



Telecom Decision CRTC 2013-630

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Ottawa, 27 November 2013

Final 2013 revenue-percent charge and related matters

File number: 8695-C12-201305350

In this decision, the Commission approves on a final basis, effective 1 January 2013, a 2013 contribution collection revenue-percent charge of 0.53 percent, the 2013 subsidy amount for Northwestel, and the 2013 subsidy per residential network access service (NAS) amounts for the large and small incumbent local exchange carriers (ILECs).

In addition, the Commission approves on an interim basis, effective 1 January 2014, a 2014 contribution collection revenue-percent charge of 0.53 percent, the 2014 subsidy amount for Northwestel, and the 2014 subsidy per residential NAS amounts for the large and small ILECs.

The subsidies approved in this decision will assist in keeping residential local telephone service rates in high-cost serving areas at just and reasonable levels.

Introduction

1. During the 1990s, through a series of proceedings and decisions, the Commission opened up various telecommunications markets, including the local telephone market, to competition to enhance the Canadian telecommunications system and to allow Canadians the benefits of competition. The Commission also established a subsidy regime, whereby money is collected from telecommunications companies to subsidize residential telephone service. This subsidy regime allows residential local telephone service rates to be kept just and reasonable, as required by subsection 27(1) of the *Telecommunications Act* (the Act).
2. In Decision 2000-745, the Commission modified the subsidy regime and introduced a national revenue-based contribution collection mechanism and a new methodology for calculating the subsidy afforded to high-cost serving areas (HCSAs) in the territories of the large incumbent local exchange carriers (ILECs).¹
3. Contribution (money) is paid into a national fund by telecommunications service providers (TSPs), or groups of related TSPs, that have \$10 million or more in Canadian telecommunications service revenue. Subsidy (money) is then paid out to

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

the ILECs, who are also TSPs that have an obligation to provide residential telephone service in HCSAs. While non-ILEC TSPs only pay into the fund, the ILECs can be either payers into the fund or receivers from the fund, depending on how much they have to pay in and how much they are entitled to receive.

4. Annually, the Commission finalizes the subsidy amounts/rates to be paid to ILECs providing residential telephone service in HCSAs. In order to provide this subsidy, the Commission establishes a final revenue-percent charge to ensure that the amount of money collected is sufficient to meet the subsidy payments. A given year's final contribution and subsidy amounts/rates are made interim for the following year, so that the subsidy regime can continue to pay the ILECs subsidy until the following year's contribution and subsidy amounts/rates are finalized.
5. In Telecom Decision 2012-619, the Commission set, on an interim basis for 2013, (i) a revenue-percent charge of 0.63 percent and the subsidy per residential network access service (NAS) amounts for the territories of the large ILECs, and (ii) the annual subsidy amount for Northwestel Inc. (Northwestel). Then, in Telecom Regulatory Policy 2013-160, the Commission set, on an interim basis for 2013, the subsidy per residential NAS amounts for the territories of the small ILECs.
6. The Commission received submissions from Bell Aliant Regional Communications, Limited Partnership (Bell Aliant), Bell Canada, MTS Inc. (MTS), Saskatchewan Telecommunications (SaskTel), Télébec, Limited Partnership (Télébec), and TELUS Communications Company (TCC) (collectively, the large ILECs), Northwestel, and Canadian Telecommunications Contribution Consortium Inc. (CTCC).² The public record of this proceeding, which closed on 6 August 2013, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.
7. The Commission determines the following in this decision:
 - I. The estimated national subsidy requirement for 2013;
 - II. The final 2013 and interim 2014 revenue-percent charge; and
 - III. The final 2013 and interim 2014 subsidy payments from the National Contribution Fund (NCF).
8. In the final section of this decision, the Commission addresses the matter of excess NCF funds after processing the December 2013 data-month.
 - I. Estimated national subsidy requirement for 2013**
9. The national subsidy requirement is based on the sum of the administrative and operational costs of CTCC and the Central Fund Administrator (CFA), the estimated

² Formerly Canadian Portable Contribution Consortium Inc.

HCSA total subsidy amount for the large ILECs, the estimated HCSA total subsidy amount for the small ILECs, and the subsidy amount for Northwestel.

CTCC and CFA administrative and operational costs

10. The Commission received notification from CTCC, dated 6 June 2013, that the estimated CTCC and CFA administrative and operational costs would be approximately \$0.9 million for 2013.

Estimated HCSA total subsidy amount for the large ILECs

11. In Decision 2001-238 and Telecom Decision 2005-4, the Commission established the costing rules to be used for determining the subsidy per residential NAS amounts for the territories of the large ILECs. The subsidy per residential NAS amounts for HCSAs is approved annually by the Commission.
12. In Telecom Decisions 2007-27 and 2007-60, as modified by Telecom Regulatory Policy 2011-291, the Commission directed the large ILECs to file, by 31 March of each year, subsidy per residential NAS calculations that included annual costs adjusted for (a) inflation; (b) any service improvement plan (SIP) cost changes; (c) a 15 percent markup; and (d) the cost recovery of the revenue-percent charge. The Commission also directed the large ILECs to impute HCSA residential local rate increases for subsidy calculation purposes, regardless of whether the rate increases were actually taken.
13. The Commission received the 2013 subsidy per residential NAS calculations from the large ILECs on 27 and 28 March 2013. The Commission notes that the estimated 2013 total subsidy amount for the large ILECs is \$87.8 million.
14. By letter dated 2 July 2013, the Commission requested additional information with respect to the subsidy rate component calculations for MTS for the years 2011 to 2013. The requisite information was provided by MTS on 6 August 2013.
15. MTS identified that its subsidy rate component calculations, for each of the years 2011 to 2013, included its primary exchange service (PES) rates and its suspension of service (off-season service) rates. MTS submitted that the PES rates used in its subsidy calculations were imputed to increase to \$30 over the three-year period, as directed in Telecom Regulatory Policy 2011-291. However, Telecom Regulatory Policy 2011-291 did not stipulate any changes to off-season service rates beyond the inflation increases already permitted.
16. The Commission notes that, in Telecom Regulatory Policy 2011-291, it directed that the subsidy rate components were to increase evenly over three years to reach \$30 by 1 June 2013. The Commission also notes that, as the subsidy rate components were increased, subsidy was reduced and the ILECs were provided the opportunity to

increase residential local rates³ to offset the lower subsidy amounts. Finally, the Commission notes that the MTS subsidy rate components were not at \$30 on 1 June 2013 due to the inclusion of off-season service rates in its subsidy rate component calculations.

17. The Commission notes that, in Telecom Regulatory Policy 2011-291, it defined the rate component as "the weighted average of all HCSA sub-band PES rates in the ILEC's serving territory, by band. For the large ILECs, the rate component is updated each year and reflects the average residential PES rates in effect over the calendar year in HCSAs, by band." The Commission also notes that, in Telecom Regulatory Policy 2011-291, it did not identify that off-season service rates were to be included in the subsidy rate component calculations.
18. Based upon the information provided in this proceeding, the Commission finds that MTS made an error in its subsidy rate component calculations by including off-season service rates. Therefore, the Commission has adjusted the MTS subsidy rate component calculations to correct for this error for the years 2011 to 2013.⁴
19. Based upon the information provided by MTS, the Commission has determined that MTS received excess subsidy of \$1.240 million and \$2.345 million for the years 2011 and 2012, respectively, as a result of including its off-season service rates in its subsidy rate component calculations. With respect to 2013, the Commission notes that the final 2013 subsidy per residential NAS amounts approved in this decision are being calculated in accordance with Telecom Regulatory Policy 2011-291 (i.e. excluding off-season service rates from the subsidy rate component calculations) and will be adjusted for by the CFA.
20. The Commission has reviewed the subsidy calculations for the large ILECs and, with the adjustment made to MTS' calculations as identified above, 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.

Estimated HCSA total subsidy amount for the small ILECs

21. In Telecom Regulatory Policy 2011-291, the Commission directed the small ILECs to impute HCSA residential local rate increases for subsidy calculation purposes, regardless of whether the rate increases were actually taken.
22. Based upon information provided pursuant to Telecom Regulatory Policies 2011-291 and 2013-160, the Commission estimates the 2013 total subsidy amount for the small ILECs to be \$15.0 million.

³ The Commission notes that the \$30 rate was established to foster only local rate increases that would not result in residential local rates going beyond just and reasonable levels.

⁴ The Commission has approved prior-year subsidy adjustments for subsidy rate component calculation errors; for example, see Telecom Decisions 2005-52, 2006-20, 2007-99, 2008-43, and 2008-66.

Subsidy amount for Northwestel

23. In Telecom Regulatory Policy 2011-771, the Commission established a separate subsidy for Northwestel and directed the company to file, by 31 March of each year, a subsidy calculation based upon the previous year's 31 December Band H1 residential NAS information with the costs adjusted annually for inflation. The Commission notes that Northwestel also receives \$10.1 million annually to fund the ongoing requirements associated with the non-access portion of Northwestel's SIP that was completed in 2005.
24. Northwestel's 2013 subsidy calculation was submitted to the Commission on 1 April 2013. In its submission, Northwestel requested \$11.0 million in subsidy for 2013, for a total, including SIP funding, of \$21.1 million.
25. The Commission has reviewed Northwestel's subsidy calculation and finds it to be in accordance with the directives set out in Telecom Regulatory Policy 2011-771.

Estimated 2013 national subsidy requirement

26. Based on its determinations set out above, the Commission estimates the total 2013 national subsidy requirement to be \$121.2 million.

II. Final 2013 and interim 2014 revenue-percent charge

27. The revenue-percent charge is calculated using the ratio of the national subsidy requirement to the total estimated contribution-eligible revenues of all TSPs that are required to contribute.
28. The Commission considers that a final 2013 revenue-percent charge of 0.53 percent would be appropriate to ensure the stability of the NCF. The Commission also considers that an interim 2014 revenue-percent charge of 0.53 percent, effective 1 January 2014, would also be appropriate.
29. Therefore, the Commission **approves** a final 2013 revenue-percent charge of 0.53 percent, effective 1 January 2013, and an interim 2014 revenue-percent charge of 0.53 percent, effective 1 January 2014.

III. Final 2013 and interim 2014 subsidy payments from the NCF

30. The following subsidy payments from the NCF are calculated based upon the final 2013 revenue-percent charge of 0.53 percent.

Subsidy payments for the large ILECs

31. The Commission **approves on a final basis**, effective 1 January 2013, and **approves on an interim basis**, effective 1 January 2014, the monthly subsidy per residential NAS amounts for each HCSA band for the large ILECs as shown in Table 1.

Table 1**Final 2013 monthly subsidy per residential NAS amounts by HCSA band**

Large ILEC	Band E (\$)	Band F (\$)	Band G (\$)
Bell Aliant – New Brunswick	0.00	0.00	n/a
Bell Aliant – Newfoundland and Labrador	0.90	1.12	6.24
Bell Aliant – Nova Scotia	0.00	0.00	n/a
Bell Aliant – Ontario and Quebec	0.00	0.00	15.02
Bell Aliant – Prince Edward Island	0.20	1.55	n/a
Bell Canada	0.00	0.00	n/a
MTS	14.92	7.87	60.22
SaskTel	17.49	9.48	26.45
TCC – Alberta	3.66	0.00	3.95
TCC – British Columbia	20.83	7.84	18.55
TCC – Quebec	9.80	0.00	43.43
Télébec	18.43	6.25	15.56

n/a: not applicable

32. The Commission directs the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2013. The Commission also directs the CFA to distribute the monthly subsidy on an interim basis, effective 1 January 2014.
33. With respect to the \$3.585 million⁵ of excess subsidy received by MTS for 2011 and 2012, the Commission directs the CFA to adjust the monthly subsidy being paid to

⁵ \$1.240 million for 2011 and \$2.345 million for 2012.

MTS for the remainder of the 2013 NCF processing year to evenly recover this amount.⁶

Subsidy payments for the small ILECs

34. The Commission **approves on a final basis**, effective 1 January 2013, and **approves on an interim basis**, effective 1 January 2014, the monthly subsidy per residential NAS amounts for each HCSA band for the small ILECs as shown in Table 2.

Table 2

Final 2013 monthly subsidy per residential NAS amounts by HCSA band

British Columbia

Small ILEC	HSCA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
CityWest Telephone Corporation	n/a	n/a	n/a	n/a	0.00	n/a

Ontario

Small ILEC	HSCA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
Amtelecom Limited Partnership	15.98	15.34	n/a	n/a	7.72	n/a
Brooke Telecom Co-operative Ltd.	10.19	n/a	n/a	n/a	n/a	n/a
Bruce Telecom	3.86	3.34	n/a	0.25	n/a	n/a
Cochrane Telecom Services	n/a	n/a	0.68	n/a	n/a	n/a
Dryden Municipal Telephone System	n/a	n/a	n/a	6.27	n/a	n/a
Execulink Telecom Inc.	9.75	9.11	n/a	n/a	n/a	n/a
Gosfield North Communications Co-operative Limited	n/a	9.52	n/a	n/a	n/a	n/a
Hay Communications Co-operative Limited	10.88	n/a	8.66	n/a	n/a	n/a

⁶ The NCF processes a given data-month after the given month is over. For example, processing of the December 2013 data-month has to be completed by 25 February 2014.

Small ILEC	HSCA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
Huron Telecommunications Co-operative Limited	10.32	n/a	8.10	n/a	n/a	n/a
KMTS	10.17	n/a	n/a	n/a	1.91	n/a
Lansdowne Rural Telephone Co. Ltd.	n/a	9.68	n/a	n/a	n/a	n/a
Mornington Communications Co-operative Limited	n/a	11.61	n/a	n/a	n/a	n/a
Nexicom Telecommunications Inc.	9.78	9.14	n/a	n/a	n/a	n/a
Nexicom Telephones Inc.	n/a	9.07	n/a	n/a	n/a	n/a
North Frontenac Telephone Corporation Ltd.	13.79	n/a	n/a	n/a	n/a	n/a
NorthernTel, Limited Partnership	13.85	13.21	11.63	9.40	n/a	n/a
NRTC Communications	9.73	n/a	n/a	n/a	n/a	n/a
Ontera	2.78	n/a	n/a	n/a	n/a	21.10
People's Tel Limited Partnership	10.40	n/a	8.18	n/a	n/a	n/a
Quadro Communications Co-operative Inc.	10.09	n/a	n/a	n/a	n/a	n/a
Roxborough Telephone Company Limited	10.32	n/a	n/a	n/a	n/a	n/a
Tuckersmith Communications Co-operative Limited	10.90	n/a	n/a	n/a	n/a	n/a
Wightman Telecom Ltd.	10.95	n/a	n/a	n/a	n/a	n/a
WTC Communications	n/a	9.09	n/a	n/a	n/a	n/a

Quebec

Small ILEC	HSCA Band (\$)					
	E	F-1	F-2	F-3	F-4	G
CoopTel	10.19	n/a	7.97	n/a	n/a	n/a
La Cie de Téléphone de Courcelles Inc.	10.03	n/a	n/a	n/a	n/a	n/a
La Compagnie de Téléphone de Lambton Inc.	n/a	9.73	n/a	n/a	n/a	n/a
La Compagnie de Téléphone de St-Victor	10.10	n/a	n/a	n/a	n/a	n/a
La Compagnie de Téléphone Upton Inc.	n/a	9.39	n/a	n/a	n/a	n/a
Le Téléphone de St-Éphrem inc.	10.07	n/a	n/a	n/a	n/a	n/a
Sogetel inc.	10.66	10.02	n/a	6.21	n/a	n/a
Sogetel inc. – St-Liboire	10.70	n/a	n/a	n/a	n/a	n/a
Téléphone Guèvremont inc.	n/a	n/a	8.67	n/a	n/a	n/a
Téléphone Milot inc.	10.47	9.83	8.25	n/a	n/a	n/a
Téléphone Milot inc. – Nantes	19.92	n/a	n/a	n/a	n/a	n/a

n/a: not applicable

35. The Commission directs the CFA to adjust the distribution of monthly subsidy to reflect the final subsidy per residential NAS amounts for 2013. The Commission also directs the CFA to distribute the monthly subsidy on an interim basis, effective 1 January 2014.

Subsidy payments for Northwestel

36. The Commission **approves on a final basis**, effective 1 January 2013, and **approves on an interim basis**, effective 1 January 2014, a funding amount of \$21.1 million for Northwestel, which includes its ongoing SIP funding.
37. The Commission directs the CFA to adjust the distribution of monthly subsidy to Northwestel to reflect the final 2013 funding amount. The Commission also directs the CFA to distribute, on a monthly basis, one twelfth of the final 2013 funding amount to Northwestel on an interim basis, effective 1 January 2014.

Excess NCF funds after processing the December 2013 data-month

38. In Telecom Decision 2007-98, the Commission approved revised procedures for the operation of the NCF that resulted in funds in excess of CTCC'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.
39. The Commission notes that CTCC's current requested NCF minimum balance is \$5 million.
40. The Commission considers that any uncalled contribution in excess of the \$5 million minimum balance after processing the December 2013 data-month is not required by the NCF and that the uncalled contribution can be released.
41. Accordingly, the Commission directs the CFA, after it has processed the December 2013 data-month, to release any 2013 uncalled contribution.

Secretary General

Related documents

- *Regulatory framework for the small incumbent local exchange carriers and related matters*, Telecom Regulatory Policy CRTC 2013-160, 28 March 2013
- *Final 2012 revenue-percent charge and related matters*, Telecom Decision CRTC 2012-619, 8 November 2012
- *Northwestel Inc. – Review of regulatory framework*, Telecom Regulatory Policy CRTC 2011-771, 14 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 - Application for a subsidy adjustment for the period 1 January 2002 to 31 December 2007*, Telecom Decision CRTC 2008-66, 23 July 2008
- *TELUS Communications Company - Application for a subsidy adjustment, for its operating territory in Quebec, for the period 1 January 2003 to 31 December 2007*, Telecom Decision CRTC 2008-43, 29 May 2008
- *Saskatchewan Telecommunications - Application for a subsidy adjustment for the period 1 January 2002 to 31 December 2006*, Telecom Decision CRTC 2007-99, 23 October 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
- *MTS Allstream - Application to review and vary part of Telecom Decision CRTC 2005-52*, Telecom Decision CRTC 2006-20, 24 April 2006
- *MTS Allstream's application to review and vary certain decisions relating to its Band F subsidy*, Telecom Decision CRTC 2005-52, 9 September 2005
- *Implementation of competition in the local exchange and local payphone markets in the territories of Société en commandite Télébec and the former TELUS Communications (Québec) Inc.*, Telecom Decision CRTC 2005-4, 31 January 2005
- *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