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

Telecom Decision CRTC 2007-88

Ottawa, 14 September 2007

Bell Canada – Application seeking exogenous treatment of wireline-related costs associated with the implementation of wireless number portability

Reference: 8661-B2-200605967

In this Decision, the Commission finds that its directive to the local exchange carriers to implement wireless number portability (WNP) meets the criteria for an exogenous event and determines that the wireline-related costs incurred by Bell Canada for the implementation of WNP qualify for exogenous treatment. However, the Commission denies Bell Canada's request to recover these costs through annual draw-downs from the deferral account.

The Commission also denies Bell Canada's request to recover the foregone revenue associated with the bulk porting of telephone numbers to wireless service providers.

Introduction

1. The Commission received an application by Bell Canada, dated 12 May 2006, in which the company requested that the Commission approve the recovery of the costs it would incur to modify its wireline network to enable wireless number portability (WNP), estimated at $45.8 million.[1] The company proposed an annual exogenous adjustment of $9.4 million over a six-year period to allow it to recover these costs. Bell Canada also requested that it be allowed to recover the foregone mark-up associated with the wireline-related revenue loss resulting from the bulk porting of telephone numbers to wireless service providers (WSPs) with the advent of WNP. Bell Canada proposed to recover these costs by drawing down the recurring balance in its deferral account.

2. The Commission received comments from MTS Allstream Inc. (MTS Allstream); the Public Interest Advocacy Centre, on behalf of the Consumer Association of Canada and the National Anti-Poverty Organization; Rogers Wireless Partnership (Rogers Wireless), and TELUS Communications Company (TCC). The record of this proceeding closed on 27 April 2007 with Bell Canada's revised response to a Commission interrogatory.

3. The Commission considers that the parties' submissions in this proceeding raise the following issues:

   I. whether the implementation of WNP should qualify for exogenous treatment;

   II. whether Bell Canada should be compensated for the foregone mark-up associated with the wireline-related revenue loss resulting from the bulk porting of telephone numbers to wireless service providers with the advent of WNP;

[1] This amount represents the total present worth of annual costs.

III. whether Bell Canada's costs are reasonable; and

IV. whether the method by which Bell Canada proposed to recover its wireline-related WNP costs is appropriate.

I. Whether the implementation of WNP should qualify for exogenous treatment

Positions of parties

4. Bell Canada noted that in Telecom Decision 2002-34, the Commission had outlined the following criteria for determining whether an event or initiative qualified for exogenous treatment under the price cap framework adopted in that Decision:

   - they were legislative, judicial, or administrative actions which were beyond the control of the company;
   - they were addressed specifically to the telecommunications industry; and
   - they had a material impact as measured against the total company.

5. Bell Canada argued that the implementation of WNP met all of these conditions. First, Bell Canada stated that the Budget Plan tabled in Parliament on 23 February 2005 had requested that the Commission move expeditiously to implement WNP. The company added that in its subsequent decision on this matter, Telecom Decision 2005-72, the Commission had imposed a mandatory requirement which was beyond the control of the company. Second, Bell Canada submitted that this requirement was specific to the telecommunications industry. Third, the company argued that the economic study it provided in support of its application demonstrated that the costs it will incur for implementing WNP with respect to its wireline network, including the revenue loss that would occur in the context of porting numbers, were material.

6. Bell Canada further argued that such treatment was consistent with the Commission's determination in Telecom Order 99-239 that costs related to local number portability (LNP) and the start-up of local competition should be recovered through an exogenous factor.

7. MTS Allstream and TCC considered that the recovery of wireline costs related to the implementation of WNP satisfied the criteria for an exogenous adjustment set out by the Commission in Telecom Decision 2002-34.

Commission's analysis and determinations

8. In Telecom Decision 2005-72, the Commission, among other things, directed all local exchange carriers (LECs) to support the porting in and out of telephone numbers with WSPs within the time frames set out in Telecom Decision 2005-72.[2]

[2] In Telecom Decision 2005-72, the Commission indicated that where LEC-to-LEC LNP was currently in place, wireless carriers operating in those areas must implement WNP porting out by 14 March 2007; the wireless carriers could implement porting in on or after 14 March 2007, and must implement porting in by 12 September 2007.

9. The Commission finds that its directive to LECs to implement WNP satisfies the criteria for an exogenous event set out in Telecom Decision 2002-34, and that the wireline-related costs incurred by Bell Canada for the implementation of WNP therefore qualify for exogenous treatment.

II. Whether Bell Canada should be compensated for the foregone mark-up associated with the wireline-related revenue loss resulting from the bulk porting of telephone numbers to WSPs with the advent of WNP

Positions of parties

10. Bell Canada submitted that if the Commission decided pursuant to Telecom Public Notice 2006-3 that blocks of telephone numbers should be ported to WSPs, Bell Canada would no longer generate revenues from the leasing of these telephone numbers to WSPs. Bell Canada requested that the foregone mark-up (15 percent of Phase II costs) associated with these revenues, estimated to be $203,000 per year, be included in the amount that qualified for cost recovery. The company also requested that these impacts be assessed using the method employed in Telecom Decision 2002-34 with respect to recovering the revenue impacts associated with the introduction of Competitor Digital Network Access (CDNA) service.

11. MTS Allstream submitted that future foregone revenue should not qualify for any exogenous treatment, and that Bell Canada and other incumbent local exchange carriers (ILECs) recommended and supported the future bulk porting of leased telephone numbers to WSPs in the proceeding that led to Telecom Decision 2006-28.

12. Rogers Wireless submitted that Bell Canada was proposing to recover indirect costs that it would no longer be incurring because the leased telephone numbers would be transferred to WSPs.

13. In reply, Bell Canada submitted that whether bulk porting was advocated by Bell Canada in the proceeding that led to Telecom Decision 2006-28 was not relevant, and that the necessity to bulk port leased telephone numbers to WSPs was directly attributable to the implementation of WNP, an event that was clearly beyond the company's control.

Commission's analysis and determinations

14. In Telecom Decision 2006-28, the Commission determined that leased wireless telephone numbers in LNP-capable exchanges were to be bulk ported to the wireless carrier leasing these numbers once WNP was implemented in those exchanges associated with the leased telephone numbers.

15. In Telecom Decision 2002-34, the Commission determined that the revenues from certain expired exogenous factors as well as funds from the deferral account would be used to compensate the ILECs for the reduction in revenue caused by both the mandated reduction in the mark-up on competitor services and the introduction of the CDNA service. The Commission notes that the ILECs have continued to incur the costs of providing these services to competitors.

16. The Commission notes that, in the case of the bulk porting of leased telephone numbers due to WNP, if the Commission were to grant such a recovery, Bell Canada would be recovering the mark-up on a service that it would no longer be providing, namely leasing telephone numbers to WSPs. The Commission considers that this is not comparable to the situation in Telecom Decision 2002-34, where the companies were still incurring the costs of providing competitor services. Accordingly, the Commission considers that it would be inappropriate to allow Bell Canada to recover the foregone mark-up on a service that it will no longer have to spend any money to provide.

17. In light of the above, the Commission **denies** Bell Canada's request to recover the foregone mark-up related to the revenues that will no longer be generated as a result of the bulk porting of leased telephone numbers to WSPs.

III. Whether Bell Canada's costs are reasonable

Positions of parties

18. Bell Canada submitted that the traffic between WSPs and LECs would be interchanged on a local interconnection region (LIR) basis in the case of wireline-to-wireless porting, consistent with existing arrangements for wireline-to-wireline LNP.[3]

19. Bell Canada filed a cost study in support of its application in which it proposed a study period of 15 years, and indicated that while most of its WNP start-up costs would be incurred in 2006 and 2007, some costs would continue to be incurred over a number of years as the serving areas of WSPs expanded. Bell Canada also indicated that its Phase II costs were adjusted to reflect cost increases and productivity changes within the study period.

20. MTS Allstream and Rogers Wireless argued that, as Bell Canada's cost study was filed prior to the release of Telecom Decision 2006-28, it might not properly reflect the Commission's directions with respect to traffic being interchanged on a local calling area (LCA) basis.

21. Rogers Wireless requested that the Commission direct Bell Canada to demonstrate that its costs excluded all costs that might be shared by Bell Canada and Bell Mobility Inc. (Bell Mobility).

22. MTS Allstream submitted that it was not clear whether all of Bell Canada's wireline-related costs were included in its cost estimates as its application was filed without the benefit of 1) the Commission's direction to the CRTC Interconnection Steering Committee (CISC) Network Working Group to develop an initial rollout schedule by 18 August 2006 for exchanges that did not support number portability, and 2) the Commission's direction to the CISC Business Process Working Group to develop a bulk number porting process.

23. In reply, Bell Canada indicated that its cost study did not include costs related to the modification of Bell Mobility's wireless network, processes, or systems.

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[3] In Telecom Decision 2006-28, the Commission determined that ILEC local calling areas would define the groups of exchanges to route WNP traffic between wireless carriers and LECs. The Commission notes that Bell Canada filed the application being dealt with in this Decision on 12 May 2006, just prior to Telecom Decision 2006-28 being issued.

24. Bell Canada submitted that its cost study was based on its best estimates of the costs of the WNP rollout and the process that would be used to facilitate bulk number porting. Bell Canada submitted that the known factors that had a major impact on the company's cost estimates were:

- the number of wireless customers,
- the experience in the United States regarding the initiation of number porting by end-users,
- the bulk porting of numbers due to shared central office codes, and
- the exchanges that were already LNP-capable, along with those exchanges that would become WNP-capable effective 14 March 2007.

Accordingly, Bell Canada submitted that its cost study should not be changed.

25. Bell Canada submitted that its application considered the fact that ongoing CISC activities and future Commission decisions could cause the company to incur additional costs that could not be identified or quantified.

Commission's analysis and determinations

26. The Commission notes that regardless of whether traffic is interchanged on an LIR or LCA basis, that traffic will be routed on a per-trunk basis. The Commission further notes that while there may be some LIR regions that are larger than some LCA regions, and vice-versa, similar resources will be required by LECs in routing this traffic. The Commission therefore considers that the costs of rolling out WNP on an LCA basis would not be significantly different from those associated with rolling out WNP on an LIR basis. Accordingly, the Commission considers that Bell Canada's resource assumptions are reasonable.

27. The Commission has reviewed Bell Canada's costs and other evidence placed on the record, and is satisfied that the costs included in Bell Canada's economic study reflect wireline-related upgrades only. The Commission further considers that Bell Canada's inability to quantify future additional costs is not pertinent to the issue of whether Bell Canada should be permitted to recover the costs identified in this application.

28. The Commission notes that Bell Canada applied annual expense increase factors and productivity factors to WNP expenses that are causal to demand, which resulted in a net increase in the annual expenses forecast over the study period. The Commission considers that future productivity improvements associated with WNP expenses that are causal to demand can be expected to, at a minimum, match the associated annual expense increases.

29. The Commission has therefore reduced Bell Canada's WNP expenses that are causal to demand by an amount equal to the assumed difference between the annual expense increase factor and the annual productivity factor to take into account additional anticipated efficiency improvements associated with the activities related to these expenses over the study period. Accordingly, the Commission has reduced these expenses by $0.8 million.

30. The Commission further notes that Bell Canada has assumed that the terminal value of all plant equipment at the end of the study period is zero. The Commission considers that this assumption would allow Bell Canada to recover all plant equipment costs within the study life. The Commission notes that this plant equipment is generally fungible, as it can be reused elsewhere by the company at the end of the study life. In the Commission's view, the value of the plant equipment at the end of the study period should be taken into consideration in the calculation of the total amount to be recovered. The Commission has therefore adjusted the total amount to be recovered downwards by $2.2 million.

31. The Commission has reviewed the remainder of the costs identified by Bell Canada in its economic study and is satisfied that they are reasonable, and that the costing approach used by Bell Canada is consistent with the Commission's Phase II costing methodology.

32. The Commission notes that as a result of the two reductions totalling $3 million identified above, the adjusted present worth of annual costs (PWAC) is now $42.8 million as compared to the PWAC of $45.8 million requested by Bell Canada.

33. In light of the above, the Commission considers that Bell Canada should be allowed to recover the costs incurred by the company to implement WNP, adjusted by the above amounts. Accordingly, the Commission **approves** an annual exogenous adjustment of $8.83 million for a six-year period, which is equivalent to a PWAC of $42.8 million.

IV. Whether the method by which Bell Canada proposed to recover its wireline-related WNP costs is appropriate

Positions of parties

34. Bell Canada proposed that its wireline-related WNP implementation costs should be recovered as a draw-down from its deferral account. Bell Canada submitted that this would be similar to treatment accorded the recovery of costs associated with the upgrading of pay telephones with teletypewriter (TTY) units in Telecom Decision 2005-23.

35. Rogers Wireless argued that it would be inappropriate for Bell Canada to recover these costs from its deferral account since there were competitive local exchange carriers (CLECs) who would have incurred wireline operation and capital expenses related to WNP implementation that did not have a deferral account to defray their expenses.

36. Bell Canada replied that the regulatory frameworks for WSPs, CLECs, and ILECs were all substantially different, and that Bell Mobility, Rogers Wireless, and other CLECs were all unregulated with respect to the provision of telecommunications services.

Commission's analysis and determinations

37. In Telecom Decision 2002-34, the Commission established the deferral account mechanism and stated that the use of the deferral account would be an efficient means of addressing regulatory adjustments. The Commission also stated that the amounts in the deferral accounts should be cleared in a manner that would contribute to achieving the Commission's objectives for the next price cap framework, including balancing the interests of the three main stakeholders in the telecommunications market – customers, ILECs, and competitors.

38. The Commission notes that, in Telecom Decision 2005-23, it approved the use of the deferral account for the recovery of exogenous amounts associated with installing TTY units in pay telephones. In that case, the Commission determined it was appropriate to use the deferral account, noting that it would not be appropriate to assign TTY costs to pay telephone services because the rates for these services remained frozen. The Commission also notes that the upgrading of pay telephones with TTY units was implemented for social policy reasons in that it improved accessibility to telecommunications services for persons with disabilities. The Commission considers that drawing down the deferral account to recover these costs was appropriate in this regard.

39. The Commission notes that *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006 (the Policy Direction) requires, among other things, that

> …when relying on regulation, the Commission use 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.

40. The Policy Direction also stipulates that the Commission should use measures that neither deter economically efficient competitive entry into the market nor promote economically inefficient entry.

41. The Commission notes that other ILECs and CLECs are incurring wireline operational and capital expenses as a result of WNP. The Commission further notes that while some ILECs have a positive balance in their deferral account, others do not, and CLECs have no deferral account mechanism. The Commission considers that to approve Bell Canada's proposal to draw down its deferral account would not be competitively neutral, and would be counter to the requirements of the Policy Direction.

42. The Commission therefore **denies** Bell Canada's request to draw down its WNP costs from its deferral account.

43. The Commission considers that the most competitively neutral and appropriate methodology for recovering the exogenous adjustment would be to allocate these costs to the appropriate services. The Commission notes that the use of an exogenous adjustment provides Bell Canada with the flexibility to determine its rates, and relies on market forces in the determination of those rates. Accordingly, the Commission considers that such an approach would enhance the efficiency and competitiveness of the Canadian telecommunications industry and foster an increased reliance on market forces for the provision of telecommunications services, consistent with paragraphs 7*(c)* and 7*(f)* of the *Telecommunications Act.* In addition, this approach would better balance the interests of ILECs, CLECs, and customers.

44. The Commission notes that in Telecom Decision 97-9 it stated that the impact of an exogenous event should be determined on a company-wide basis, and assigned between the capped and uncapped services on a cost-causal basis. The Commission stated further that if this was not possible, the telephone companies were expected to propose a reasonable allocator at the time they filed their application.

45. The Commission notes that Bell Canada proposed to allocate its costs associated with the implementation of WNP to residential and business primary exchange services (PES) in the event the Commission would not allow a draw-down from its deferral account. The Commission also notes that Bell Canada submitted that the majority of customers that will potentially switch from wireline to wireless service will be those who subscribe to individual-line PES, as opposed to Centrex or Megalink customers, as these customers would lose the service functionalities and features that are provided with these services.

46. The Commission notes that Megalink and Centrex services are typically used by medium to large business customers who require certain features to support their internal community of interest. The Commission notes, moreover, that Megalink service is intended to connect to a customer's private branch exchange equipment, which normally supports fixed office locations. The Commission considers that it would be less likely for Megalink or Centrex customers to port their numbers than single-line PES customers, and agrees that telephone numbers associated with individual residential and business line PES are most likely to be ported. In this regard, the Commission considers that Bell Canada's proposal with respect to the allocation of wireline-related costs to residential and business PES is reasonable.

47. The Commission notes that business and residential PES are included in certain bundled services that are uncapped. The Commission considers that single-line bundled services fall into the same product markets as individual residential and business line PES, and therefore customers who subscribe to such bundles are equally likely to port their telephone number.

48. The Commission is of the view that, similar to the approach taken in Telecom Order 99-239, network access services (NAS) would be the best means of allocating these costs to residential and business PES. The Commission considers that using NAS as an allocator would be appropriate, as each NAS would be assigned the same level of costs. Accordingly, the Commission considers that Bell Canada's WNP costs should be allocated to the Residential Services basket (high-cost serving area and non-high-cost serving area sub-baskets), the Business Services basket, the Uncapped Services basket, and services that are forborne from regulation on the basis of single-line residential and business NAS attributed to these baskets or services.

49. The Commission notes that Bell Canada proposed to recover the WNP costs over a six-year period. The Commission considers that this request is similar to the recovery of the costs associated with upgrading pay telephones with TTY units in Telecom Decision 2005-23, which are to be recovered over a seven-year period. The Commission therefore considers that Bell Canada's proposal is reasonable.

Conclusion

50. In light of the above, the Commission **approves** the use of an exogenous adjustment of $8.83 million per year for a six-year period for the purposes of recovering Bell Canada's wireline-related WNP costs, but **denies** Bell Canada's request to recover its wireline-related costs associated with WNP implementation from its deferral account. The Commission also **denies** Bell Canada's request to recover the foregone revenue associated with the bulk porting of telephone numbers to WSPs.

51. The Commission directs Bell Canada to issue an update to its 2007 price cap filing to reflect the allocation of costs associated with WNP across the service baskets identified above within 30 days.

Secretary General

Related documents

- *Regulatory issues related to the implementation of wireless number portability – Follow-up to Public Notice 2006-3*, Telecom Decision CRTC 2006-28, 18 May 2006

- *Regulatory issues related to the implementation of wireless number portability*, Telecom Public Notice CRTC 2006-3, 6 February 2006

- *Implementation of wireless number portability*, Telecom Decision CRTC 2005-72, 20 December 2005

- *Follow-up to* Access to pay telephone service, *Telecom Decision CRTC 2004-47, 15 July 2004: Requests to recover costs associated with upgrading pay telephones with teletypewriter units*, Telecom Decision CRTC 2005-23, 14 April 2005

- *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

- *Local competition start-up costs proceeding, Telecom Public Notice CRTC 98-10*, Telecom Order CRTC 99-239, 12 March 1999

- *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997