



## Telecom Order CRTC 2016-394

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Ottawa, 4 October 2016

*File number: Tariff Notice 949*

### **Northwestel Inc. – Introduction of competitive local exchange carrier digital network access service**

*The Commission **approves, with changes,** Northwestel's application to introduce competitive local exchange carrier digital network access service, effective the date of this order.*

#### **Background**

1. Competitive local exchange carrier digital network access (CLEC DNA) service is an interconnection service designed to be used by local competitors in smaller and remote communities where a fibre-based switch interface is not available.
2. CLEC DNA service provides a DS-1 access channel for the purpose of local interconnection at speeds of less than 1.544 megabits per second (Mbps) from a CLEC's point of interconnection within a rate centre or local interconnection region to Northwestel Inc.'s (Northwestel) public switched telephone network switch interface.

#### **Application**

3. The Commission received an application from Northwestel, dated 9 June 2016, in which the company proposed to add item 110 – CLEC DNA service to its Local Network Interconnection Tariff. Northwestel proposed the following rates and service charges, following discussions with the service provider that proposed to lease the facility, SSi Micro Ltd. (SSi):
  - rates equal to 50% of the retail DNA monthly recurring rates;<sup>1</sup> and
  - service charges equal to 100% of the retail DNA service charges,<sup>2</sup> plus any construction and travel costs that may apply due to the customer's request for service (non-recurring charges).

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<sup>1</sup> Northwestel proposed CLEC DNA pricing at 50% of the retail DNA monthly recurring rates found in item 1111 of the company's Private Wire Services – Digital Network Services Tariff. Northwestel's proposal includes contracted and non-contracted monthly rates and service charges. Contract periods range from one to five years under the company's proposed tariff.

<sup>2</sup> The service charge is a one-time upfront cost associated with provisioning the service or making changes to the service. Service charges normally include costs such as service order and installation charges.

4. Northwestel's rationale for the proposed rates for the non-recurring charges was that the costs associated with these charges would be incurred solely to meet customer-specific requirements.
5. Northwestel did not file a cost study, but submitted that its proposed CLEC DNA service rates were based on the shared-cost methodology outlined by the Commission in Telecom Decision 97-8.<sup>3</sup>
6. The Commission received interventions from Iris Technologies, Inc., operating as Iristel Inc. (Iristel), and SSi. The public record of this proceeding, which closed on 19 July 2016, is available on the Commission's website at [www.crtc.gc.ca](http://www.crtc.gc.ca) or by using the file number provided above.

### **Should the Commission approve the proposed rates for the CLEC DNA service?**

7. SSi submitted that, while extensive discussions with Northwestel had taken place regarding the services contained within the company's application, it was surprised that the proposed tariff had been filed with the Commission before the discussions between the companies had concluded. SSi submitted that agreement had not yet been reached on the rates associated with the non-recurring charges.
8. SSi requested that Northwestel's proposed rates and service charges be given interim approval so as to not delay implementation. However, SSi argued that any charges to be paid by it to Northwestel subsequent to the ultimate disposition of the company's application should be adjusted retroactively once final rates are established by the Commission.
9. SSi agreed with Northwestel's proposal to set the rate for the CLEC DNA service at 50% of the retail DNA monthly rate as that would be consistent with the shared cost methodology associated with interconnection facilities set out in Telecom Decision 97-8. However, SSi did not agree with Northwestel's proposal with respect to the non-recurring charges. SSi proposed that the service charges and construction costs should be shared equally and that the travel costs should not be imposed on competitors because these costs are not incremental costs for Northwestel.
10. SSi argued that Northwestel's proposal would be contrary to the principle of sharing costs for local interconnection determined in Telecom Decision 97-8. SSi submitted that the stated policy regarding shared-cost facilities is to reduce barriers to entry and

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<sup>3</sup> In paragraph 27 of Telecom Decision 97-8, the Commission stated that "to minimize a LEC's [local exchange carrier] costs, the Commission mandates the equal sharing of the costs of interconnecting trunks and CCS7 [Common Channel Signalling System] signalling links. The Commission considers that this approach will assist in promoting competitive equity and efficiency of interconnection by reducing or eliminating any incentive to impose on competitors higher-than-necessary costs for interconnection facilities. The Commission expects this approach to be implemented by means of interconnection agreements to be approved by the Commission pursuant to section 29 of the *Telecommunications Act*."

incentives to inflate the costs of interconnection. As such, interconnection costs should be shared equally between the CLEC and incumbent local exchange carrier in order to establish a relationship that benefits both parties and given that the leased facilities being established will carry bill and keep<sup>4</sup> traffic.

11. In support of its position, SSi relied on Telecom Regulatory Policy 2011-771, in which the Commission determined that Northwestel would be responsible for its own costs for implementing facilities-based local competition.
12. Based on the comments from SSi, Northwestel submitted, on 18 July 2016, that it appeared that it no longer had an agreement with SSi regarding the rates proposed in its application. Accordingly, Northwestel requested to withdraw its application.
13. In its submission dated 19 July 2016, after acknowledging that its filing was late, Iristel requested that the Commission order Northwestel to file an updated retail DNA cost study as the current rates for DNA services are over a decade old. In addition, Iristel submitted that the rates approved as a result of this process, which would be based on the updated cost study referenced above, should be shared on a 50/50 approach in order for the rates to be just and reasonable; this would be consistent with the principle of shared cost for interconnection set out in Telecom Decision 97-8.

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

14. As a preliminary matter, the Commission considers that, despite being late, Iristel's submission should be included on the record of the proceeding on the basis that it would not prejudice any party.
15. The Commission **denies** Northwestel's request to withdraw the proposed tariff on the basis that it could unduly delay the introduction of this service. Further, there is a full record that is available to the Commission to rule on the proposed tariff.
16. The primary issue to be addressed in this proceeding is the rating to be applied to the non-recurring charges.
17. With respect to SSi's reliance on the Commission's determination in Telecom Regulatory Policy 2011-771 that Northwestel was to be responsible for its own costs for implementing facilities-based local competition, that determination specifically addressed the regular modernization costs associated with Northwestel's network in the context of start-up and number portability costs, and not construction and travel costs.<sup>5</sup>

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<sup>4</sup> Bill and keep is a process whereby the originating local exchange carrier (LEC) bills its end-customer for the call and keeps the corresponding revenues; the originating LEC does not compensate the terminating LEC for call termination expenses.

<sup>5</sup> The Commission also determined in Telecom Regulatory Policy 2011-771 that Northwestel should be responsible for its own costs related to implementing facilities-based local competition.

18. Further, SSI's reliance on Telecom Decision 97-8 to support its proposal that service charges and construction costs should be shared is misplaced given that, in that decision, the Commission did not provide a specific determination on how to allocate such costs.
19. With respect to any special equipment/facility installed to provide the service to competitors, it is reasonable for Northwestel to charge competitors 100% of the associated equipment/facility charges as they are an incremental cost to Northwestel that is causal to competitors' use of the service.
20. With respect to SSI's proposal that travel costs should not be borne by competitors because they are not incremental costs for Northwestel, Northwestel should synchronize competitors' requirements with its own requirements and not require competitors to pay for Northwestel's travel costs except when the competitor requests service on an urgent basis.
21. An alternative to the rates put forward by the company in its proposed tariff would be for Northwestel to submit a cost study in support of its proposed rates and service charges, as suggested by Iristel. However, the time and expense of a cost study would not be commensurate with the revenues likely to be generated by the service, and would further delay the finalization of the rates.
22. In light of the above, Commission **approves** Northwestel's proposed rates and service charges, as set out in the Appendix to this order.
23. Further, the Commission **directs** Northwestel to issue tariff pages consistent with this order within **10 days** of the date of this order. The tariff pages are to include the following wording:

Any travel costs will apply only in situations where the competitor requests service on an urgent basis.

Secretary General

### **Related documents**

- *Northwestel Inc. – Review of regulatory framework*, Telecom Regulatory Policy CRTC 2011-771, 14 December 2011
- *Local competition*, Telecom Decision CRTC 97-8, 1 May 1997

## Appendix to Telecom Order CRTC 2016-394

### Approved CLEC DNA rates and service charges

#### Northwestel's contracted CLEC DNA rates

Service item	Monthly rate – Minimum contract period					Service charge
	1 year	2 years	3 years	4 years	5 years	
Access channel (each)	\$260.00	\$250.00	\$240.00	\$230.00	\$225.50	\$700.00

#### Northwestel's non-contracted CLEC DNA rates

Service item	Monthly rate	Service charge
Access channel (each)	\$310.00	\$1,400.00