Telecom Order CRTC 2009-509

Ottawa, 20 August 2009

TELUS Communications Company – Inter-Office Digital Channels

File number: Tariff Notice 348

Introduction

1. The Commission received an application by TELUS Communications Company (TCC), dated 27 February 2009, in which the company proposed to modify its General Tariff item 503 – Inter-Office Digital Channels. Specifically, TCC proposed to eliminate its practice of aggregating DS-0 channels to DS-1 capacity, and DS-1 channels to DS-3 capacity.

2. TCC submitted that its Inter-Office Digital Channel service provides customers with digital circuits between two rate centres at DS-0, DS-1, and DS-3 capacities. TCC also indicated that it currently aggregates the number of channels that a customer subscribes to, and when certain volume thresholds are met, it switches the billing of those services to an overall lower-rated, higher-speed service. TCC submitted, for example, that once a customer subscribes to 13 or more DS-0 channels, it will aggregate those channels and switch the billing to that of a DS-1 channel, which is lower than the sum of the 13 individual DS-0 channels. TCC proposed to eliminate this aggregation and to charge customers for each DS-0 channel that they occupy.

3. The Commission received comments from Bell Canada, MTS Allstream Inc. (MTS Allstream), and Rogers Communications Inc. (RCI) [collectively, the Companies]. The Commission also received a price cap model from TCC in support of its application. The public record of this proceeding, which closed on 30 April 2009, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

4. The Commission has identified the following two issues to be addressed in its determinations:

    I. Is TCC's proposed tariff modification equivalent to a rate increase for inter-office digital channel services?

    II. If so, does the rate increase comply with the established price cap constraints?

I. Is TCC's proposed tariff modification equivalent to a rate increase for inter-office digital channel services?

5. MTS Allstream and RCI submitted that TCC was, in essence, seeking approval of a rate increase. MTS Allstream argued that while TCC was not proposing modifications to the nominal rates it charges for inter-office digital channels, the practical result of the proposal would be an increase in the effective rates charged to customers.

6. TCC replied that its application only sought approval of changes to the terms and conditions under which it offers its Inter-Office Digital Channel service. TCC indicated that its application would have no effect on the current and approved rates for this service.

7. The Commission notes that TCC's application proposes to change the terms and conditions of its Inter-Office Digital Channel service by eliminating an aggregation discount. The Commission considers that any changes to the terms and conditions of a service that reduce or eliminate a discount applied to the total charged price must represent an effective increase to the actual rates charged and is equivalent to a price increase. The Commission therefore determines that since the effective rates charged to TCC's customers would increase in this instance, the company is effectively proposing a rate increase.

II. Does the rate increase comply with the established price cap constraints?

8. The Companies noted that TCC's Inter-Office Digital Channel service is categorized within the Other Capped Services basket. They noted that this basket is subject to a basket-level constraint set at the rate of inflation and a rate element constraint that limits rate increases for a given service to 10 percent per year. The Companies submitted that TCC's application increased the prices customers would be charged and the revenues it would receive. As a result, they submitted that TCC must satisfy the Commission that its proposal complies with the applicable price cap constraints.

9. TCC reiterated its position that its application did not affect any approved service rate elements. TCC submitted that any changes in revenue associated with its application would not conflict with current price cap constraints. In TCC's view, only slight billing and revenue changes would be realized after customers had reconfigured their networks to reflect the removal of the aggregation discount.

10. The Commission notes that the Other Capped Services basket is subject to an overall inflation constraint and a rate element constraint that limits rate increases to 10 percent per year. To determine whether the overall constraint on the basket is met, the service basket index is compared to the service basket limit for that year. While the service basket index compares the revenue impact resulting from proposed changes to current rates, it is calculated based on the average demand quantities and revenue from the previous year. Accordingly, TCC's price cap model would not reflect the results of customers reconfiguring their network requirements following the approval of the company's proposal.

11. In order to assess the impact of TCC's proposal on the Other Capped Services basket and on customers, the Commission directed the company to provide the impact of the proposed tariff change on the price cap index for this basket using its 2009 price cap filing demand and revenue information – that is, for 2008. Specifically, the Commission asked the company to provide the revenue impacts of the proposed tariff change at the various rate element levels for DS-0, DS-1, and DS-3. On 30 April 2009, TCC filed its revenue impacts of the proposed changes.

12. The Commission notes that the price cap and revenue information provided by TCC indicates that while the revenues for DS-3 and certain DS-1 service elements would decrease considerably when the billing aggregation stopped and those services were billed at the lower capacities, revenues for other DS-1 and for DS-0 service elements would increase considerably – up to 95 percent in one instance. The Commission further notes that if the billing aggregation of DS-1 and DS-0 inter-office digital channels were discontinued, the overall revenue for TCC's Inter-Office Digital Channel service would increase by approximately 14.5 percent.

13. The Commission finds that approving TCC's proposal would result in increased revenue at both the overall service level and at many individual rate element levels, representing increases to the effective rates charged to customers for inter-office digital channel services that exceed the 10 percent rate element constraint for services in this basket.

14. Accordingly, the Commission **denies** TCC's application.

Secretary General