



## Telecom Decision CRTC 2011-743

PDF version

Ottawa, 1 December 2011

### Final 2011 revenue-percent charge and related matters

File number: 8695-C12-201105685

*In this decision, the Commission approves on a final basis, effective 1 January 2011, a 2011 contribution collection revenue-percent charge of 0.66 percent and the 2011 subsidy per residential network access service (NAS) amounts for the territories of the large incumbent local exchange carriers (ILECs) and Télébec.*

*In addition, the Commission approves on an interim basis, effective 1 January 2012, a 2012 contribution collection revenue-percent charge of 0.66 percent and the 2012 subsidy per residential NAS amounts for the territories of the large ILECs and Télébec.*

#### Introduction

1. In Decision 2000-745, the Commission introduced a national revenue-based contribution collection mechanism and a new methodology for calculating the subsidy for high-cost serving areas (HCSAs) in the territories of the large incumbent local exchange carriers (ILECs)<sup>1</sup> and Télébec, Limited Partnership (Télébec).<sup>2</sup>
2. In Decision 2001-238, the Commission established the costing rules to be used for determining the subsidy per residential network access service (NAS) amounts for the territories of the large ILECs. The subsidy per residential NAS amounts for HCSAs is approved annually by the Commission.
3. In Telecom Decision 2010-789, the Commission set, on an interim basis for 2011, a revenue-percent charge of 0.73 percent and the subsidy per residential NAS amounts for the territories of the large ILECs, Télébec, and People's Tel Limited Partnership. The Commission also set, on an interim basis for 2011, the annual subsidy amounts for Northwestel Inc. (Northwestel) and the small ILECs.
4. The Commission received submissions from 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 large ILECs); Télébec; and

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<sup>1</sup> The carriers referred to as large ILECs in Decision 2000-745 are now known as Bell Aliant Regional Communications, Limited Partnership, Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications, and TELUS Communications Company.

<sup>2</sup> Télébec was known as Télébec ltée at the time Decision 2000-745 was issued.

Canadian Portable Contribution Consortium Inc. (CPCC). The public record of this proceeding, which closed on 30 July 2011, is available on the Commission's website at [www.crtc.gc.ca](http://www.crtc.gc.ca) under "Public Proceedings" or by using the file number provided above.

5. The Commission will determine the following in this decision:
  - I. The estimated national subsidy requirement for 2011;
  - II. The final 2011 and interim 2012 revenue-percent charge; and
  - III. The final 2011 and interim 2012 subsidy per residential NAS amounts.
6. In the final section of this decision, the Commission will address other matters.

### **I. Estimated national subsidy requirement for 2011**

7. The national subsidy requirement is based on the sum of the administrative and operational costs of CPCC and the Central Fund Administrator (CFA), the subsidy amount for Northwestel, the subsidy amounts for the small ILECs, and the estimated HCSA total subsidy requirements for the territories of the large ILECs and Télébec.

#### **CPCC and CFA administrative and operational costs**

8. The Commission received notification from CPCC, dated 9 March 2011, that the estimated CPCC and CFA administrative and operational costs would be approximately \$0.9 million for 2011.

#### **Subsidy amount for Northwestel**

9. In Telecom Decision 2007-127, the Commission determined that Northwestel would receive a fixed subsidy amount of \$20.8 million per year for each of the years 2008 through 2010.
10. In Telecom Notice of Consultation 2011-302, the Commission initiated a proceeding to review the regulatory framework for Northwestel including, among other things, the amount of subsidy Northwestel would receive from the National Contribution Fund (NCF) for 2011. The Commission notes that a determination with respect to Telecom Notice of Consultation 2011-302 has not been made yet.

#### **Subsidy amounts for the small ILECs**

11. In Telecom Decision 2006-14, the Commission determined that the small ILECs would receive fixed subsidy amounts totalling \$23.046 million per year for each of the years 2006 through 2009.
12. In Telecom Regulatory Policy 2009-788, the Commission extended the small ILECs' regulatory framework until after a decision had been issued with respect to the proceeding initiated by Telecom Notice of Consultation 2010-43.

13. In Telecom Decision 2010-579, the Commission approved an application providing CityWest Telephone Corporation (CityWest) with a fixed annual subsidy amount of \$0.142 million per year, effective 1 January 2010.
14. In Telecom Decision 2010-789, the Commission finalized the 2010 fixed annual subsidy amounts for the small ILECs and set these amounts interim for 2011.
15. In Telecom Regulatory Policy 2011-291, the Commission determined that NorthernTel, Limited Partnership and TBayTel would have their fixed annual subsidy amounts reduced, effective 1 June 2011, due to residential local exchange service rate forbearance. The Commission notes that, based upon the small ILECs' interim 2011 subsidy amounts, the reduction equates to \$0.972 million for 2011.
16. In Telecom Notice of Consultation 2011-348, the Commission initiated a proceeding to review the regulatory framework for the small ILECs including, among other things, the amount of subsidy the small ILECs would receive from the NCF for 2011. The Commission notes that a determination with respect to Telecom Notice of Consultation 2011-348 has not been made yet.

**Estimated HCSA total subsidy requirements for the territories of the large ILECs and Télébec**

17. In Telecom Decisions 2007-27 and 2007-60, the Commission directed the large ILECs and Télébec to file, by 31 March of each year, subsidy per residential NAS calculations that included annual costs adjusted (a) for inflation minus a productivity rate of 3.2 percent; (b) for any service improvement plan (SIP) cost changes; (c) upward to include a 15 percent markup; and (d) upward for the cost recovery of the revenue-percent charge. The Commission also directed the large ILECs and Télébec to impute HCSA residential local rate increases for subsidy calculation purposes, whether or not the rate increases were actually taken. This imputation was to be based upon the pricing constraints.
18. In Telecom Regulatory Policy 2011-291, the Commission directed the large ILECs and Télébec to refile, by 2 June 2011, their annual subsidy per residential NAS calculations, taking into account the determinations in that regulatory policy, including a reduced productivity rate of 1.3 percent for 2011 and imputed HCSA residential local rate increases, effective 1 August 2011.
19. The Commission received updated 2011 subsidy per residential NAS calculations from the large ILECs and Télébec between 31 May and 2 June 2011.
20. In its 2 June 2011 submission, Bell Aliant filed its subsidy per residential NAS calculations based upon (a) last year's approved primary exchange service (PES) costs as the starting point and (b) its proposed revised PES costs as the starting point. Bell Aliant also filed a separate application requesting approval of its proposed revised PES costs.

21. Bell Aliant submitted that, once approved, the revised PES costs should be used for its 2011 subsidy calculations. Bell Aliant also submitted that the revised PES costs should not be used to determine the 2011 imputed residential local rate increases because the revised PES costs had not yet been approved by the Commission.
22. In its 31 March and 2 June 2011 submissions, TCC proposed revised PES costs for all of its high-cost bands. TCC explained that the revised PES costs included changes to functional operating expenses, maintenance expenses, message relay costs, and switching and loop capital costs.
23. By letter dated 10 June 2011, TCC was directed to refile its 2011 subsidy per residential NAS calculations based upon last year's approved PES costs as the starting point. By letter dated 30 June 2011, TCC refiled the required calculations.
24. By letter dated 21 June 2011, MTS Allstream submitted that the 2011 subsidy calculations should be approved without delay based upon the previous year's approved PES costs and independent of the Bell Aliant application requesting approval of revised PES costs.
25. By letter dated 27 June 2011, Bell Aliant replied that the application for revised PES costs should be dealt with expeditiously and in a manner that allows the updated costs to be used for finalizing the 2011 subsidy amounts.
26. The Commission notes that, in Telecom Regulatory Policy 2011-291, it concluded that a full subsidy costing review would not be appropriate and that an ILEC could choose to file an application to update the costs used to calculate its subsidy amounts.
27. The Commission considers that it would not be appropriate to include any proposed revised PES costs in the subsidy calculations until such time as the Commission has reviewed and approved the revised PES costs. Therefore, the previous year's approved PES costs should be used for subsidy calculation purposes until such time as a determination has been made with respect to any revised PES cost applications.
28. Accordingly, the Commission **denies** the Bell Aliant and TCC requests to include their proposed revised PES costs in their respective 2011 subsidy calculations.
29. Based on the Bell Aliant and TCC subsidy filings that use the previous year's approved PES costs as their starting point, the Commission has reviewed the subsidy calculations for the large ILECs and Télébec and finds them to be in accordance with the directives set out in Telecom Decisions 2007-27 and 2007-60, and Telecom Regulatory Policy 2011-291.
30. In Telecom Regulatory Policy 2011-291, the Commission determined that subsidy would only be paid to ILECs in their regulated exchanges, effective 1 June 2011. The Commission also determined that subsidy would no longer be paid to competitive local exchange carriers, effective 1 June 2011.

31. Based on the above, the 2011 total subsidy requirement for the territories of the large ILECs and Télébec is approximately \$112.1 million.
32. Given its determinations above, the Commission estimates the 2011 national subsidy requirement to be approximately \$156.0 million.

## II. Final 2011 and interim 2012 revenue-percent charge

33. The revenue-percent charge is calculated using the ratio of the national subsidy requirement to the total estimated contribution-eligible revenues of all telecommunications service providers that are required to contribute.
34. The Commission considers that a final 2011 revenue-percent charge of 0.66 percent would be appropriate to ensure the stability of the NCF. The Commission also considers that an interim 2012 revenue-percent charge of 0.66 percent, effective 1 January 2012, would also be appropriate.
35. Therefore, the Commission **approves** a final 2011 revenue-percent charge of 0.66 percent, effective 1 January 2011, and an interim 2012 revenue-percent charge of 0.66 percent, effective 1 January 2012.

## III. Final 2011 and interim 2012 subsidy per residential NAS amounts

36. Based on the final 2011 revenue-percent charge of 0.66 percent, the Commission calculates the final 2011 subsidy per residential NAS amounts for each HCSA band in the territories of the large ILECs and Télébec to be as set out in Table 1.

**Table 1**

Territory	Final 2011 monthly subsidy per residential NAS amounts by HCSA band		
	Band E (\$)	Band F (\$)	Band G (\$)
<b>Bell Aliant</b>			
New Brunswick	1.34	0.00	n/a
Newfoundland and Labrador	2.06	2.96	7.56
Nova Scotia	0.00	0.00	n/a
Ontario and Quebec	2.31	0.83	18.54
Prince Edward Island	0.83	2.13	n/a

<b>Bell Canada</b>	0.00	0.00	n/a
<b>MTS Allstream</b>	16.70	11.15	60.15
<b>SaskTel</b>	17.89	10.79	28.02
<b>TCC</b>			
Alberta	2.00	0.00	2.78
British Columbia	21.95	9.47	19.83
Quebec	10.92	0.00	43.07
<b>Télébec</b>	16.10	4.45	13.55

n/a: not applicable

37. The Commission **approves on a final basis**, effective 1 January 2011, and **approves on an interim basis**, effective 1 January 2012, the monthly subsidy per residential NAS amounts for each HCSA band for the territories of the large ILECs and Télébec as shown in Table 1.
38. The Commission directs the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2011. The Commission also directs the CFA to distribute the monthly subsidy on an interim basis, effective 1 January 2012.

## **Other matters**

### **2011 and 2012 subsidy for Northwestel**

39. As identified above, the Commission intends to finalize the 2011 fixed annual subsidy amount for Northwestel in the proceeding initiated by Telecom Notice of Consultation 2011-302.
40. The Commission considers that Northwestel should continue to receive interim subsidy until a determination has been made with respect to Telecom Notice of Consultation 2011-302.
41. Therefore, the Commission directs the CFA to continue to distribute 1/12<sup>th</sup> of the fixed annual subsidy amount on a monthly basis to Northwestel on an interim basis until a determination has been made with respect to Telecom Notice of Consultation 2011-302.
42. The Commission notes that, once a determination have been made with respect to Telecom Notice of Consultation 2011-302, the subsidy paid to Northwestel, since

1 January 2011, will be adjusted to reflect the final subsidy amount. In the event of a subsidy overpayment, Northwestel will be required to repay the overpayment to the CFA.

### **2011 and 2012 subsidy for the small ILECs**

43. As identified above, the Commission intends to finalize the 2011 fixed annual subsidy amounts for the small ILECs in the proceeding initiated by Telecom Notice of Consultation 2011-348. The Commission also notes that, in Telecom Regulatory Policy 2011-291, it determined that the small ILECs would move to a subsidy per-residential-NAS mechanism, effective 1 January 2012, and that the small ILECs would begin reporting their monthly residential NAS by wire centre to the CFA, effective with the December 2011 data-month.
44. The Commission notes, however, that the CFA currently does not have the information required to do the monthly subsidy calculations for 2012. The Commission intends to gather this information in the proceeding initiated by Telecom Notice of Consultation 2011-348.
45. Therefore, the Commission considers that the small ILECs should continue to receive interim subsidy until a determination has been made with respect to Telecom Notice of Consultation 2011-348.
46. The Commission directs the CFA to continue to distribute 1/12<sup>th</sup> of the current fixed annual subsidy amounts<sup>3</sup> on a monthly basis to the small ILECs on an interim basis until a determination has been made with respect to Telecom Notice of Consultation 2011-348.
47. The Commission notes that, once a determination has been made with respect to Telecom Notice of Consultation 2011-348, the subsidy paid to the small ILECs, since 1 January 2011, will be adjusted to reflect the final annual subsidy amounts for 2011 and the monthly per residential NAS subsidy amounts for 2012. In the event of a subsidy overpayment, the small ILECs will be required to repay the overpayment to the CFA.

### **Small ILEC territories where a competitor is operating**

48. The Commission notes that, for the period 1 January to 31 May 2011, the subsidy per residential NAS amounts in small ILEC territories where a competitor is operating will be finalized in the proceeding initiated by Telecom Notice of Consultation 2011-348. Once a determination has been made in that proceeding, the subsidy paid to competitors, between 1 January and 31 May 2011, will be adjusted to reflect the final subsidy per residential NAS amounts. In the event of a subsidy overpayment, the competitors will be required to repay the overpayment to the CFA.

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<sup>3</sup> See Telecom Decisions 2006-14 and 2010-579, and Telecom Regulatory Policy 2011-291.

### **Excess NCF funds after processing the December 2011 data-month**

49. In Telecom Decision 2007-98, the Commission approved revised procedures for the operation of the NCF that resulted in funds in excess of CPCC's requested minimum balance being retained by the required contributors as uncalled contribution, rather than being held by the NCF as a cash surplus. In addition, the Commission indicated that it would direct the CFA to release the uncalled contribution at year-end because these amounts would not be needed by the NCF in that year.
50. The Commission notes that CPCC's current requested NCF minimum balance is \$5 million.
51. The Commission considers that any uncalled contribution in excess of the \$5 million minimum balance after processing the December 2011 data-month is not required by the NCF and that the uncalled contribution can be released.
52. Accordingly, the Commission directs the CFA, after it has processed the December 2011 data-month, to release any 2011 uncalled contribution.

Secretary General

### **Related documents**

- *Review of regulatory framework for the small incumbent local exchange carriers and related matters*, Telecom Notice of Consultation CRTC 2011-348, 26 May 2011, as amended by Telecom Notice of Consultation CRTC 2011-348-1, 5 July 2011
- *Review of price cap regulatory framework for Northwestel Inc. and related matters*, Telecom Notice of Consultation CRTC 2011-302, 6 May 2011, as amended by Telecom Notice of Consultation CRTC 2011-302-1, 22 June 2011
- *Obligation to serve and other matters*, Telecom Regulatory Policy CRTC 2011-291, 3 May 2011, as amended by Telecom Regulatory Policy CRTC 2011-291-1, 12 May 2011
- *Final 2010 revenue-percent charge and related matters*, Telecom Decision CRTC 2010-789, 25 October 2010
- *CityWest Telephone Corporation – Application to modify its monthly subsidy per residential NAS*, Telecom Decision CRTC 2010-579, 13 August 2010
- *Proceeding to review access to basic telecommunications services and other matters*, Telecom Notice of Consultation CRTC 2010-43, 28 January 2010, as amended by *Obligation to serve and other matters*, Telecom Notices of Consultation CRTC 2010-43-1, 5 March 2010, 2010-43-2, 30 March 2010, and 2010-43-3, 23 July 2010

- *Regulatory framework for the small incumbent local exchange carriers*, Telecom Regulatory Policy CRTC 2009-788, 17 December 2009
- *Northwestel Inc. – Residential primary exchange service costs for Band H1*, Telecom Decision CRTC 2007-127, 10 December 2007
- *Revised procedures for the operation of the National Contribution Fund, effective January 2008*, Telecom Decision CRTC 2007-98, 11 October 2007
- *Follow-up to Decision 2007-27 – Show cause submission related to the application of the price cap regime to Télébec, Limited Partnership*, Telecom Decision CRTC 2007-60, 30 July 2007, as amended by Telecom Decision CRTC 2007-60-1, 10 August 2007
- *Price cap framework for large incumbent local exchange carriers*, Telecom Decision CRTC 2007-27, 30 April 2007
- *Revised regulatory framework for the small incumbent local exchange carriers*, Telecom Decision CRTC 2006-14, 29 March 2006
- *Restructured bands, revised loop rates and related issues*, Decision CRTC 2001-238, 27 April 2001, as amended by Decisions CRTC 2001-238-1, 28 May 2001, and 2001-238-2, 7 August 2001
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000