



## Telecom Decision CRTC 2006-63

Ottawa, 28 September 2006

### **TELUS Communications Company – Application to decrease the capital cost of its service improvement plan and related matters**

Reference: 8638-C12-73/02

*In this Decision, the Commission **approves** TELUS Communications Company's (TCC) application to decrease the capital cost of its service improvement plan (SIP) for unserved premises to \$29.3 million. The Commission also **approves** the following related matters: (1) an adjustment to TCC's annual SIP total subsidy requirement associated with its draw-down from the National Contribution Fund (NCF), and (2) an adjustment to its annual SIP draw-down from its deferral account. The Commission also directs TCC to repay \$731,430 to the NCF within 30 days from the date of this Decision.*

#### **Background**

1. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002, as amended by Telecom Decision CRTC 2002-34-1, 15 July 2002 (Decision 2002-34), regarding the implementation of TELUS Communications Company's (TCC)<sup>1</sup> service improvement plan (SIP), the Commission:
  - a) approved a TCC SIP for unserved premises of \$10.6 million in capital expenditures. The Commission stated that it intended to review TCC's progress in implementing its SIP on a yearly basis, as reported in its tracking plan, to determine whether additional capital and funding would be required;
  - b) directed TCC to add its Phase II SIP costs for high-cost serving areas (HCSAs) to the costs that flow into its total subsidy requirement (TSR) calculations;
  - c) allowed the explicit recovery by the incumbent local exchange carriers, including TCC, of the Phase II costs associated with their SIPs in non-high-cost serving areas (non-HCSAs) by means of a draw-down from their deferral accounts; and
  - d) directed TCC to start a project in a locality if it met the following criteria: (a) the maximum average cost per premises was \$25,000 using a 100 percent take rate, and (b) at least one customer requested service and was willing to contribute \$1,000. The Commission also directed TCC to start with those localities that had the highest demand.

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<sup>1</sup> Effective 1 March 2006, TELUS Communications Inc. assigned and transferred all of its assets and liabilities, including all of its service contracts, to TCC.

2. In *Follow-up to price cap Decision 2002-34: TELUS' revised service improvement plan*, Telecom Decision CRTC 2003-64, 25 September 2003, the Commission approved a revised SIP for TCC of \$21.4 million.
3. In *TELUS Communications Inc. – Application to increase the capital cost of its service improvement plan and related matters*, Telecom Decision CRTC 2004-76, 16 November 2004, the Commission approved TCC's application to increase the capital cost of its SIP to \$23.5 million. In addition, the Commission approved (a) an increase to TCC's annual SIP TSR associated with its funding from the National Contribution Fund (NCF), and (b) an annual draw-down from its deferral account for its SIP in non-HCSAs.
4. In *TELUS Communications Inc. – 2005 application to increase the capital cost of the service improvement plan and related matters*, Telecom Decision CRTC 2005-67, 10 November 2005 (Decision 2005-67), the Commission approved, with changes, TCC's 2005 application to increase its TSR and its draw-down from its deferral account to reflect an increase in its projected SIP capital expenditures to \$30.3 million. In particular, the Commission denied TCC's proposal that all the non-HCSA costs be recovered within the study period (2004 to 2006) rather than over the life of the equipment, and approved annual draw-downs to the company's deferral account to recover the SIP costs over the life of the equipment of (a) \$1.74 million for 2004 and (b) \$2.08 million for 2005 and onwards.

### **Application**

5. The Commission received an application by TCC dated 31 March 2006, in which it filed its SIP tracking report pursuant to Decision 2002-34 and a Phase II cost study. On 6 April 2006, TCC filed an updated Phase II cost study to support adjustments to its (a) annual SIP TSR associated with its draw-down from the NCF and (b) annual SIP draw-down from its deferral account.

### **Process**

6. On 24 May 2006, the Commission issued interrogatories and TCC filed its responses on 7 June 2006. On 20 July 2006, TCC filed a supplement to its interrogatory responses.
7. The Commission received no comments with respect to the application.

### **Issues**

#### **Projected capital expenditures and cost recovery**

8. TCC forecasted a reduction to the total projected capital expenditures for its SIP from \$30.3 million in the 2005 view to \$29.3 million.
9. In its supplement to the interrogatory responses, TCC filed a revised Phase II cost study, which resulted in adjustments to its TSR and the draw-down from its deferral account.

### **Capital recovery in non-HCSAs**

10. In its 20 July 2006 submission, TCC submitted that a revised methodology should be used with respect to the recovery of capital costs in non-HCSAs. TCC noted that the revised methodology included resource cost studies segmented according to the year in which the capital was spent, and proposed the recovery of those costs starting in the same year.
11. TCC also submitted that in the non-HCSAs, the studies reflected adjustments to the deferral account draw-down plan over the SIP implementation period. TCC submitted that, based on this new methodology, it had under-drawn by \$0.42 million in 2003 and over-drawn by \$0.73 million in both 2004 and 2005, for a cumulative over-drawn amount of \$1.03 million by the end of 2005. TCC submitted that although the new methodology would normally require a draw-down of \$1.67 million in 2006, the past-period over-draws reduced the 2006 requirement to \$0.64 million.<sup>2</sup>

### **Capital recovery in HCSAs**

12. TCC submitted that the segmentation of monthly equivalent costs (MECs) into the year in which the capital was spent was also possible for HCSAs. TCC further submitted that in this case the comparisons to past filings needed to be maintained at the band level rather than comparing the totals over all bands. Based on the revised methodology, TCC provided revised SIP cost adjustments to the TSR calculations.<sup>3</sup>

### **SIP roll-out**

13. TCC indicated that it would complete its SIP in 2007. TCC submitted that its roll-out was significantly affected by a long work stoppage in 2005, and that it planned to complete in 2006 a number of incomplete projects commenced in 2003, 2004, and 2005. As well, the company indicated that it would commence work in two new communities in 2006, and would also provide service to additional individual customers.

## **Commission's analysis and determinations**

### **Projected capital expenditures**

14. The Commission has reviewed the 2006 view of the projected SIP capital expenditures and **approves** the new total of \$29.3 million.

### **The revised capital recovery methodology for non-HCSAs and HCSAs**

15. The Commission has reviewed TCC's revised capital cost recovery methodology and the associated amounts, and finds them appropriate. Accordingly, the Commission **approves** TCC's revised methodology and associated amounts as set out in its 20 July 2006 submission.

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<sup>2</sup> Table 1 of TCC's 20 July 2006 submission.

<sup>3</sup> Tables 2 to 4 in TCC's 20 July 2006 submission.

### **Capital recovery in non-HCSAs**

16. The Commission notes TCC's revised draw-down amounts for the years 2003 to 2007. The Commission directs TCC to restate the draw-downs in its deferral account schedule in accordance with the revised methodology and **approves** the following amounts: \$423,955 in 2003, \$1,009,993 in 2004, \$1,356,510 in 2005, \$1,666,148 in 2006, and \$2,007,922 in 2007.<sup>4</sup>
17. The Commission directs the company to file an updated deferral account schedule<sup>5</sup> within 14 days from the date of this Decision to reflect these amounts.

### **Capital recovery in HCSAs**

18. The Commission notes that the changes in the capital expenditures have resulted in a reduction in the total draw-down requirement in the period 2003 to 2005. Based on information provided by the company, the Commission has calculated that TCC had over-collected \$731,430 from the NCF for the period 2003 to 2005.
19. Accordingly, the Commission directs TCC to repay \$731,430 to the NCF within 30 days from the date of this Decision.
20. The Commission **approves** the SIP cost adjustments to the TSR calculations (\$/network access service/month) in the HCSA bands as follows: 0.00 in Alberta Band E; (0.01) in Alberta Band F; 0.08 in Alberta Band G; 0.05 in British Columbia Band E; (0.04) in British Columbia Band F; and 0.28 in British Columbia Band G. The Commission will make the necessary adjustments to TCC's 2006 subsidy calculations to reflect the band-specific adjustments, thereby eliminating the need for TCC to refile its subsidy calculations.

### **SIP roll-out**

21. The Commission notes that TCC indicated that it would complete its SIP in 2007, which conforms to the Commission's expectations in Decision 2005-67.

Secretary General

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<sup>4</sup> Reference the line titled "Cumulative Total" in Table 1 of TCC's 20 July 2006 submission.

<sup>5</sup> Source: Attachment 1 of TCC's letter dated 15 May 2006 titled *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9 – Updated Deferral Account Schedule.

*This document is available in alternative format upon request, and may also be examined in PDF format or in HTML at the following Internet site: <http://www.crtc.gc.ca>*