



## Telecom Decision CRTC 2013-217

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Ottawa, 7 May 2013

### **Bell Aliant Regional Communications, Limited Partnership and Bell Canada – Revised co-location floor space rates**

File numbers: Bell Aliant Tariff Notice 414 and Bell Canada Tariff Notice 7361

*In this decision, the Commission approves increases to co-location floor space service rates for Bell Aliant and Bell Canada. These rates are charged to telecommunications service providers that co-locate in Bell Aliant's and Bell Canada's central offices in Ontario and Quebec.*

#### **Introduction**

1. Telecommunications service providers who place their equipment in an incumbent local exchange carrier's (ILEC) central office<sup>1</sup> (co-location) pay a Commission-approved rate per square metre to lease central office floor space.
2. The Commission received applications from Bell Aliant Regional Communications, Limited Partnership and Bell Canada (collectively, the Bell companies), dated 24 August 2012, in which they proposed revisions to their respective Access Services Tariff item 110 – Co-location arrangements for interconnecting Canadian carriers and digital subscriber line service providers. Specifically, the Bell companies proposed to increase the co-location floor space service rates per square metre in their operating territories in Ontario and Quebec from \$13.30 to \$13.51 for Bell Aliant and from \$13.30 to \$18.64 for Bell Canada.
3. The Commission received comments on the applications from the Canadian Network Operators Consortium Inc. (CNOOC); Globility Communications Corporation (Globility); and MTS Inc. and Allstream Inc. (collectively, MTS Allstream) [collectively, the competitors]. The public record of this proceeding, which closed on 29 January 2013, 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 numbers provided above.
4. The Commission has identified the following issues to be addressed in deciding whether the proposed co-location floor space service rates are just and reasonable:
  - a) Is the proposed methodology to set the floor space rates appropriate?
  - b) Are the proposed asset classes and asset lives for floor space appropriate?
  - c) Is the proposed methodology to estimate costs based on 2012 demand and 2011 costs appropriate?

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<sup>1</sup> A central office is a building in which the ILECs install their own equipment to provide telecommunication services to consumers and business customers.

**a) Is the proposed methodology to set the floor space rates appropriate?**

***Background***

5. The Commission generally sets wholesale service rates based on a service's incremental capital costs<sup>2</sup> and incremental operating expenses plus a markup.<sup>3</sup> For certain services that do not have incremental capital costs, the Commission has set rates based on incremental operating expenses plus a contribution to fixed and common costs based on the accounting costs associated with the capital resources.
6. In Telecom Decision 97-15, the Commission noted that due to the presence of vacant floor space, Bell Canada's floor space incremental capital cost was zero. In this context, the Commission set the company's floor space service rate based on the company's floor space capital accounting costs.
7. In Telecom Decision 2003-12, the Commission noted that the floor space incremental capital costs of each of the ILECs, except for MTS Inc.<sup>4</sup> and TELUS Communications Company (TCC),<sup>5</sup> were zero. The Commission, therefore, set the floor space rate for each of the ILECs at the same rate as that of MTS Inc.,<sup>6</sup> reflecting MTS Inc.'s incremental costs plus a 15 percent markup. The Commission noted that this rate would provide each ILEC an appropriate compensation for the use of vacant floor space, including the associated operating expenses.

***Positions of Parties***

8. The Bell companies submitted that their current co-location floor space service rates, approved in Telecom Decision 2003-12, are outdated and do not reflect company-specific cost information. The Bell companies also submitted that, in light of this, the continued use of existing rates would discourage economically efficient entry, contrary to the Policy Direction.<sup>7</sup>
9. The Bell companies proposed revised co-location floor space service rates based on the associated company-specific incremental operating expenses plus accounting costs per square metre, with no markup. The Bell companies submitted that their proposed methodology to set rates is the same as that approved by the Commission in Telecom Decision 2010-900 for support structure services,<sup>8</sup> since the incremental capital costs of floor space service, similar to support structure services, are zero.

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<sup>2</sup> Capital costs refer to the costs of the asset resources available to provide service for over more than a year.

<sup>3</sup> The markup, which provides a contribution to fixed and common costs, is usually based on a percentage of the incremental capital costs and incremental operating expenses.

<sup>4</sup> Formerly MTS Communications Inc.

<sup>5</sup> Formerly TELUS Communications Inc.

<sup>6</sup> TCC also had incremental floor space capital costs; however, the Commission noted that the company had no objection to using MTS Inc.'s tariff as a proxy.

<sup>7</sup> *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006.

<sup>8</sup> Support structures include poles, strand, and conduits used to support the placement of telephone cables.

The Bell companies further submitted that their proposed methodology to include floor space accounting costs is also consistent with the Commission's determination in Telecom Decision 97-15.

10. The competitors submitted that the Commission should deny the Bell companies' applications and continue using the existing methodology to establish rates as set out in Telecom Decision 2003-12.
11. MTS Allstream noted that in Telecom Decision 2003-12, the Commission determined that Bell Canada had vacant floor space with respect to which the company had no alternative use. MTS Allstream argued that this determination remained valid for both Bell Canada and Bell Aliant, and that these companies had provided no compelling justification for the changes proposed.
12. Similarly, CNOC submitted that based on the absence of incremental capital costs associated with the use of the Bell companies' vacant floor space, the existing rate continues to provide these companies with a sufficient contribution for the use of floor space and need not increase.
13. Globility submitted that in Telecom Decision 2003-12, the Commission endorsed the rating principle that rates for co-location floor space service should be based on incremental capital costs, replacing the principle of setting rates based on accounting costs for capital, as approved in Telecom Decision 97-15.

#### ***Commission's analysis and determinations***

14. The Commission notes that in Telecom Decision 2003-12, it recognized that Bell Canada's incremental capital costs associated with the provision of floor space in its central offices was effectively zero. In that decision, the Commission determined that floor space rates should nonetheless be set so as to provide compensation for the use of vacant floor space. The floor space rate set for Bell Canada in that decision was thus intended to cover their incremental operating expenses and to provide a contribution to the recovery of fixed and common costs, including accounting costs for capital.
15. The Commission however considers that the existing Bell companies' floor space rate, which was based on MTS Inc.'s 1997 costs, is outdated and that it would be more appropriate to base a co-location floor space rate on the Bell companies' own costs.
16. It is appropriate to set the Bell companies' monthly floor space rates using the methodology employed to set support structure rates in Telecom Decisions 2010-900 and 2011-406, since the incremental capital costs for both these services are zero. In those decisions, the Commission set support structure service rates based on incremental operating expenses plus a contribution to fixed and common costs based on the accounting costs associated with competitor use of the support structures. In Telecom Decision 2011-406, the Commission decided that the above contribution

represented a markup, and also that no further explicit markup should be applied to the incremental operating expenses associated with the Bell companies' provision of support structure services.

17. Setting the Bell companies' monthly floor space rates to recover their associated incremental operating expenses and accounting costs with no further explicit markup ensures that, based on the competitors' use of floor space, competitors pay the incremental operating expenses and make a proportionate contribution to the Bell companies' accounting capital costs. This pricing approach ensures that the Bell companies' floor space rates would not be below cost and would not subsidize third parties, and therefore limits interference with the operation of competitive market forces.

**b) Are the proposed asset classes and asset lives for floor space appropriate?**

18. The Bell companies submitted that in 2010, they reclassified the accounting of floor space costs from a single asset class<sup>9</sup> to four new asset classes, namely 10C, 110C, 210C, and 310C,<sup>10</sup> to further reflect the different nature of the floor space components. The Bell companies also proposed new asset lives<sup>11</sup> of 30, 15, 25, and 50 years, respectively, for these new asset classes. Other parties did not provide any comments on this issue.

***Commission's analysis and determinations***

19. The Commission considers that the proposed new floor space asset classes and their associated asset lives are reasonable. The Commission also notes that the impact of the Bell companies' proposed asset reclassification on the total floor space costs is not significant.
20. Accordingly, the Commission approves the Bell companies' proposed new floor space asset classes and their associated asset lives.

**c) Is the proposed methodology to estimate costs based on 2012 demand and 2011 costs appropriate?**

21. To estimate the floor space accounting costs per square metre, the Bell companies provided a cost study based on 2011 cost data, the most recent cost information available, for those central offices where competitors were present in 2012. Other parties did not provide any comments on this issue.

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<sup>9</sup> Floor space asset classes refer to the different corporate accounts in which the Bell companies record their floor space related costs.

<sup>10</sup> Examples of floor space components included under the Bell companies' proposed new asset classes: (i) 10C – windows, heating/ventilation/air-conditioning; (ii) 110C - building automation, security systems; (iii) 210C – roof, elevators; and (iv) 310C - indoor parking, plumbing.

<sup>11</sup> Asset life refers to the average number of years an asset would be in service before being fully depreciated.

### **Commission's analysis and determinations**

22. The Commission considers that since the most recent floor space cost information available is for the year 2011, the rate should be based on cost information for those central offices where competitors were present for the same year, rather than 2012.
23. Accordingly, the Commission has revised the Bell companies' floor space accounting costs per square metre to reflect the use of demand and costs for the year 2011. This revision results in an increase in the co-location floor space rate per square metre for Bell Aliant of 0.7 percent, and a decrease for Bell Canada of 1.1 percent, relative to their respective proposed rates.

### **Conclusion**

24. In light of the above, the Commission finds that co-location floor space rates, based on the Bell companies' proposed incremental operating expenses and a contribution to fixed and common costs equal to the accounting costs per square metre of floor space, as adjusted in this decision, and with no further explicit markup, are just and reasonable.
25. The Commission therefore **approves** co-location floor space monthly rates per square metre of \$13.60 for Bell Aliant and \$18.43 for Bell Canada.
26. The Commission directs the Bell companies to issue, within 20 days of the date of this decision, revised tariff pages to reflect the Commission's determinations in this decision.

### **Policy Direction**

27. The Policy Direction 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.
28. The Commission considers that its findings in this decision advance the policy objectives set out in section 7 of the Act, including paragraphs 7(c) and 7(f).<sup>12</sup> The Bell companies' monthly co-location floor space service rates approved in this decision were established with a view to ensuring that rates paid by competitors recover the associated incremental operating expenses and contribute to the companies' fixed and common costs. The Commission therefore considers that, in accordance with subparagraphs 1(a) (ii) and 1(b) (ii) of the Policy Direction,

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<sup>12</sup> The cited policy objectives of the Act are

7(c) to enhance the efficiency and competitiveness, at the national and international levels, of Canadian telecommunications; and

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.

the rates approved in this decision are (a) efficient and proportionate to their purpose and interfere with competitive market forces to the minimum extent necessary to meet the above-referenced policy objectives, and (b) neither deter economically efficient competitive entry into the market nor promote economically inefficient entry.

Secretary General

### **Related documents**

- *Follow-up to Telecom Decision 2010-900 – Service pole rate and markup issues*, Telecom Decision CRTC 2011-406, 4 July 2011
- *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.
- *Rates for co-location floor space, Direct Connection service, Wireless Access Service: Line-side Access services, and Wireless Service Providers Enhanced Provincial 9-1-1 Network Access service*, Telecom Decision CRTC 2003-12, 18 March 2003, as amended by Telecom Decision CRTC 2003-12-1, 19 November 2003.
- *Co-location*, Telecom Decision CRTC 97-15, 16 June 1997