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

Telecom Decision CRTC 2009-707

Ottawa, 19 November 2009

Bell Canada – Application requesting revisions to the funding of area code relief projects

File number: 8698-B2-200904088

In this decision, the Commission denies Bell Canada's request to adopt a shared-cost approach for the funding of all current and future area code relief projects.

Introduction

1. On 25 February 2009, Bell Canada filed an application requesting that the Commission approve a shared-cost model for the funding of area code relief projects and abandon the current approach wherein incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs) are only responsible for their own costs. Under Bell Canada's model, funding for numbering plan area (NPA) relief would be based on each carrier's respective share, measured in revenue, of the total Canadian telecommunications services market.[1]

2. MTS Allstream Inc., Cogeco Cable Inc., Quebecor Media Inc., Rogers Communications Inc., and the Canadian Independent Telephone Company Joint Task Force (collectively, the opposing parties) filed comments opposing Bell Canada's proposal. Saskatchewan Telecommunications (SaskTel) filed comments in support of Bell Canada's proposal.[2] The public record of this proceeding, which closed on 10 July 2009, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

3. The Commission has identified the following four issues to be addressed in its determinations:

    I. What factors have led to more NPA relief projects?

    II. Are ILEC and CLEC relief implementation costs out of proportion?

    III. Does the industry require an additional economic incentive to develop the least-cost solution for relief implementation projects?

[1] The sharing mechanism proposed by Bell Canada would only include revenues associated with services that use numbering resources and would exclude the following: enhanced services, the sale or lease of terminal equipment, the sale or lease of private lines, other private line and private network services, Internet services, and paging services.

[2] SaskTel indicated that it would support Bell Canada's application on the condition that only carriers operating in the NPA subject to relief would be required to pay. In its application, Bell Canada had initially proposed that NPA relief project costs would be shared by all Canadian telecommunications carriers, regardless of their serving territories. In response to SaskTel's comments, Bell Canada submitted that it would not oppose limiting the cost-sharing obligation to carriers operating in an NPA that is subject to relief implementation.

IV. Is the current NPA relief funding model consistent with the Policy Direction?[3]

I. What factors have led to more NPA relief projects?

4. Bell Canada submitted that the increased frequency of NPA relief projects has been driven by the numbering demands imposed by competitive entry and expansion into the market, particularly from the wireless sector. Bell Canada also submitted that competitors do not pay a proportionate share of the industry's relief implementation costs.

5. The opposing parties were generally of the view that it is mostly ILECs that are responsible for numbering exhaust because they are the largest consumers of numbering resources in their operating territories.

6. The Commission considers that although entry and expansion by competitors places demands on numbering resources, ILECs are also major contributors to numbering exhaust because they consume the most numbering resources in their respective incumbent territories.

7. The Commission considers that past central office (CO) code assignment practices have also been a major contributing factor to numbering exhaust. The Commission notes for example that, in the past, entire CO codes have been assigned to sparsely populated rural towns instead of having been assigned to a larger area of interest to optimize usage. The Commission notes that this has resulted in many stranded or unused telephone numbers in ILEC territories.[4]

8. The Commission further considers that several other factors, such as population and economic growth, acquisitions and mergers within the industry, wireless number portability, and new technologies such as voice over Internet Protocol, combine with the above-noted factors to deplete CO code availability.

9. The Commission therefore concludes that numbering exhaust is driven by all aspects of industry activity.

II. Are ILEC and CLEC relief implementation costs out of proportion?

10. Bell Canada submitted that there is no causal link between carriers' use of numbering resources and their relief costs. Specifically, Bell Canada submitted that competitor consumption of numbering resources is disproportionate with their relief costs and also with their market share.

11. Bell Canada submitted, for example, that in NPA 450, ILECs use 49 percent of wireline CO codes but have a 78.6 percent market share and incur the highest relief costs. Bell Canada submitted that, by contrast, all CLECs together use 51 percent of wireline CO codes, have a 21.4 percent market share, and pay minimal relief costs. The company further submitted that both CLEC and ILEC relief costs should be directly proportional to their respective market shares, as this represents a suitable proxy for numbering consumption.

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3 *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006

4 For example, if a CO code comprised of 10,000 numbers is assigned to a town of 500 residents, approximately 9,500 telephone numbers could go unused.

12. The opposing parties submitted that ILEC costs are not disproportionately high. They also submitted that the higher relief costs paid by ILECs are a reflection of the size of their networks, their past choices of technology, and network design. The opposing parties further submitted that all of these factors – and not simply consumption or market share – are relevant to the allocation of relief costs.

13. The opposing parties further submitted that they should not be required to subsidize the modernization of the ILECs' legacy networks.

14. The Commission notes that under the current NPA relief funding model, all carriers must cover their own costs for relief planning and implementation, which typically consist of network modifications, hardware upgrades, business system changes, testing, and consumer awareness campaigns.

15. The Commission considers that ILECs incur higher costs for these relief implementation activities because they have ubiquitous legacy networks, possess the largest customer bases in their incumbent territories, and are the largest consumers of numbering resources in their regions. By contrast, the Commission considers that competitors have lower relief costs because their networks are typically smaller and newer, and they have fewer customers to notify.

16. The Commission considers that although there is a cost discrepancy between Bell Canada and other carriers with respect to relief implementation planning, this discrepancy is justifiable given the disparity in network size and age, customer base, and overall consumption of numbering resources. The Commission therefore concludes that there is no reason that relief implementation costs should be directly proportional to market share.

III. Does the industry require an additional economic incentive to develop the least-cost solution for relief implementation projects?

17. Bell Canada argued that the industry, during the relief planning process, lacks the necessary incentive to select the least-cost and, therefore, most efficient solution. Bell Canada submitted that with a greater financial stake, companies would opt for the least-cost solution for the industry as a whole, as opposed to focusing exclusively on their own NPA relief implementation costs.

18. Bell Canada proposed, as an example, the recent relief planning committee (RPC)[5] recommendations concerning relief implementation in NPA 450. Bell Canada noted that the RPC for NPA 450 recommended that relief be provided via a distributed overlay, even though the company insisted that a boundary extension would have been less costly.

[5] Once an NPA enters the relief planning window, an RPC is established by the Commission to develop and assess relief implementation options and provide recommendations to the Commission. RPCs are established through a Notice of Consultation and are chaired by the Canadian Numbering Administrator. RPCs are open to any party that wishes to participate.

19. Bell Canada indicated that despite having to bear the heaviest cost for relief implementation in NPA 450, it was outvoted at the RPC by the participants preferring a distributed overlay. Bell Canada submitted that if the other carriers operating in NPA 450 had had a greater financial stake, they would have voted with Bell Canada and recommended to the Commission the more cost-efficient boundary extension option.

20. The opposing parties indicated that cost is not the only factor to consider when developing relief implementation solutions. They submitted that other factors, including social and technical considerations, must also be considered.

21. The opposing parties also indicated that although RPC recommendations are determined by majority vote, dissenting parties' positions are heard by the Commission through the non-consensus process of the CRTC Interconnection Steering Committee. The opposing parties argued that, as such, there is no need to include a financial incentive in the relief planning process.

22. The Commission agrees with the opposing parties that cost is not the only factor to consider in relief planning. The Commission notes that, in accordance with the most recent version of the Canadian NPA Relief Planning Guidelines (the Guidelines), RPCs are to attempt to seek a reasonable balance between the economic, technical, and social impacts of implementation and reflect them in their planning documents. The Commission notes that the Guidelines lists several examples of issues other than costs that must be considered during NPA relief planning, such as municipal government and public interests and concerns, life of the relief option, and 9-1-1 system and tariff impacts.

23. The Commission considers that the current approach to the funding of relief projects provides adequate industry incentive to select cost-effective relief options while maintaining a reasonable balance between the economic, technical, and social impacts of relief implementation.

24. The Commission notes that in *Code relief for Quebec area code 450*, Telecom Decision CRTC 2009-255, 7 May 2009 (Telecom Decision 2009-255), it ordered that relief in NPA 450 be provided via a boundary extension overlay, which was Bell Canada's preferred option, whereas the RPC had recommended that area code relief be provided by a distributed overlay. The Commission also notes that Bell Canada then filed an application seeking a review and vary of Telecom Decision 2009-255, indicating that after further cost investigations, the company realized that a distributed overlay with a new area code would have been less costly than a boundary extension overlay, and could be implemented within the same time frame.

25. With respect to Bell Canada's NPA 450 example, given Bell Canada's change in position based on revised cost estimates, the Commission notes that the RPC had in fact recommended the least-cost solution in its planning document and had done so without including a financial incentive. The Commission also notes that Bell Canada's first proposed solution of a boundary extension would ultimately have been the costlier of the two options.

26. The Commission therefore considers that Bell Canada's NPA 450 example does not demonstrate that the industry requires a financial incentive to arrive at a least-cost solution.

27. The Commission further notes that when making its determinations with respect to relief planning, it takes into account the views put forward in any consensus or non-consensus reports submitted by an RPC. As such, the Commission notes that even in cases where the majority of an RPC votes in favour of a particular solution, the views of any dissenting party are also considered when the Commission makes its determinations. The Commission notes that its initial determinations with respect to NPA 450, as described above, were based in part on the dissenting arguments put forward by Bell Canada.

28. In light of the above, the Commission concludes that the industry does not require an additional economic incentive to develop a least-cost solution for relief implementation projects.

IV. Is the current NPA relief funding model consistent with the Policy Direction?

29. Bell Canada argued that the current NPA relief funding model is not consistent with the Policy Direction because it does not promote the selection of the least-cost solution and the most efficient alternative. Bell Canada submitted that the current NPA relief funding model does not promote conservation of numbering resources. Bell Canada further submitted that a cost-sharing model would remedy these problems.

30. Bell Canada submitted that a cost-sharing model would be a symmetrical and competitively neutral alternative to the current mechanism because it would apply to all carriers. Bell Canada also submitted that given the industry's experience in sharing the costs associated with the Canadian Numbering Administrator, establishing a cost-sharing model would not be a difficult or complex endeavour.

31. The opposing parties indicated that Bell Canada's proposal would not be consistent with the Policy Direction. They submitted that by definition, the current NPA relief funding model, including the Commission-approved Guidelines, represents an example of a regulatory measure that relies on market forces to the maximum extent and minimizes regulatory interference.

32. The opposing parties argued that the establishment of a cost-sharing model would be a costly, complex, and cumbersome exercise that would be out of proportion with the concerns raised by Bell Canada. They submitted that the current NPA relief funding model is symmetrical and competitively neutral since all carriers are currently responsible for their own costs. The opposing parties also submitted that a cost-sharing model would be neither symmetrical nor competitively neutral as it would penalize them while benefiting ILECs.

33. Regarding Bell Canada's argument that the current model is inconsistent with the Policy Direction because it does not promote the selection of the least-cost solution, the Commission considers that, as noted above, cost is but one factor to consider in NPA relief planning and that the industry does not require an additional economic incentive to arrive at the least-cost solution for NPA relief planning.

34. The Commission considers that the current NPA relief funding model involves minimal regulatory interference because it enables companies to manage their own costs. The Commission notes that a self-funding model is also used for similar industry-wide initiatives including the implementation of community service access codes and wireless number portability.

35. The Commission considers that a cost-sharing model would be complex, costly, and time consuming to develop. The Commission also considers that such a model would require extensive industry and Commission involvement in order to determine costing principles for the new regime, establish a process to vet costs submitted by carriers, settle costing disputes, and establish a collection and disbursement regime.

36. The Commission considers that the current NPA relief funding model is consistent with the principles of symmetry and competitive neutrality, as all carriers cover their own costs and are given equal treatment.

37. The Commission therefore concludes that the current NPA relief funding model is consistent with the Policy Direction.

Conclusion

38. In light of the above, the Commission concludes that adopting a cost-sharing model at this time would not be desirable, necessary, or consistent with the Policy Direction. The Commission therefore **denies** Bell Canada's application to adopt a shared-cost approach for the funding of all current and future area code relief projects.

Secretary General