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

Telecom Decision CRTC 2012-204

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Bell Aliant Regional Communications, Limited Partnership – Proposal to update residential primary exchange service costs for subsidy calculation purposes

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In this decision, the Commission denies Bell Aliant's proposal to update its residential primary exchange service (PES) costs in regulated high-cost serving areas for subsidy calculation purposes. The Commission finds Bell Aliant's proposed approach to the valuation of its existing copper cable plant is not appropriate given the forecast decline in demand and significant spare capacity. Bell Aliant could refile, if it chooses, revised residential PES costs based on other costing approaches consistent with its approved Regulatory Economic Studies Manual.

Introduction

1. The Commission received an application by Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), dated 2 June 2011, in which the company proposed to update its residential primary exchange service (PES) costs in regulated high-cost serving areas (HCSAs) for subsidy calculation purposes.[1]

2. The Commission received comments from Bragg Communications Inc., operating as EastLink; Cogeco Cable Inc.; Rogers Communications Inc.; Shaw Communications Inc.; and Quebecor Media Inc., on behalf of its affiliate Videotron G.P. (collectively, the Cable carriers); MTS Allstream Inc. (MTS Allstream);[2] Saskatchewan Telecommunications; and TELUS Communications Company.

3. The public record of this proceeding, which closed on 18 November 2011, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

Background

Local service subsidy regime

4. In rural and remote areas, the costs of providing residential PES are often higher than the revenues generated from the service. In Decision 2000-745, the Commission adopted a revenue-based contribution regime to maintain affordable residential PES in these HCSAs. Under this regime, Canadian telecommunications service providers

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[1] Bell Aliant also requested that the proposed update to its residential PES costs be reflected in the final determination of its 2011 subsidies. The Commission notes that this request was denied in Telecom Decision 2011-743.

[2] As of early 2012, MTS Allstream Inc. became known as two separate entities, namely, MTS Inc. and Allstream Inc.

pay a percentage of their contribution-eligible telecommunications revenues[3] into a national fund. Subsidies are paid from this fund to incumbent local exchange carriers (ILECs) that provide residential PES in HCSAs to cover the revenue shortfall between the costs of providing residential PES and the revenues generated from this service in HCSAs.

Residential PES cost for subsidy calculation

5. In establishing the required subsidy level for each ILEC, the Commission relies on a revenue shortfall formula that depends on the costs of providing residential PES in the HCSAs. In Decision 2001-238, the Commission set out these costs for each HCSA band[4] in each ILEC's operating territory.

6. In 2001, when Decision 2001-238 was issued, residential PES demand was forecast by the ILECs to grow. On this basis, as demand increased, existing spare capacity in the copper cables used to provide residential PES would eventually run out. In turn, this would require the ILEC to purchase and install new copper cables. Accordingly, the Commission determined that the cost associated with the use of existing copper cables was the cost of purchasing and installing additional copper cables at cost new (the "cost new" approach).

Wholesale unbundled loop proceeding

7. In 2009, Bell Aliant and Bell Canada (collectively, the Bell companies) filed an application to review the rates for their wholesale unbundled loop[5] service. In that proceeding, the Bell companies forecast that demand for their unbundled loops in Ontario and Quebec would decline. They also provided evidence that there was significant spare capacity in their existing copper cables. The proceeding led to Telecom Decision 2011-24. In that decision, the Commission concluded that there was no evidence demonstrating that the spare capacity of existing copper cables to meet current and forecast unbundled loop demand would run out and require the companies to purchase new copper cables in the future, and rejected the use of the cost new approach proposed by the Bell companies. The Commission further determined that the forgone net salvage value, as proxied by net book value,[6] would provide an appropriate assessment of the cost associated with the ongoing use of the existing copper cables.

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[3] Contribution-eligible telecommunications revenues are calculated based upon a company's Canadian telecommunications service revenues less specific deductions for subsidy payments received, certain intercarrier payments, retail Internet revenues, retail paging revenues, and terminal equipment revenues.

[4] In Decision 2001-238, the Commission established three HCSA bands: Band E, exchanges with less than 1,500 subscribers; Band F, exchanges with more than 1,500 but less than 8,000 subscribers and average local loop length longer than 4 kilometres; and Band G, exchanges without year-round road access or found in remote parts of an ILEC's serving territory.

[5] A wholesale unbundled loop provides a local connection between a central office and a customer. This connection is generally provided over the ILEC's copper cables. ILECs use their copper cables to provide their own retail PES as well as the wholesale unbundled loop service to competitors. Competitors use wholesale unbundled loops to provide retail services (e.g. residential PES, business PES) to compete with those offered by ILECs and cable carriers.

[6] Net book value is the net value of an asset (original cost minus depreciation).

Obligation to serve proceeding

8. In 2010, the Commission initiated a proceeding to review the ILECs' obligation to serve, the basic service objective, and the local service subsidy regime. The proceeding led to Telecom Regulatory Policy 2011-291. In that decision, the Commission determined that the ILECs would have the obligation to serve in their respective regulated HCSAs and made certain changes to the subsidy regime. However, the Commission determined that there was no need for a general review of the costs used in calculating subsidies in regulated HCSAs, although an ILEC could choose to file an application to update its costs for subsidy calculation purposes at any point in time.

9. Shortly after the release of Telecom Regulatory Policy 2011-291, Bell Aliant filed its 2 June 2011 application to update its residential PES costs in regulated HCSAs. Consistent with the approach used in the study Bell Aliant filed in the proceeding leading to Decision 2001-238, Bell Aliant proposed to update its costs of existing copper cable plant based on the cost new approach.

Should Bell Aliant's proposed updated residential PES costs, which are based on cost new for existing copper cables, be accepted?

10. Bell Aliant submitted that, despite the determinations made by the Commission in Telecom Decision 2011-24, the use of the cost new approach instead of net book value to assess the cost associated with its copper cable plant provides an appropriate assessment of its residential PES costs for subsidy calculation purposes.

11. Bell Aliant submitted that, in Telecom Decision 2011-24, the Commission determined that the company had to provide unbundled loop service only if there was spare capacity. Bell Aliant argued that this demonstrated that the Commission had not taken into account the situation where it has an obligation to serve. Further, Bell Aliant submitted that, in contrast to the situation with its unbundled loop service, Bell Aliant has the obligation to provide residential PES in its regulated HCSAs as set out in Telecom Regulatory Policy 2011-291. In its view, therefore, some portion of the copper cable plant that is currently unused is not spare and is not available for other uses, because the company must keep a level of copper plant inventory that is sufficiently high to meet customers' demand for residential PES in a timely manner.

12. Bell Aliant further submitted that net book value is not appropriate to estimate the costs of its existing copper cable plant for subsidy calculation purposes. Bell Aliant claimed that the net book value approach to valuation would be relevant only if the alternative being considered is the discontinuation of service and that, as the company has the obligation to provide residential PES, it cannot close down or sell-off its copper cable plant. Bell Aliant therefore submitted that the use of the net book value approach to assess the value of its existing copper cable plant for subsidy calculation purposes is not appropriate.

13. MTS Allstream and the Cable carriers submitted that Bell Aliant's obligation to serve does not mean that it needs to build new facilities or keep a high level of copper plant inventory. These companies submitted further that the declining demand for residential PES creates additional spare copper plant capacity that is available to serve incoming customers without triggering the building of new copper cables or advancing the building of such facilities. MTS Allstream and the Cable carriers submitted that Bell Aliant's proposed use of the cost new approach is therefore at odds with the Commission's determinations in Telecom Decision 2011-24.

14. The Cable carriers further submitted that the net book value reflects a more appropriate assessment of the cost associated with the use of Bell Aliant's existing copper cables since the use of these existing copper cables would not cause Bell Aliant to purchase additional copper cables to meet demand.

Commission's analysis and determinations

15. The Commission notes that in Decision 2001-238, the underlying principle in applying the cost new approach to determine the cost of an existing facility depends on whether the use of that facility will cause the spare capacity of that facility to eventually run out and require the company to purchase a new facility at cost new. The Commission therefore considers that under Bell Aliant's proposal to apply the cost new approach to estimate the cost of existing copper cable plant, there should be evidence that the use of the existing copper cable plant to provide residential PES would cause the spare capacity of that facility to run out and require the company to purchase new copper cables in the future.

16. The Commission notes that Bell Aliant submitted information at the time of the proceeding that led to Telecom Regulatory Policy 2009-274 which indicated that there was significant spare capacity in Bell Aliant's copper cable plant, and that the company has not provided information in this proceeding to indicate otherwise. Further, Bell Aliant's forecast in this proceeding indicated that its residential PES demand in each of its regulated HCSA bands would decline or remain unchanged between 2011 and 2015.

17. The Commission notes that despite its residential PES demand forecast and the significant spare capacity in its copper cable plant, Bell Aliant submitted that the use of the cost new approach is appropriate, because under its obligation to serve, it must maintain a level of copper cable plant inventory that is sufficient to meet future customers' demand for residential PES in a timely manner. However, Bell Aliant did not demonstrate how this required level would cause the spare capacity of the existing copper cable plant to run out and require the company to purchase new copper cables in the future.

18. Accordingly, the Commission considers that Bell Aliant has not demonstrated that the use of the existing copper cable plant to provide residential PES in regulated HCSA bands would require the company to purchase new copper cables in the future.

19. In view of the above, the Commission determines that it is not appropriate for Bell Aliant to use the cost new approach to estimate the cost of its existing copper cables for residential PES in regulated HCSA bands. Accordingly, the Commission **denies** Bell Aliant's proposed update to its residential PES costs in regulated HCSA bands for subsidy calculation purposes using this costing approach.

Should one of Bell Aliant's other proposed costing methodologies be accepted?

20. In its reply, Bell Aliant put forward the following two alternate costing methodologies in the event the Commission did not accept Bell Aliant's proposed update to its residential PES costs:

- Proposal A: Permit Bell Aliant to update its residential PES costs in HCSA bands by restating its 2001 costs based on the most up-to-date loop characteristics instead of the outdated 1982 loop characteristics.[7]

- Proposal B: Permit Bell Aliant to use the cost new approach to value existing copper cable plant in regulated HCSA exchanges that have experienced growth in the past four years, and to use the net book value to value existing copper cable plant in regulated HCSA exchanges that have experienced a decline in demand in its cost study.

21. The Commission notes that parties to the proceeding did not have the opportunity to comment on these proposed alternate costing methodologies, as they were submitted by the company in its reply.

22. With respect to Proposal A, the Commission considers that, while the use of the most up-to-date loop characteristics would better reflect the company's input costs than those used in 2001, this approach does not take into account the numerous changes to the demand, service characteristics, and other input costs that have occurred since 2001, including the manner by which incremental costs associated with the use of existing copper cable plant are assessed.

23. Accordingly, the Commission is not persuaded that the costs generated from this proposal would be consistent with the incremental costing methodology that assesses the incremental costs of a service based on all current cost information.

24. With respect to Proposal B, the Commission notes that Bell Aliant has not submitted residential PES cost studies or forecast demand at the HCSA exchange level in respect of this proposal. Given the lack of evidence submitted on the record of this proceeding, the Commission cannot make a determination as to the appropriateness of Proposal B at this time.

25. The Commission notes that Bell Aliant could refile, if it chooses, revised residential PES costs based on other costing approaches consistent with the incremental costing principles described in its approved Regulatory Economic Studies Manual. The Commission further notes that Bell Aliant is not precluded from estimating costs based on the cost of a new facility in circumstances such as when new copper cables,

[7] e.g. loop lengths, copper cable sizes, and proportion of copper feeder versus copper distribution cable.

fibre cables, or other least-cost technologies are installed in greenfield locations[8] and when new copper cables are installed to replace those that are retired.

Policy Direction

26. The Policy Direction[9] states that the Commission, in exercising its powers and performing its duties under the *Telecommunications Act* (the Act), shall implement the policy objectives set out in section 7 of the Act, in accordance with paragraphs 1(*a*), (*b*), and (*c*) of the Policy Direction.

27. The regulatory measures under consideration in this decision are of an economic nature and deal with a network access regime. Therefore, subparagraph 1(*a*)(ii)[10] and subparagraphs 1(*b*)(i), (ii), and (iv)[11] of the Policy Direction apply to the Commission's determinations. Consistent with subparagraph 1(*a*)(ii) of the Policy Direction, the Commission has adopted regulatory requirements with respect to Bell Aliant that are efficient and proportionate to their purpose. Consistent with subparagraph 1(*b*)(i) of the Policy Direction, the Commission considers that the policy objectives set out in paragraphs 7(*a*), (*b*), (*c*), (*f*), and (*h*)[12] of the Act are advanced by the regulatory measures established in this decision.

Secretary General

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[8] A greenfield location is a location where there are no existing facilities.

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

[10] 1(*a*) the Commission should
(ii) when relying on regulation, use measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives.

[11] 1(*b*) the Commission, when relying on regulation, should use measures that
(i) specify the telecommunications policy objective that is advanced by those measures and demonstrate their compliance with [the Policy Direction],
(ii) if they are of an economic nature, neither deter economically efficient competitive entry into the market nor promote economically inefficient entry, ...
(iv) if they relate to network interconnection arrangements or regimes for access to networks, buildings, in-building wiring or support structures, ensure the technological and competitive neutrality of those arrangements or regimes, to the greatest extent possible, to enable competition from new technologies and not to artificially favour either Canadian carriers or resellers.

[12] The cited policy objectives of the Act are
7(*a*) to facilitate the orderly development throughout Canada of a telecommunications system that serves to safeguard, enrich and strengthen the social and economic fabric of Canada and its regions;
7(*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;
7(*c*) to enhance the efficiency and competitiveness, at the national and international levels, of Canadian telecommunications;
7(*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
7(*h*) to respond to the economic and social requirements of users of telecommunications services.

Related documents

- *Final 2011 revenue-percent charge and related matters*, Telecom Decision CRTC 2011-743, 1 December 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
- *Bell Aliant Regional Communications, Limited Partnership and Bell Canada – Monthly recurring rates and service charge rates for unbundled loops in Ontario and Quebec*, Telecom Decision CRTC 2011-24, 12 January 2011
- *Review of the use of company-specific working fill factors and the recovery of past introduction costs not fully recovered*, Telecom Regulatory Policy CRTC 2009-274, 14 May 2009
- *Restructured bands, revised loop rates and related issues*, Decision CRTC 2001-238, 27 April 2001, as amended by Decision CRTC 2001-238-1, 28 May 2001 and Decision CRTC 2001-238-2, 7 August 2001
- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000