Telecom Decision CRTC 2011-517

PDF version

Ottawa, 22 August 2011

MTS Allstream Inc. – Request for revisions to toll interconnection rates charged by Télébec, Limited Partnership and TELUS Communications Company in Quebec

File number: 8661-M59-201102954

The Commission directs Télébec and TCC (the companies) to file tariff notices proposing to amend their rates for direct connection, access tandem, and toll-free carrier identification services, and for primary interexchange carrier processing, in the province of Quebec, within 90 days of the date of this decision. These proposed rates are to be based on either revised Phase II cost studies or rates in Bell Aliant's territory.

In addition, the Commission determines that the companies will not be compensated for any potential revenue losses if rates for the four services are reduced.

Introduction

1. The Commission received an application by MTS Allstream Inc. (MTS Allstream), dated 14 February 2011, requesting that the Commission approve revised rates for four toll interconnection services provided by Télébec, Limited Partnership (Télébec) and TELUS Communications Company (TCC) (collectively, the companies) in the province of Quebec.

2. MTS Allstream submitted that the companies' rates for the four services in question – direct connection (DC), access tandem (AT), and toll-free carrier identification (ID) services,[1] and for primary interexchange carrier (PIC) processing (collectively, the four services)[2] – are much higher than the rates charged by other incumbent local exchange carriers (ILECs) for the same services and, therefore, they are not currently just and reasonable.

3. MTS Allstream requested that the Commission

    a. Immediately confer interim status on the companies' current rates for the four services;

[1] Toll-free carrier ID service is also known as 800/888 carrier identification service.

[2] The rates for the four services are set out in Télébec General Tariff item 7.2.2, Interconnecting Circuits with Trunk-Side Access; and TCC (Quebec) Access Services Tariff item 1.01.07, Interconnecting Circuits with Trunk-Side Access.

b. Direct the companies to submit updated cost studies for the four services or adopt the existing rates that Bell Aliant Regional Communications, Limited Partnership (Bell Aliant) charges for the same services in Quebec; and

c. Apply the final rates retroactive to the date the existing rates were made interim.

4. The Commission received comments from Distributel Communications Limited (Distributel), Télébec, and TCC. The public record of this proceeding, which closed on 26 May 2011, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

5. The Commission has identified the following issues to be addressed in this decision:

I. Should the Commission review the companies' rates for the four services?

If so,

II. What pricing policy should be used to set the companies' rates?

III. Should the companies be compensated for any potential revenue losses if rates for the four services are reduced?

IV. Should the status of the companies' existing rates for the four services be changed from final to interim?

I. Should the Commission review the companies' rates for the four services?

6. MTS Allstream submitted that the companies' rates for the four services date back to 1997 and are significantly higher than the rates other ILECs charge for the same services. It noted that these services were classified as interconnection services in Telecom Decision 2008-17 and submitted that, therefore, their rates should be based on costs plus a prescribed markup. In MTS Allstream's view, charging rates that are many times higher than the underlying costs is contrary to the Policy Direction[3] because they deter economically efficient entry by competitors and are not competitively neutral to the greatest extent possible. Distributel supported MTS Allstream's request.

7. The companies submitted that MTS Allstream's application should either be dismissed or, if their rates are lowered, they should be entitled to recover any associated revenue reduction. They also submitted that the current rates for the four services form part of an implicit subsidy and that the Commission could have adjusted their rates for the four services in 2002 when it adjusted the large ILECs' rates, but it did not. In Télébec's view, lowering the rates based on costs would be

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

inconsistent with the price cap framework and punitive to Télébec. TCC indicated that it was prepared to file cost studies if required.

8. The Commission notes that when it established the regulatory framework for the companies' predecessors[4] in Telecom Decision 96-5, it found that the same basic framework that applied to the Stentor member companies (now the large ILECs)[5] should also apply to the companies. In that decision, the Commission opened the companies' territories to long distance competition effective 1 January 1997.

9. In Telecom Decision 96-5, the Commission directed the companies to file unbundled rates for the recovery of switching and aggregation costs – which included DC and AT services – based on Phase II costs.[6] The Commission indicated that while both companies had stated that they were not able to estimate such costs at that time, the Commission was of the view that they should develop these capabilities.

10. When the companies filed proposed rates for the four services in 1997, the rates for AT service and PIC processing were based on Phase II costs plus a 25 percent markup, while the DC and toll-free carrier ID service rates were based on uniform rates the Commission had approved for the Stentor member companies.

11. The Commission notes that the large ILECs' rates for these four interconnection services have declined significantly since 1997, reflecting significant decreases in the costs of providing these services. In contrast, the companies' rates for these services have not changed appreciably since 1997. The Commission considers that it would be reasonable to expect that since the large ILECs' costs for the four services have declined significantly since that time, the companies' costs would have declined to the same extent.

12. The Commission notes that in Telecom Decision 2008-17, it categorized the four services as "interconnection services" and determined that such services would be priced on the same basis as was currently required – that is, based on Phase II costs as the Commission had directed in Telecom Decision 96-5.

13. Accordingly, given the Commission's determination that rates for interconnection services should reflect costs and its expectation that the companies' costs to provide the four services are likely to have declined significantly since 1997, the Commission determines that it would be appropriate to review the companies' rates for these services.

---

[4] Québec-Téléphone (now TCC in its operating territory of Quebec) and Télébec ltée. References to "the companies" in this decision refer to both the current companies and their predecessors.

[5] At the time of Telecom Decision 96-5, Stentor was an industry association that included those companies that are currently referred to as the large ILECs – Bell Aliant, Bell Canada, MTS Allstream, Saskatchewan Telecommunications (SaskTel), and TCC – as well as their predecessors. At that time, SaskTel was not regulated by the Commission. The regulatory framework for SaskTel was established in Decision 2000-150.

[6] Phase II costs of providing a service are the prospective incremental costs to provide that service.

II. What pricing policy should be used to set the companies' rates?

14. MTS Allstream submitted that the companies should either file rates for the four services based on revised cost studies or adopt the existing rates that Bell Aliant charges for the same services in Quebec.

15. TCC submitted that if the Commission determined that it was appropriate to modify TCC's tariffs for its territory in Quebec, then the company should be permitted to submit cost studies specific to that territory.

16. The Commission notes that the large ILECs' rates for all four services are based on Phase II costs, while the companies' rates are based on Phase II costs for all of these services except DC service.

17. In the case of the companies' DC services, rates are based on the large ILECs' rates that were in place in 1997, which in turn were based on embedded costs rather than Phase II costs plus a specified markup. In Telecom Decision 2002-34, the Commission changed the pricing policy for the large ILECs' DC services from embedded costs to Phase II costs plus a 15 percent markup.

18. The Commission considers that it would be appropriate at this time for the rates for all four of the companies' services to be based on Phase II costs plus a specified markup, consistent with the Commission's pricing policy for the large ILECs' interconnection services.

19. The Commission notes that like the companies, Bell Aliant has a significant number of high-cost serving areas. As an alternative to requiring the companies to file cost studies for the four services, the Commission considers that Bell Aliant's rates for the four services are a reasonable proxy for the companies' rates.

20. Accordingly, the Commission directs Télébec and TCC to file tariff notices to amend their rates for DC, AT, and toll-free carrier ID services and for PIC processing within 90 days of the date of this decision. These proposed rates are to be based on either

    - revised Phase II cost studies, or
    - rates in the Bell Aliant territory that each company considers best reflects the characteristics of its own serving territory.

III. Should the companies be compensated for any potential revenue losses if rates for the four services are reduced?

21. The companies submitted that they should be compensated if their rates for the four services are lowered. They noted that the large ILECs were compensated for revenue losses attributable to a policy change when the Commission changed the DC costing methodology from embedded to Phase II costs and submitted that the companies should similarly be compensated for any such change.

22. In addition, TCC submitted that the large ILECs had received compensation from their deferral accounts when the Commission made another policy change by lowering markups on Phase II costs from 25 to 15 percent in Telecom Decision 2002-34. In its view, any changes in pricing policy for DC service should result in compensation.

23. Both companies suggested that compensation should come from the National Contribution Fund (NCF).

24. MTS Allstream disagreed with the replacement of a toll interconnection subsidy by a subsidy funded through NCF. It submitted that the companies have already been more than compensated through years of declining costs to provide these services and through declining prices paid to other ILECs for their interconnection services.

25. The Commission notes that it established the framework for the large ILECs' first price cap regime in Telecom Decision 97-9 and finalized their rate of return and going-in rates in Telecom Decision 98-2. In Telecom Decision 2002-34, the Commission established the large ILECs' second price cap regime and made a number of pricing policy changes. In that decision the Commission determined that the large ILECs should be compensated for, among other things, the reduction in the markup on competitor services from 25 to 15 percent.

26. When it approved DC rates for the large ILECs on a final basis in Telecom Decision 2006-23, the Commission determined that Aliant Telecom Inc. (now Bell Aliant), Bell Canada, MTS Communications Inc. (now MTS Allstream), and TELUS Communications Inc. (now TCC) should be compensated for the policy change the Commission made in Telecom Decision 2002-34 to the basis for calculating DC service rates from embedded costs to Phase II costs plus a markup.[7]

27. However, the Commission notes that it has previously denied the large ILECs compensation for revenue losses attributable to reductions in Phase II costs – for example, in Telecom Decision 2006-22 for AT service, Telecom Decision 2006-23 for DC service, and Telecom Decision 2004-72 for PIC processing.

28. The Commission notes that DC service comprises local switching and transmission facilities, which, as a result of various technological advances, have been subject to significant cost declines since they were last reviewed. The Commission considers that any potential rate reductions for the services in question would be due to reductions in the companies' costs, for which they should not be compensated. Further, the Commission considers that the reduced revenues stemming from methodology changes caused by substituting Phase II costs for today's embedded costs would not be material. Consequently, the Commission is not persuaded that the companies should be entitled to compensation for reduced revenues arising from methodology changes.

[7] The Commission approved DC service rates for SaskTel based on Phase II costs plus a markup in Order 2000-1080.

29. Accordingly, the Commission determines that the companies will not be compensated for any potential revenue losses if rates for the four services, including DC rates, are reduced.

IV. Should the status of the companies' existing rates for the four services be changed from final to interim?

30. MTS Allstream submitted that extending current rates while cost studies are prepared and reviewed would have a material negative effect on the competitors that interconnect with the companies. In MTS Allstream's view, it is paying Télébec and TCC between $1 million and $2 million annually more than it should be for the four services.

31. TCC submitted that there was no doubt about the reasonableness of the existing rates and no proof on record that would justify the Commission conferring interim status on the rates. TCC also submitted that interim status does not need to apply until it submits, if required, current cost studies for each of the services.

32. As noted above, for over a decade, the companies' rates for toll interconnection services have been significantly higher than the corresponding rates of the other ILECs. The Commission considers that because of this disparity, it would be appropriate to make the current rates interim to allow the Commission, if it so chooses, to make the revised final rates retroactive to the date they were made interim.

33. Accordingly, the Commission determines that, as of the date of this decision, the existing rates for the companies' DC, AT, and toll-free carrier ID services, and for PIC processing, will be interim. The Commission will consider the matter of retroactivity when it disposes of the companies' proposed rates on a final basis.

Secretary General

Related documents

- *Revised regulatory framework for wholesale services and definition of essential service*, Telecom Decision CRTC 2008-17, 3 March 2008

- *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Direct Connection service,* Telecom Decision CRTC 2006-23, 27 April 2006

- *Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI – Approval of rates on a final basis for Access Tandem service*, Telecom Decision CRTC 2006-22, 27 April 2006

- *Primary inter-exchange carrier processing charges review*, Telecom Decision CRTC 2004-72, 9 November 2004

- *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
- *Direct connect rate approved for SaskTel*, Order CRTC 2000-1080, 1 December 2000
- *SaskTel – Transition to federal regulation*, Decision CRTC 2000-150, 9 May 2000
- *Implementation of price cap regulation and related issues*, Telecom Decision CRTC 98-2, 5 March 1998
- *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997
- *Regulatory framework for Québec-Téléphone and Télébec ltée*, Telecom Decision CRTC 96-5, 7 August 1996