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

Telecom Decision CRTC 2009-539

Ottawa, 28 August 2009

Revised rates for billing and collection service processing charges

File number: 8661-Y6-200804106

In this decision, the Commission approves revised rates for the incumbent local exchange carriers' billing and collection processing charges.

Introduction

1. The Commission received an application by Yak Communications (Canada) Corp. (Yak), dated 14 March 2008, requesting that the Commission direct Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), Bell Canada, MTS Allstream Inc. (MTS Allstream), Saskatchewan Telecommunications (SaskTel), and TELUS Communications Company (TCC) [collectively, the incumbent local exchange carriers or ILECs] to file proposed tariff pages and updated cost studies for their respective billing and collection service (BCS) processing charge rates. Yak requested that the Commission direct the ILECs to file this information within 30 days of the date of the Commission's determinations in the follow-up process initiated by Telecom Decision 2008-14 (the Phase II cost follow-up proceeding).[1]

2. Yak submitted that the ILECs should revise their processing charge cost studies and the Commission should review the updated information because the studies had not been reviewed in approximately 13 years and significant adjustments had been made to the Phase II costing methodology as a result of Telecom Decision 2008-14.

3. On 26 August 2008 the Commission directed the ILECs to provide updated BCS processing charge cost studies, in accordance with their Phase II cost manuals, as revised by the Commission's determinations in the Phase II cost follow-up proceeding. The Commission also established a process by which interested parties could review these updated cost studies.

4. On 28 October 2008 the Commission received an application by Yak requesting that ILEC BCS processing charge rates be made interim pending the review of ILEC cost studies and a final Commission decision on those studies. In Telecom Order 2008-338, the Commission approved Yak's application effective 19 December 2008.

5. The Commission received comments from Yak on the updated BCS processing charge cost studies and reply comments from the ILECs.

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[1] In an application dated 14 April 2008, Bell Aliant, Bell Canada, and SaskTel requested that the Commission defer consideration of Yak’s application. The Commission denied this request in a letter dated 11 July 2008. The Commission indicated that the process for considering Yak’s application would be established at the conclusion of the Phase II cost follow-up proceeding.

6. The public record of this proceeding, which closed on 9 June 2009, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

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

   I. Are the ILECs' proposed cost estimates reasonable?

   II. Should final rates be applied on a retroactive basis and, if so, from what date?

I. Are the ILECs' proposed cost estimates reasonable?

8. In Telecom Decision 2008-14, the Commission determined the appropriate expense inclusions and the associated approaches and methodologies to estimate causal expenses to be included in regulatory economic studies.

9. In Telecom Decision 2008-17, the Commission classified BCS as an interconnection service, priced with a mark-up of 15 percent. The Commission confirmed this classification and mark-up in Telecom Decision 2008-119.

10. In Telecom Order 2008-237, the Commission approved each ILEC's expense methodology as documented in its Phase II regulatory economic studies manual.

11. In assessing the ILECs' proposed rates, the Commission has reviewed each ILEC's BCS processing charge cost study and associated methodologies for each of the Account Receivable (AR) Billed to Customer, AR Returned Prior to Billing, and AR Returned or Charged Back After Billing rate elements, in light of each ILEC's provisioning practice and the specific costing issues raised by Yak. The Commission has found all proposed costing methods and cost estimates associated with each ILEC's three BCS processing charge rate elements to be appropriate, with the exception of the six costing issues discussed below.

a) Should Bell Aliant's and Bell Canada's BCS cost studies for AR Billed to Customer be modified to reflect a lower cost for billing activities?

12. Yak noted that Bell Aliant's and Bell Canada's billing costs were significantly higher than those of the other ILECs and submitted that the Commission should adjust their billing expenses to reflect SaskTel's billing expense causal to demand.

13. Bell Canada identified that its billing costs included costs associated with postage, printing, inserts, mail, paper, and envelopes.

14. Bell Aliant stated that its approach to estimate the bill printing costs attributable to BCS compared the number of lines on the bill for BCS to the total number of lines on the bill.

15. The Commission notes that the billing costs for MTS Allstream and SaskTel are similar, and significantly lower than those of Bell Aliant and Bell Canada. The Commission also notes that TCC stated that its billing costs are minimal and represent a small portion of the overall costs of the service.

16. The Commission considers that costs associated with postage, inserts, mail, and envelopes are not generally viewed to be incremental in the context of providing additional billing information on the existing bill of an end-customer.

17. In light of the above, the Commission considers that Bell Canada's billing activity costs include costs associated with activities not viewed to be incremental to BCS. In addition, the Commission considers that Bell Aliant's and Bell Canada's costs for billing activities should not vary significantly from those of MTS Allstream and SaskTel. Accordingly, the Commission has modified Bell Aliant's and Bell Canada's billing costs to reflect a cost equivalent to the average of those of MTS Allstream and SaskTel.

b) Should Bell Canada's BCS cost study for AR Billed to Customer be modified to reflect a lower average holding time to process billing inquiries?

18. Bell Canada indicated that it estimated its sales management costs based on activities such as inquiries to 310-Bell, which include answering end-customer questions about charges billed by Bell Canada for eligible services provided by Bell Canada's BCS customers.

19. Bell Canada also indicated that it did not keep track of the duration of calls to 310-Bell by type of inquiry and that 310-Bell calls cover wireline services such as local, long distance, SmartTouch services, Internet, and TV product lines.

20. Bell Canada argued that it was appropriate to use the composite average holding time (AHT) of a 310-Bell call to estimate the AHT of a call specific to BCS since the duration of an inquiry call is likely very similar regardless of the purpose of the inquiry.

21. Bell Aliant submitted that its sales management costs were estimated in part based on consumer inbound customer service billing inquiry activity. It noted that, similar to Bell Canada, there were a number of common elements associated with all consumer billing inquiry calls and there was no expectation that the call duration would vary significantly by the type of service.

22. The Commission notes that the common elements for the 310-Bell calls are very similar to the common elements for Bell Aliant's consumer inbound customer service billing inquiry activity. The Commission also notes that the composite AHT for 310-Bell calls is about double that of Bell Aliant's consumer inbound customer service billing inquiry calls, and significantly more than the AHTs assumed by the other ILECs in their respective BCS cost studies.

23. The Commission notes that the composite AHT of 310-Bell calls includes the AHT for service inquiries of Bell Canada's major retail services, such as basic local service and Internet. The Commission considers that the service inquiries associated with Bell Canada's major retail services go beyond answering questions specific to billed amounts and that the use of the composite AHT of 310-Bell calls overstates the AHT for wholesale BCS billing inquiries.

24. In light of the above, the Commission considers that Bell Canada's AHT used in its BCS cost study is not representative of an average billing inquiry call associated with BCS. As a result, the Commission considers that Bell Canada's costs for sales management should reflect a lower AHT and that a reasonable estimate for Bell Canada's costs would be the equivalent to the average AHT of Bell Aliant, MTS Allstream, and SaskTel. The Commission has modified Bell Canada's costs for sales management accordingly.

c) Should Bell Canada's BCS cost study for AR Billed to Customer be modified to reflect a lower cost for product management?

25. Bell Canada submitted that its costs associated with product management include costs for certain CRTC Interconnection Steering Committee (CISC) activities, such as participating in industry meetings, creating industry reports for CISC, and consulting with Commission staff on CISC issues related to BCS.

26. Yak submitted that it was likely that Bell Canada had overestimated the hours spent by product management employees on CISC-related activities.

27. The Commission considers that the hours estimated by Bell Canada for product management represent the hours that employees would have spent during initial CISC BCS activities. However, the Commission considers that BCS issues are unlikely to play a significant part of CISC discussions over the entire period of Bell Canada's BCS cost study and notes that the estimated hours do not reflect this.

28. In light of the above, the Commission considers that Bell Canada has overestimated the hours associated with CISC-related product management activities. In the Commission's view, a more reasonable estimate would reflect two years of CISC-related BCS activities by Bell Canada's product management staff. The Commission has modified Bell Canada's costs for product management accordingly. The Commission has also modified Bell Canada's costs for product management to reflect Bell Canada's current estimate of the associated labour unit cost.

d) Should TCC's BCS cost studies[2] be modified to reflect a lower cost for capital causal to the service?

29. Yak argued that TCC's proposed allocation of the hardware and software capital cost based on the replacement cost new for the TRAFIC system is inappropriate.

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2 TCC assigned a portion of the costs causal to the service to each one of the three BCS processing charge rate elements, i.e. AR Billed to Customer, AR Returned Prior to Billing, and AR Returned or Charged Back After Billing

30. TCC submitted that the TRAFIC system is fungible and that the cost associated with the use of an existing fungible discrete facility is the replacement cost new of the latest equivalent facility.

31. TCC noted that it had purchased its TRAFIC system in the 2000/2001 time frame. It also noted that the manufacturer had discontinued the system and only intended to provide support for it until 2013. TCC submitted that the manufacturer's plan to support the TRAFIC system only until 2013 was the reason TCC had started planning for the replacement of the system but that it had not yet finalized a firm replacement/cut-over date.

32. TCC identified the life estimates used in its cost studies for both the hardware and software associated with its TRAFIC system.

33. The Commission considers that updated cost studies for mandated wholesale services should recognize capital costs for existing facilities that are expected to be replaced at some point in the future. The Commission considers that in the case of TCC's TRAFIC system, the use of replacement cost new is a reasonable approach to estimate the cost associated with the use of a system to process BCS billing records.

34. The Commission notes that the actual life of the TRAFIC system is expected to be significantly longer than what TCC assumed in its cost studies.

35. In light of the above, the Commission considers that it is appropriate to use replacement cost new to estimate the cost of using the TRAFIC system. However, the Commission also considers that the life estimate for the hardware and software should reflect a longer life estimate than that used in TCC's cost studies. Accordingly, the Commission has modified TCC's costs for capital causal to the service to reflect a life estimate for both hardware and software that is consistent with that of the current TRAFIC system.

e) Should TCC's BCS cost studies be modified to reflect a lower ratio for assigning costs causal to the service to BCS?

36. Yak submitted that an allocation based on records should be determined by using a ratio of BCS billing records to total billing records, not a ratio that is based only on competitive clearinghouse records. Total billing records would include both the monopoly-supplied and the competitive clearinghouse BCS records.

37. TCC noted that the cost allocation and ratio referred to by Yak were based on total TCC billable BCS records divided by the sum of total TCC billable BCS records and the Company's clearinghouse activity, which is also the sum of all billable records processed through the company's TRAFIC platform.

38. The Commission notes that TCC's initial AR Billed to Customer cost study of November 2008 relied on a ratio of BCS billing records to total billing records processed through TCC's TRAFIC platform based on 2006 data, while its revised cost study of January 2009 relied on a revised ratio based on 2008 data. The Commission also notes that TCC submitted that its revised cost study reflected higher costs since the ratio of BCS billing records to total billing records had been revised upwards as it had lost a very large non-BCS customer in 2007.

39. The Commission considers it appropriate to use a ratio of proportional use of TCC's TRAFIC system to determine the associated costs attributable to BCS for each one of the three BCS processing charge rate elements, similar to TCC's proposed methodology. The Commission also considers, however, that TCC's proposed ratio in its updated January 2009 study does not reflect the long-run expectation of BCS's relative use of the TRAFIC system. Accordingly, the Commission has modified TCC's costs causal to the service to reflect a long-term view of the ratio of BCS's proportional use of the TRAFIC system based on the average of the ratios assumed by TCC in its November 2008 and January 2009 studies.

f) Should the ILECs' BCS cost studies be modified to reflect a stimulation of demand?

40. Yak submitted that it did not collect revenue for more than 50 percent of all casual calls made by its customers since the rate it charges its customers for those calls is less than the rate it would be charged by the ILECs for processing the associated billing record. It argued that the ILECs' cost studies should reflect a 25 percent stimulation of demand since the rate decreases proposed by the ILECs would make it economic for Yak and other competitors to use BCS for 25 percent of calls that are currently uncollected.

41. Bell Aliant and Bell Canada submitted that their costs causal to the service were very small and, thus, stimulation of demand would not have a significant effect on the service's unit cost. SaskTel submitted that Yak's argument was not valid since SaskTel was already processing billing records that Yak said would represent stimulation of demand.

42. The Commission notes that MTS Allstream did not have costs causal to the service.

43. The Commission considers that its determination regarding the BCS processing charges for TCC will not result in a significant change to TCC's current rates and that stimulation of demand due to a small rate change would not have a significant effect on TCC's service unit cost.

44. In light of the above, the Commission considers that the stimulation of demand proposed by Yak would not have a significant effect on the ILECs' service unit cost and, therefore, an adjustment for demand stimulation is not required.

II. Should final rates be applied on a retroactive basis and, if so, from what date?

45. Yak requested that the Commission apply the revised BCS rates retroactive to 19 December 2008.

46. The Commission notes that in Telecom Order 2008-338, it stated that the ILECs would have the opportunity to comment on whether the final rates should be applied on a retroactive basis. The Commission also notes that none of the ILECs opposed Yak's request to make the revised BCS rates retroactive to 19 December 2008, the date BCS rates were made interim.

47. In the circumstances, the Commission considers that it would be appropriate to make the revised BCS rates retroactive to 19 December 2008.

Conclusion

48. In light of the above, the Commission **approves** the following revised BCS processing charge rates for Bell Aliant, Bell Canada, MTS Allstream, SaskTel, and TCC, effective 19 December 2008:

Account Receivable (AR) Billed to Customer

Bell Aliant	\$0.0834
Bell Canada	\$0.0515
MTS Allstream	\$0.0737
SaskTel	\$0.0289
TCC	\$0.0895

AR Returned Prior to Billing

Bell Aliant	\$0.0179
Bell Canada	\$0.0691
MTS Allstream	\$0.0497
SaskTel	\$0.0202
TCC	\$0.0371

AR Returned or Charged Back After Billing

Bell Aliant	\$4.07
Bell Canada	\$2.49
MTS Allstream	\$4.21
SaskTel	\$7.87
TCC	\$2.94

49. Each ILEC is to issue the associated tariff pages within 15 days of the date of this decision.

50. The Commission considers that its determinations in this decision advance the telecommunications policy objectives set out in paragraphs 7(*b*), (*f*), and (*h*) of the *Telecommunications Act*.[3] The Commission further considers that its determinations are

[3] The cited policy objectives of the Act are (*b*) to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada; (*f*) to foster increased reliance on market forces for the provision of telecommunications services and to ensure that regulation, where required, is efficient and effective; and (*h*) to respond to the economic and social requirements of users of telecommunications services.

consistent with the requirements of the Governor in Council's *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006, that (a) the measures in question be efficient and proportionate to their purpose, and that they minimally interfere with competitive market forces to meet the above policy objectives; and (b) the measures neither deter economically efficient competitive entry into the market nor promote economically inefficient entry.

Secretary General

Related documents

- *Yak Communications (Canada) Corp.'s application to make interim rates for billing and collection service processing charges*, Telecom Order CRTC 2008-338, 19 December 2008

- *Bell Canada et al.'s application to review and vary Telecom Decision 2008-17 with respect to wholesale billing and collection service*, Telecom Decision CRTC 2008-119, 11 December 2008

- *Regulatory Economic Studies Manuals – Follow-up proceeding to Telecom Decision 2008-14*, Telecom Order CRTC 2008-237, 25 August 2008

- *Review of certain Phase II costing issues*, Telecom Decision CRTC 2008-14, 21 February 2008, as amended by Telecom Decision CRTC 2008-14-1, 11 April 2008

- *Revised regulatory framework for wholesale services and definition of essential service*, Telecom Decision CRTC 2008-7, 3 March 2008

- *Review of certain Phase II costing issues*, Telecom Public Notice CRTC 2007-4, 30 March 2007