Applications) to reclassify 17 exchanges from Band D to Band F. The Commission also approved for MTS Allstream a revised Band D loop rate of \$21.35, a revised Band F loop rate of \$24.68, a Band F residential PES cost of \$29.32, and an interim Band F subsidy per residential NAS amount of \$4.05. In Decision 2003-84, the Commission approved for MTS Allstream a final Band F subsidy per residential NAS amount of \$3.23 for 2003, effective 17 October 2003.
11. As a result of Decision 2003-70, MTS Allstream received subsidy for Band F effective 17 October 2003. Since MTS Allstream did not identify wire centres or exchanges in Band F in the proceeding that led to Decision 2001-238 (the Decision 2001-238 proceeding) or in the tariff pages issued in response to Decision 2001-238, MTS Allstream did not receive subsidy in respect of Band F for 2002 and the Unpaid Portion of 2003.

MTS Allstream's application

12. MTS Allstream submitted that, due to a fundamental error in Decision 2001-238 as amended by Decision 2001-238-2 (Decision 2001-238 as amended), it did not receive the full amount of the Band F subsidy to which it was entitled. MTS Allstream submitted that, as a result, it was prejudiced relative to other ILECs with respect to service provision in high-cost serving areas. MTS Allstream submitted that its forgone subsidy for 2002 and the Unpaid Portion of 2003 was approximately \$11.8 million.
13. MTS Allstream argued that in Decision 2003-70 the Commission recognized and corrected the error made in Decision 2001-238 as amended, with respect to the assignment of 17 exchanges to Band D instead of Band F. MTS Allstream argued that these exchanges should have been assigned to Band F from the outset, and that in Decision 2003-70, the Commission erred when it did not correct this error for 2002 and the Unpaid Portion of 2003. MTS Allstream estimated that 30 percent of its high-cost service area NAS was in Band F.
14. MTS Allstream argued there was no policy reason related to the provision of subsidy for the Commission not to recognize MTS Allstream's Band F and related subsidy effective 1 January 2002. MTS Allstream submitted that, as PES rates paid by residential consumers were the same for Bands D and F, the Commission would not prejudice residential customers by approving MTS Allstream's requests.² MTS Allstream submitted further that, as competitors had not ordered loops in Bands D or F, the Commission would not prejudice competitors by approving MTS Allstream's requests.
15. MTS Allstream argued that its application was a review and vary application since there was substantial doubt as to the original correctness of Decision 2001-238 as amended, Decision 2002-71, and Decision 2003-70. MTS Allstream described its application to review and vary Decision 2003-70 as related to its application to review and vary Decision 2001-238-2. MTS Allstream submitted that it did not assign exchanges to Band F in the Decision 2001-238 proceeding or in the tariff pages it issued to implement Decision 2001-238 because

² The band-specific residential PES rate is also used to determine the residential subsidy per NAS.

MTS Allstream interpreted the term "average loop length" in the Band F criteria set out in Decision 2001-238 to mean "average copper loop length". MTS Allstream submitted that it assigned the NAS in question to Band D in error, based on its interpretation that "average loop length" included only the copper portion of the loop.

16. In support of its position, MTS Allstream referred to Commission interrogatory The Companies(CRTC)30Oct00-2 PN 2000-27, addressed to all ILECs in the Decision 2001-238 proceeding.³ In the interrogatory, each ILEC was asked to assign NAS in its exchanges to three high-cost bands, based on various criteria, including the number of NAS in an exchange and an "average copper loop length" greater than four kilometres. MTS Allstream submitted that Commission staff advised or permitted other ILECs responding to the interrogatory to use "average loop length" greater than four kilometres in their responses. MTS Allstream argued that, as a result, its error in failing to assign exchanges to Band F was attributable to Commission staff.
17. MTS Allstream submitted that its discovery of the error with respect to its Band F exchanges represented a fundamental change in circumstances since Decision 2001-238 as amended. MTS Allstream argued further that the prejudice that MTS Allstream and its customers would suffer if the Commission did not approve its application outweighed the Commission's interest in the finality of its decisions.
18. With respect to its Band D and Band F loop costs, MTS Allstream submitted that, in Decision 2003-70, the Commission did not consider differences in average working fill factors (AWFFs) or associated differences in maintenance costs when it approved revised loop and residential PES costs and rates for the restated Bands D and F.
19. MTS Allstream submitted that, in Decision 2003-70, the Commission incorrectly varied its Band D loop costs insofar as the Commission assumed the average loop length for Bands D and F, as restated in Decision 2003-70, would be the same, except for the use of the integrated digital loop carrier (IDLC) component in Band F. MTS Allstream submitted that the Commission should have also considered characteristics such as average copper loop length, construction mix, and cable make-up. MTS Allstream submitted that, in light of the above, the Commission did not apply the concept of "cost-neutrality" correctly in Decision 2003-70.⁴ MTS Allstream argued further that the reclassification situation addressed by the Commission in *Interim approval of revised unbundled loop rates for reclassified bands*, Order CRTC 2001-848, 28 November 2001, was distinguishable since, in that case, all of the exchanges involved were in non-high-cost bands.

³ Interrogatory The Companies(CRTC)30Oct00-2 PN 2000-27 set out the criteria for high-cost bands that were ultimately adopted in Decision 2001-238, with the exception that the interrogatory stated "average copper loop length" and the decision stated "average loop length".

⁴ The "cost-neutrality" principle means that the average loop costs approved in Decision 2001-238 as amended across the bands should be the same before and after wire centre or exchange reclassification. In this case, MTS Allstream's Band D loop cost approved in Decision 2001-238 as amended should be the same as the average loop cost of the restated Bands D and F.

Allstream's comments

20. Allstream argued that the Commission should not approve MTS Allstream's application with respect to the period 1 January 2002 to 31 December 2003. Allstream did not address whether MTS Allstream should receive additional Band F subsidy after December 2003 and did not comment on MTS Allstream's submissions with respect to costs.
21. Allstream argued that the Commission did not have the authority to review and vary, with retroactive effect, a decision involving rates approved on a final basis. Allstream submitted that, given the associated public interest considerations, this extended to decisions involving subsidy amounts and revenue-percent charges. Allstream also submitted that adding a retrospective component to future rates raised concerns regarding fairness among subscribers over time.
22. Allstream submitted that MTS Allstream's application to reclassify certain exchanges from Band D to Band F before 17 October 2003 was a new application. Allstream submitted further that the Commission did not have the authority to modify the exchange classification on a retroactive or retrospective basis in a new application. Allstream noted that, when MTS Allstream filed the March 2003 Applications to address the misclassification, MTS Allstream did not request interim approval for the proposed reclassification. Allstream argued that MTS Allstream failed to mitigate the perceived need for the relief it was presently requesting.
23. Allstream argued that the circumstances did not warrant relief for MTS Allstream on anything other than a prospective basis. Allstream submitted that MTS Allstream had attempted to give the impression that it bore no responsibility for the original exchange misclassification error. Allstream submitted that MTS Allstream was responsible for its failure to notice or correct the misclassification error in the Decision 2001-238 proceeding and for the continuation of the error during the subsequent period.
24. Allstream submitted that the issue of copper loop length versus total loop length was brought to all parties' attention during the Decision 2001-238 proceeding. Allstream referred to the ILECs' responses to interrogatory The Companies(CRTC)30Oct00-3 PN 2000-27, in which Aliant Telecom Inc. (Aliant Telecom) stated that all Aliant Telecom companies used total loop length, rather than copper loop length, to identify the exchanges that qualified for inclusion in this high-cost band. Allstream also referred to MTS Allstream's response to the interrogatory, in which MTS Allstream stated that "MTS does not have any wire centres/exchanges which fall into the high-cost category iii), defined in The Companies(CRTC)30Oct00-2 PN 2000-27 as wire centres/exchanges with total NAS counts between 1,500 and 8,000 with average loop lengths over four kilometres". Allstream noted that MTS Allstream did not refer to "average copper loop lengths" in its response.
25. Allstream argued it was therefore reasonable for the Commission to consider that MTS Allstream, like other ILECs, had used average loop length in its calculations when MTS Allstream submitted that it had no Band F exchanges. Allstream argued that the Band F criteria in Decision 2001-238 were unambiguous and clearly specified that ILECs were to assign exchanges to Band F based on "average loop length".

MTS Allstream's reply comments

26. MTS Allstream submitted that matters concerning the subsidy per residential NAS amount did not involve retroactive changes to tariffed rates and that MTS Allstream's subsidy requests would have no material impact on the revenue-percent charge.

Commission's analysis and determinations

Bands D and F loop costs and rates and Band F residential PES cost

Characterization of MTS Allstream's application

27. The Commission notes that MTS Allstream argued that there was substantial doubt as to the correctness of the Bands D and F loop rates, Band F residential PES cost, and Band F subsidy per residential NAS amount approved in Decision 2003-70.
28. In Decision 2003-70, the Commission approved revised Bands D and F loop rates, a Band F residential PES cost and a Band F subsidy per residential NAS amount for MTS Allstream based on the proxy cost information that MTS Allstream submitted in the March 2003 Applications. In the application under consideration in this Decision, MTS Allstream provided band-specific Phase II cost information in support of the requested revisions to its Bands D and F loop rates, Band F residential PES cost, and Band F subsidy per residential NAS amount.
29. The Commission stated in *Guidelines for Review and Vary Applications*, Telecom Public Notice CRTC 98-6, 20 March 1998 (Public Notice 98-6) that an application was properly characterized as a review and vary application if it raises substantial doubt as to the correctness of the original decision at the time the decision was made. The Commission considers that this new information raises substantial doubt as to the original correctness of the revised Bands D and F loop rates, Band F residential PES cost, and Band F subsidy per residential NAS amount approved in Decision 2003-70.
30. Accordingly, the Commission finds that MTS Allstream's application is a review and vary application insofar as it relates to the original correctness of the revised Bands D and F loop rates, Band F residential PES cost, and Band F subsidy per residential NAS amount approved in Decision 2003-70. The Commission also notes that insofar as MTS Allstream's application relates to costs and associated rates and amounts, it was made within the six-month time period referred to in Public Notice 98-6.

MTS Allstream's costs and rates

31. The revised Bands D and F loop rates and the Band F subsidy per residential NAS amount approved in Decision 2003-70 were based on MTS Allstream's previously approved Band D costs, adjusted in Decision 2003-70 to reflect differences in IDLC costs between Bands D and F. The Commission notes that this adjustment was made to apply the principle of cost neutrality, with the result that the average loop cost and average residential PES cost determined in Decision 2001-238-2 for Band D would be the same before and after the reclassification to the restated Bands D and F.

32. The Commission notes that, in this application, MTS Allstream submitted revised loop costs for its restated Bands D and F that reflect MTS Allstream's Phase II costs for these bands. The Commission notes that MTS Allstream proposed revised loop costs and rates for Bands D and F using the uniform costing methodology and determinations set out in Decision 2001-238, including the use of (i) average uniform working fill factors for feeder and distribution for high-cost and non-high cost bands, (ii) maintenance expenses limited to 10 percent of capital, and (iii) caps on functional operating expenses. The Commission notes that MTS Allstream's cost estimates in this application reflect the cost determinations of Decision 2001-238.
33. The Commission notes MTS Allstream's submission that the Commission erred in Decision 2003-70 when it did not adjust the loop costs and rates proposed by MTS Allstream in the March 2003 application to reflect the different AWWFs approved in Decision 2001-238 for Band D (a non-high-cost band) and Band F (a high-cost band). The Commission notes that, in Decision 2001-238, it approved AWWF percentages that were lower for high-cost bands, including Band F, than for non-high-cost bands, to reflect the lower volumes of customer traffic available to fill the ILECs' facilities in high-cost bands.
34. The Commission notes that in other cases where it reclassified exchanges between bands, all bands involved were non-high-cost bands. In this case, however, the Commission notes that one of the bands involved in the reclassification is a high-cost band. Therefore, when it applied the principle of cost neutrality, the Commission implicitly used the AWWF approved in Decision 2001-238 for Band D.
35. The Commission notes that, as MTS Allstream did not provide in the March 2003 Applications the band-specific information that it provided in this application, the Commission was not in a position to adjust MTS Allstream's costs to reflect band-specific AWWFs at that time. The Commission considers that the revised rates and costs proposed by MTS Allstream in this application reflect the appropriate costs for Bands D and F, including the appropriate AWWFs approved in Decision 2001-238. The Commission notes that the loops in question are Category 1 Competitor Services and that the associated loop rates are based on cost plus a 15 percent mark-up.
36. Accordingly, the Commission considers that MTS Allstream's revised loop and residential PES costs are calculated appropriately and are consistent with the costing methodologies set out in Decision 2001-238.
37. The Commission notes MTS Allstream's submission that competitors have not used loops in Bands D and F. The Commission therefore considers that it is not necessary to consider whether rates for these loops should be revised with retroactive effect.
38. Accordingly, the Commission **approves** a revised Band D loop rate of \$19.69 and a revised Band F loop rate of \$32.99 for MTS Allstream, effective the date of this Decision, and directs MTS Allstream to issue revised tariff pages reflecting these determinations.

39. The Commission also **approves** MTS Allstream's proposed Band F residential PES cost of \$38.37. The effective date of this determination is addressed below.

Subsidy in 2002 and 2003

Characterization of MTS Allstream's application

40. The Commission considers that MTS Allstream's application raises substantial doubt as to the original correctness of Decision 2001-238 as amended and Decision 2003-70 at the time the Decisions were made. Having regard to the public policy considerations with respect to the provision of subsidy for residential service in high-cost bands, the Commission is of this view notwithstanding the fact that MTS Allstream submitted its application with respect to Decision 2001-238 outside the six-month period described in Public Notice 98-6.
41. Accordingly, the Commission finds that MTS Allstream's application is properly characterized as a request to review and vary Decision 2001-238 as amended and to review and vary the effective date of Decision 2003-70.

Subsidy for 2002 and Unpaid Portion of 2003

42. In support of its request to vary the effective dates of Decision 2001-238 as amended and Decision 2003-70 in order to receive subsidy for 2002 and the Unpaid Portion of 2003, MTS Allstream argued that its misinterpretation of the "average loop length" criterion for Band F in Decision 2001-238 was not its fault, and was attributable to Commission staff. The Commission notes that MTS Allstream submitted this argument for the first time in this application, and that this argument did not form part of the March 2003 Applications to reassign certain exchanges from Band D to Band F.
43. With respect to whether responsibility for MTS Allstream's misinterpretation should be attributed to it or to Commission staff, the Commission notes that Decision 2001-238 states clearly that "average loop length" is a criterion for assigning exchanges to Band F. The Commission also notes that responsibility for an error argued in support of a request to review and vary a decision is not necessarily determinative of whether the relief requested will be granted.
44. The public interest in the finality of Commission decisions underpins the statement in Public Notice 98-6 that review and vary applications should generally be filed within six months of the original decision.
45. In this regard, the Commission notes MTS Allstream's submission that its request to review and vary Decision 2003-70 was related to its request to review and vary Decision 2001-238 as amended. The Commission notes MTS Allstream's submission that the Commission erred in Decision 2003-70 when it did not adopt an effective date of 1 January 2002 for MTS Allstream's restated Bands D and F and for the associated subsidy. The Commission notes, however, that MTS Allstream did not explain why it did not request the subsidy for 2002 and the Unpaid Portion of 2003 at the first opportunity, in the March 2003 Applications that led to Decision 2003-70. The Commission further notes that MTS Allstream did not explain why the error was not recognized until early in 2003.

46. The Commission also notes MTS Allstream's argument that there was no policy reason not to recognize MTS Allstream's Band F and related subsidy effective 1 January 2002. The Commission has considered this submission in the context of the late date at which MTS Allstream submitted its application, the circumstances relating to the original error, and the public interest in the finality of Commission decisions. In the Commission's view, MTS Allstream's submissions do not support its request to review and vary Decision 2001-238 as amended and Decision 2003-70 with respect to their effective dates.

47. Accordingly, the Commission **denies** MTS Allstream's application with respect to the reclassification of exchanges from Band D to Band F effective 1 January 2002 and MTS Allstream's associated request for subsidy for 2002 and the Unpaid Portion of 2003.

Subsidy for the Paid Portion of 2003

48. The Commission notes that it reclassified the MTS Allstream exchanges in question from Band D to Band F effective 17 October 2003, the date of Decision 2003-70. The Commission is therefore of the view that MTS Allstream's revised residential PES cost for Band F associated with that reclassification should also be approved effective as of that date.

49. Accordingly, the Commission **approves** MTS Allstream's request to revise MTS Allstream's Band F residential PES cost, effective 17 October 2003.

Payment of additional subsidy for 2003 to 2005

Process for dealing with subsidy related to 2003, 2004 and 2005

50. The Commission notes that its revision of MTS Allstream's Band F residential PES cost, effective 17 October 2003, permits MTS Allstream to receive Band F residential subsidy per NAS based on this amount on a going-forward basis.

51. In *SaskTel - Revised 2003 total subsidy requirement calculations*, Telecom Decision CRTC 2004-26, 19 April 2004 (Decision 2004-26), the Commission determined that Saskatchewan Telecommunications (SaskTel) was entitled to additional subsidy related to 2003.

52. The Commission notes that, while SaskTel filed revised subsidy calculations prior to the release of Decision 2003-84, the application was not received in time to be considered in Decision 2003-84. Therefore, the Commission provided SaskTel with additional 2003 subsidy through a one-time subsidy adjustment, rather than through a review and variance of Decision 2003-84.

53. With respect to 2003 and 2004, the Commission notes that MTS Allstream filed its review and vary application before the release of Decision 2003-84 and *Final 2004 revenue-percent charge and related matters*, Telecom Decision CRTC 2004-81, 9 December 2004 (Decision 2004-81). As noted in Decision 2003-84, the Commission approved a final 2003 subsidy per residential NAS amount for MTS Allstream Band F, effective 17 October 2003. In Decision 2004-81, the Commission approved a final 2004 and interim 2005 subsidy per residential NAS amount for MTS Allstream's Band F.

54. Based on the fact that MTS Allstream filed its application prior to the release of Decisions 2003-84 and 2004-81 and consistent with its determination in Decision 2004-26, the Commission considers that MTS Allstream should be provided with additional 2003 and 2004 subsidy through a one-time subsidy adjustment, rather than through a review and variance of those Decisions.
55. With respect to 2005, the Commission notes that subsidy is being provided to eligible LECs on an interim basis until the 2005 subsidy per residential NAS amounts are finalized later this year. At that time, the Central Fund Administrator (CFA) will make the necessary 2005 subsidy adjustments.
56. Accordingly, the Commission is of the view that it is not necessary to provide MTS Allstream with a 2005 subsidy adjustment or to adjust the interim 2005 MTS Allstream Band F subsidy per residential NAS amount, as MTS Allstream will receive any additional 2005 subsidy to which it is entitled after the 2005 subsidy per residential NAS amounts are finalized.

SIP Funding

57. The Commission notes that MTS Allstream included Band F SIP costs in its 2002 subsidy calculations. In Decision 2003-70, the Commission noted that, while MTS Allstream did include a Band F SIP cost adjustment in its subsidy calculations, MTS Allstream did not file any Band F SIP information with the Commission. Accordingly, the Commission did not include a Band F SIP cost adjustment in the interim 2003 MTS Allstream Band F subsidy per residential NAS calculation.
58. In *Follow-up to Decision 2003-70: MTS's updated Phase II service improvement plan costs in high-cost serving area bands*, Telecom Decision CRTC 2004-10, 19 February 2004, the Commission approved MTS Allstream's Band F SIP funding of \$0.20 per NAS, effective 1 January 2004.
59. The Commission notes that, prior to the release of Decision 2003-70, the exchanges that were reclassified to Band F were classified as non-high-cost Band D exchanges, which meant that MTS Allstream could withdraw funds from its deferral account to pay for any SIP expenditures associated with these exchanges.
60. The Commission is therefore of the opinion that the MTS Allstream Band F SIP cost of \$0.20 per NAS should continue to be effective 1 January 2004.

Calculation of the 2003 and 2004 subsidy adjustment

61. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission outlined the annual subsidy calculations to be performed by the large ILECs, including MTS Allstream, to determine the monthly subsidy per residential NAS amounts to be received from the National Contribution Fund. The annual subsidy calculations included: (a) an inflation less productivity adjustment on the input residential PES costs (referred to as the (I-X) adjustment), (b) a 15 percent mark-up on the adjusted residential PES costs, (c) the cost recovery of the revenue-percent charge and (d) reductions for average residential local service rates and a deemed subsidy amount of \$5.00 associated with local optional features.

62. Once the above subsidy calculations have been performed, the amount of additional subsidy that MTS Allstream is entitled to receive under its application is calculated as follows: (subsidy per residential NAS multiplied by average in-service residential NAS) less subsidy already paid.
63. With respect to the 2003 average in-service residential NAS, the Commission notes that the number provided by MTS Allstream in its application corresponds with the number reported to the CFA during 2003. Therefore, the Commission is of the opinion that the 2003 average in-service residential NAS number provided by MTS Allstream is reasonable.
64. With respect to the 2004 average in-service residential NAS, the Commission notes that MTS Allstream did not provide this information since its application was filed prior to 2004. Therefore, the Commission used the 2004 average in-service residential NAS reported to the CFA during 2004.
65. Based on the above and the amount of subsidy paid to MTS Allstream by the CFA during 2003 and 2004, the Commission calculates that MTS Allstream is entitled to receive additional subsidy of \$5.851 million for the years 2003 and 2004 combined. As noted above, any additional 2005 subsidy will be paid to MTS Allstream after the large ILECs' 2005 subsidy per residential NAS amounts are finalized later this year.
66. Accordingly, the Commission directs the CFA to remit \$5.851 million in additional 2003 and 2004 Band F subsidy to MTS Allstream within 10 days from the date of this Decision.

Secretary General

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