



Telecom Order CRTC 2019-280

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Ottawa, 6 August 2019

Public record: Tariff Notice 1043

Northwestel – Final approval of a tariff application

*The Commission **approves on a final basis** Northwestel's proposed revisions to its Wholesale Connect service.*

Application

1. The Commission received an application from Northwestel, Tariff Notice 1043, dated 12 April 2019, in which the company proposed revisions to its Carrier Access Tariff (CRTC 21480) Item 300, Wholesale Connect service. Northwestel supported its application by providing detailed calculations, including costing assumptions and methodology.
2. In its application, Northwestel proposed to introduce three additional bandwidth speeds¹ – 200 megabits per second (Mbps), 300 Mbps, and 1000 Mbps – in Type A, Type B, and Breakout communities.² Northwestel indicated that its proposal to introduce the 1000 Mbps speed in Type A and Breakout communities comes at the request of one of its customers.
3. Northwestel also proposed
 - to adopt the existing one-time installation charges³ from the most current bandwidth speed option for the proposed new speeds;
 - to update the number of routes per Internet Protocol Private Network, consistent with Telecom Order 2018-229;
 - to delete references that are no longer applicable; and

¹ The Wholesale Connect service has approved rates for approximately 36 speed tiers.

² The Type A band consists of core communities served by fibre transport links (e.g. Whitehorse and Yellowknife). The Type B band consists of communities connecting to Type A communities using fibre transport links (e.g. Fort Providence). The Type C band consists of communities connecting to Type A communities using a combination of high-capacity microwave radio and fibre transport links (e.g. Dawson City). The Breakout band consists of communities outside of Northwestel's operating territory (e.g. High Level).

³ The applicable existing one-time installation charges are i) \$6344 for the Type A 1000 Mbps speed and the Type B 200 Mbps and 300 Mbps speeds, and ii) \$8490 for the Breakout 1000 Mbps speed.

- to make changes to formatting and numbering in line with standard tariff terminology.
4. In Telecom Order 2019-128, the Commission approved Northwestel's application on an interim basis, effective 13 May 2019. The Commission received comments from Iristel Inc. (Iristel) regarding the application.

Positions of parties

5. Northwestel submitted that in Telecom Order 2018-338, the Commission approved its current Wholesale Connect rates (hereafter, the current rates) and the underlying costs, which were based on cost studies adjusted by the Commission, and that it is therefore appropriate to use those costs to establish the new speed tier rates (hereafter, the new rates). Using the current rates and underlying costs, Northwestel was able to calculate the rate for each of the proposed new speed tiers, reflecting the Commission-approved costs. As a result, Northwestel submitted that the proposed new rates are the same as if they had been approved in Telecom Order 2018-338.
6. Iristel submitted that Northwestel's assertion is incorrect, as it assumes that the same bandwidth-driven equipment, with the same capacities and related unit costs that were developed for the lower speed tier in the previous cost studies, is being used to develop the costing and related new rates introduced in the present tariff proceeding.
7. Iristel noted that the unit costs developed in the cost study supporting the current rates, for some bandwidth-driven equipment, relied upon 2012 vintage unit cost data, and those costs were then adjusted to 2017 dollars using the minus 26.4% annual capital unit cost assumption for traffic-driven equipment in the study period. It is unclear whether this bandwidth-driven equipment would be sufficient to address the higher bandwidth requirements of the proposed new speed tiers. Iristel therefore concluded that Northwestel overestimated unit costs in the cost study for the present tariff proceeding. Accordingly, Iristel proposed adjustments to Northwestel's unit costs that result in significantly reduced rates.
8. Northwestel replied that Iristel's criticisms of its proposed methodology and Iristel's proposal on how to revise its estimate of the costs and rates of the proposed new speeds are unsupported and inappropriate, and would not lead to just and reasonable rates. As a result, Northwestel submitted that Iristel's proposal should be denied.
9. Northwestel noted that while Iristel was correct in concluding that the provision of higher-capacity equipment would lead to a reduction in the unit cost, Iristel failed to acknowledge that such a reduction is intended to be captured by the minus 26.4% annual unit cost reduction factor that the Commission mandated for traffic-driven costs. That annual unit cost change was not determined on a company-specific and router-specific basis but on the basis of price trends related to high-end routers with capacities ranging from 1.5 Mbps to 100,000 Mbps. Northwestel assumed a maximum router capacity of 10,000 Mbps in its cost study, which is within the range of 1.5-100,000 Mbps. Accordingly, the cost study supporting the current rates

appropriately captures the reduction in unit cost that would result from introducing newer technology and equipment that can accommodate higher speeds.

Commission's analysis and determinations

10. It is reasonable to use the costing information from a previous cost study, as it was conducted recently and included costs adjusted to 2017 dollars. Requiring Northwestel to file a new cost study is not necessary, and the effort required to conduct a new study would be disproportionate to the potential benefit of having access to the most current cost information. Furthermore, Iristel did not object to the use of the previous cost study.
11. The Commission agrees with Northwestel that the annual unit cost reductions included in the cost study supporting the current rates appropriately capture the reduction in unit costs that would result from introducing new technology and equipment to accommodate higher speeds. Accordingly, no further adjustments are necessary.
12. The Commission has also reviewed the methodology, assumptions, and detailed calculations used to estimate the revised costs and rates for the proposed new bandwidth speeds, and finds them reasonable and consistent with the determinations made in Telecom Order 2018-338.
13. In light of the above, the Commission **approves on a final basis** all the proposals in Northwestel's application, Tariff Notice 1043, effective the date of this order. Northwestel is to issue revised tariff pages to reflect the determinations in this order by 16 August 2019.

Secretary General

Related documents

- *Northwestel Inc. – Interim approval of a tariff application*, Telecom Order CRTC 2019-128, 3 May 2019
- *Northwestel Inc. – Wholesale Connect service – Final rates*, Telecom Order CRTC 2018-338, 31 August 2018
- *Northwestel Inc. – Revisions to V-Connect service*, Telecom Order CRTC 2018-229, 6 July 2018