



Telecom Decision CRTC 2011-406

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Route reference: Telecom Decision 2010-900

Ottawa, 4 July 2011

Follow-up to Telecom Decision 2010-900 - Service pole rate and markup issues

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In this decision, the Commission approves a service pole rate for each of Bell Aliant, Bell Canada, MTS Allstream, TCC, and Télébec that is equal to each company's respective pole rate. The Commission also finds that an explicit markup should not be applied to the Phase II support structure costs of these incumbent local exchange carriers.

Introduction

1. In Telecom Decision 2010-900, the Commission approved revised rates for the support structure services of the following incumbent local exchange carriers (ILECs): Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), Bell Canada, and Télébec, Limited Partnership (Télébec) (collectively, Bell Canada et al.); MTS Allstream Inc. (MTS Allstream); and TELUS Communications Company (TCC).¹
2. In that decision, the Commission also initiated a follow-up proceeding in which it sought comments on
 - its preliminary view that each ILEC's service pole rate should be the same as its pole rate; and
 - whether ILEC support structure service rates should include an explicit markup of 15 percent on Phase II costs.²
3. The public record of this proceeding, which closed on 14 March 2011, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

¹ Saskatchewan Telecommunications had requested that it be excluded from the proceeding that culminated in Telecom Decision 2010-900.

² Phase II costs are incremental economic costs that are caused by demand for a service. These costs vary with demand, and are determined using a Commission-approved costing manual.

I Revised service pole rate

4. In Telecom Decision 2010-900, the Commission approved revised rates for ILEC poles to which non-ILECs attach strands.³ That decision also used the term “service pole” to refer to an ILEC pole where the only non-ILEC attachment is a drop wire to the subscriber’s premises (subscriber drop wire).
5. In Telecom Decision 2010-900, the Commission noted that the ILECs incur service pole costs, and that non-ILECs use ILEC service poles. It also found that the current service pole rate, which is an effective rate of zero, does not adequately compensate ILECs for non-ILECs’ use of service poles. The Commission therefore found that the ILECs’ current service pole rate should be revised, using the pricing methodology set out in Telecom Decision 95-13 (the 95-13 pricing methodology),⁴ to permit the ILECs to recover costs associated with non-ILECs’ use of service poles.
6. In Telecom Decision 2010-900, the Commission sought comments on its preliminary view that each ILEC’s revised service pole rate should be the same as the pole rate approved in that decision (preliminary view).

Positions of parties

7. Bell Canada et al. agreed in principle with the Commission’s preliminary view and MTS Allstream was of the view that service pole costs should be recoverable from parties that attach drop wires to these poles. However, all of the ILECs participating in this proceeding,⁵ the major cable carriers,⁶ and Canadian Network Operators Consortium Inc. (CNO) submitted that it should not be confirmed.
8. The ILECs submitted in this proceeding that they do not have the records required to bill a service pole-specific rate as service poles have not been billed to date. The ILECs also submitted that conducting a field census of service poles would be onerous and costly. As an alternative, each ILEC proposed to recover service pole costs through its pole rate by applying a service pole loading factor to increase that rate (alternative approach).⁷ The ILECs proposed to develop a service pole loading factor based on the results of service pole samples. Bell Canada had undertaken such a sample and described its results briefly.

³ Strands are steel wires that support cables between two poles. The ILECs’ support structure tariffs make poles, strands, conduit, and service poles available for non-ILEC use.

⁴ This methodology was used to establish revised support structure service rates in Telecom Decision 2010-900 and is described in that decision and discussed under Issue II below.

⁵ The ILECs participating in this proceeding are Bell Aliant, Bell Canada, MTS Allstream, TCC, and Télébec.

⁶ “Major cable carriers” refers to Bragg Communications Inc., the Canadian Cable Systems Alliance, Cogeco Cable Inc., Rogers Communications Inc., Shaw Communications Inc., and Quebecor Media Inc., on behalf of its affiliate Videotron Ltd.

⁷ For example, if it is assumed that the pole rate is \$1.00 per month and that the service pole loading factor is \$0.10 (or 10 percent of the pole rate), the revised pole rate would be \$1.10.

9. Further, Bell Canada et al. submitted that reinforcement poles, which they termed Type B poles, benefit pole users. As such, Bell Canada et al. proposed to recover the costs associated with these poles through the pole rate, by applying a loading factor to that rate.
10. The cable carriers and CNOC (collectively, the competitors) opposed the Commission's preliminary view, and submitted that there should continue to be no charge for non-ILEC use of service poles. In their view, a service pole rate equal to the ILEC's pole rate would not be just and reasonable because pole rates were established based on, among other things, factors specific to these poles' embedded costs⁸ and because no Phase II costs⁹ are associated with service poles. In the competitors' view, the ILECs are also compensated sufficiently through the pole rate.
11. The competitors further submitted that confirmation of the Commission's preliminary view would represent a change to the terms of the ILECs' support structure services insofar as an ILEC's permission would now be required to attach a subscriber drop wire to a pole. The competitors noted that, in the proceeding that led to Telecom Decision 2010-900, the Commission stated it was not reviewing support structure service terms.
12. The competitors opposed the ILECs' alternative approach on the basis that the resulting pole rates would not be just and reasonable.¹⁰ The competitors submitted that it would not be reasonable to adopt an approach that assumes that service poles are used by non-ILECs in the same proportion as they use poles, and that there was no evidence to support such an assumption.
13. The competitors also noted that the ILECs had proposed a service pole loading factor approach in the proceeding that led to Telecom Decision 2010-900, and that the Commission had rejected their proposal.
14. The competitors and MTS Allstream submitted that the poles Bell Canada et al. referred to as Type B poles are not service poles, and are not within the scope of this proceeding.

Commission's analysis and determinations

15. The Commission considers that the ILECs' alternative approach is not appropriate as it assumes that all non-ILECs use service poles and poles to the same extent. If this alternative approach were approved, the result would be that an individual pole user

⁸ "Embedded costs" represent a pole's fixed costs and are determined with respect to the ILEC's book value for poles.

⁹ Phase II costs for poles are (i) administrative costs that reflect, for example, billing activities and (ii) "lost productivity" costs that reflect, for example, that additional time and money may be required by the ILEC to maintain its facilities on its poles when third-party facilities have also been installed.

¹⁰ Under the ILECs' alternative approach, the rate a non-ILEC user would pay for each ILEC pole it used would include an amount intended to recover service pole costs, regardless of the number of service poles that user actually uses.

could underpay or overpay for its use of service poles.¹¹ The Commission also notes that the ILECs' alternative approach was denied in Telecom Decision 2010-900 on the basis that it was not consistent with their support structure tariffs.

16. The Commission notes the competitors' submission that the ILECs' pole rates would not be appropriate service pole rates. With respect to the Phase II costs of service poles, the Commission notes that, as is the case for poles, ILECs will incur ongoing administrative costs associated with service poles, and considers that ILECs also incur some lost productivity costs for service poles. Notwithstanding that pole rates reflect certain factors specific to poles' embedded costs, the Commission notes that the embedded cost for poles and service poles is the same. It therefore considers that each ILEC's pole rate would be an appropriate rate for its service poles.
17. With respect to the ILECs' submission that they currently lack records required to bill a service pole-specific rate and that conducting a field census of service poles would be onerous and costly, the Commission considers that the lack of records does not invalidate the appropriateness of a service pole-specific rate. Moreover, the Commission considers that there are alternative approaches to determining the number of billable service poles. For example, ILECs and service pole users may explore methods to determining the number of billable service poles for each user.
18. The Commission disagrees with the competitors' submission that approving the service pole rate under consideration would change the terms of the ILECs' support structure services by requiring prior ILEC permission to attach a subscriber drop wire. The Commission notes that information required to bill a service pole-specific rate can be exchanged between an ILEC and third party without the inclusion in the ILECs' tariffs of a new term that would require an ILEC's permission to attach a subscriber drop wire to a pole. The Commission also notes that ILECs may apply to change this term of service.
19. In view of all the above, the Commission confirms its preliminary view and approves a service pole rate for each ILEC that is equal to each company's respective pole rate approved in Telecom Decision 2010-900.¹² With respect to Bell Canada et al.'s submission that a pole used to reinforce another pole should be treated as a service pole,¹³ the Commission notes that only poles that are service poles are within the scope of this proceeding.

¹¹ In this regard, the Commission notes Bell Canada et al.'s submission in reply that, among other things, the alternative approach implied that non-ILECs use service poles in the same proportion as they use poles. It also notes TCC's submission in reply that, among other things, all customers do not require service poles.

¹² In view of this determination, the ILECs' requests to make their pole rates interim pending the approval of a service pole loading factor and to apply revised pole rates retroactively are moot.

¹³ Bell Canada et al. referred to these poles as "Type B" poles.

II Markup on Phase II structure costs

Positions of parties

20. Bell Canada et al. and TCC submitted that the methodology used to set rates for support structure services in Telecom Decision 2010-900 did not apply a markup to the Phase II costs caused by the provision of support structure services and, therefore, service rates do not contribute to the corporate overhead costs incurred by the ILECs. These parties further submitted that the application of a markup on Phase II costs is consistent with past Commission determinations on the rating principles that apply to support structures. TCC further submitted that even a markup of 15 percent, as proposed by the Commission, on Phase II costs would be insufficient to recover its fixed and common costs.
21. The competitors submitted that the 95-13 pricing methodology, which was applied in Telecom Decision 2010-900, established support structure service rates by taking the Phase II costs causal to the provision of these services and adding a contribution towards the recovery of the ILECs' fixed and common costs. The competitors argued that the contribution to the recovery of the ILECs' fixed and common costs is a markup on Phase II support structure costs and, consistent with the 95-13 pricing methodology, is the maximum contribution expected of support structure users. In the competitors' opinion, the inclusion of a further markup on Phase II costs would not be consistent with the 95-13 pricing methodology. They submitted further that substantial markups already result from the use of this pricing methodology.
22. MTS Allstream submitted that Telecom Decision 2008-17 assigned support structure services to the Public Good category of wholesale services, and that such services should not bear any markup over Phase II costs.

Commission's analysis and determinations

23. The Commission notes that, in principle, any rate for a service that exceeds the Phase II costs of providing the service embodies a markup on the service's Phase II costs that contributes to the recovery of fixed and common costs.
24. The Commission further notes that, in Telecom Notice of Consultation 2009-432, parties were advised that the Commission intended to apply the 95-13 pricing methodology in its review of support structure service rates.
25. Under the 95-13 pricing methodology, the rates for support structure services include a contribution that is based on the share of embedded support structure costs to be borne by non-ILEC users. This share is determined based on the extent to which non-ILECs use these structures.
26. The 95-13 pricing methodology also provides that 100 percent of this amount is the maximum contribution to be made by non-ILEC users of support structures to the recovery of an ILEC's fixed and common costs.

27. The Commission considers that the contribution calculated using the 95-13 pricing methodology represents a markup and that rates established using the 95-13 pricing methodology therefore include an appropriate contribution to the recovery of the ILECs' fixed and common costs.
28. In light of the above, the Commission considers that a further, explicit markup should not apply to the Phase II costs associated with the ILECs' provision of support structure services.

Secretary General

Related documents

- *Review of the large incumbent local exchange carriers' support structure service rates*, Telecom Decision CRTC 2010-900, 2 December 2010, as amended by Telecom Decision CRTC 2010-900-1, 9 December 2010
- *Call for comments – Review of the large incumbent local exchange carriers' support structure service rates*, Telecom Notice of Consultation CRTC 2009-432, 21 July 2009, as amended by Telecom Notice of Consultation CRTC 2009-432-1, 20 August 2009
- *Revised regulatory framework for wholesale services and definition of essential service*, Telecom Decision CRTC 2008-17, 3 March 2008
- *Access to telephone company support structures*, Telecom Decision CRTC 95-13, 22 June 1995