



Telecom Regulatory Policy CRTC 2019-69

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Reference: 2018-339

Ottawa, 11 March 2019

Public record: 1011-NOC2018-0339

Application of the Commission's determinations set out in Telecom Decision 2008-14 to Northwestel Inc.

The Commission finds that all of the determinations set out in Telecom Decision 2008-14 will apply to Northwestel, and sets out the timelines for their implementation.

Background

1. In Telecom Decision 2008-14, the Commission, among other things, rendered its determinations with respect to the appropriate expense inclusions and the associated approaches and methodologies to be used to estimate causal expenses in regulatory economic studies. Telecom Decision 2008-14 applied to the major incumbent local exchange carriers (ILECs) at the time,¹ as well as the cable companies.² The Commission also directed that each ILEC file for approval certain costing methodologies documented in their Regulatory Economic Studies Manual (the Manual).
2. The issues set out in Telecom Decision 2008-14 addressed the following:
 - the appropriate expense inclusions in regulatory economic studies and whether they should be reflected consistently across companies;
 - the approaches for estimating expenses to be included in regulatory economic studies and adjustments to expenses derived from companies' system of accounts;

¹ Telecom Decision 2008-14 applied to the following major ILECs: Bell Aliant Regional Communications, Limited Partnership; Bell Canada; MTS Allstream Inc.; Saskatchewan Telecommunications; and TELUS Communications Company. As part of that decision, Télébec, Limited Partnership (Télébec) was directed to show cause why the determinations set out in the decision should not apply to it. Subsequent to the release of Telecom Decision 2008-14, Télébec adopted the determinations set out in that decision and developed its own Regulatory Economic Studies Manual.

² The cable companies that participated in the proceeding leading to Telecom Decision 2008-14 were Cogeco Cable Inc., Rogers Communications Inc., Shaw Communications Inc., and Videotron Ltd. While they did not have Regulatory Economic Studies Manuals, they had applied Phase II costing with respect to their third-party Internet access service, consistent with Telecom Decision 99-8.

- the appropriate specific methodologies associated with the two general approaches to estimating causal expenses and methodological adjustments necessary to ensure that causal expenses are reflected consistently;
- whether asset lives should be updated, and, if so, what asset lives should be used in regulatory economic studies;
- the cost of equity, cost of debt, and debt ratios to be used in the cable companies' regulatory economic studies; and
- follow-up actions required with respect to regulatory economic studies manuals.

Telecom Notice of Consultation 2018-339

3. In the proceeding leading to Telecom Order 2018-338, Northwestel Inc. (Northwestel) filed cost studies in support of its Wholesale Connect service rates using different costing approaches and methodologies. In particular, the company used a variable common cost factor (VCCF)³ to estimate variable expenses, noting that the Commission's determinations set out in Telecom Decision 2008-14 did not apply to it.
4. In Telecom Order 2018-338, the Commission considered that it was appropriate for Northwestel to use a VCCF to estimate the company's variable common expenses in the context of its tariff filing (Tariff Notices 976 and 976A), recognizing that Northwestel was not a party to the proceeding that culminated with the issuance of Telecom Decision 2008-14.
5. Concurrent with the issuance of Telecom Order 2018-338, the Commission issued Telecom Notice of Consultation 2018-339, in which it directed Northwestel to show cause why all of the Commission's determinations in Telecom Decision 2008-14 should not apply to it.
6. The Commission received an intervention from SSi Micro Ltd. (SSi Micro).

³ Variable common costs (VCCs) are a residual category of causal costs that are not reflected as direct or indirect costs. Prior to the determinations set out in Telecom Decision 2008-14, all these VCCs were not estimated individually but estimated on an overall basis using a VCCF. This approach does not provide accurate cost estimates. In Telecom Decision 2008-14, the Commission determined that these VCCs should be estimated on an individual basis based on their causality to the service being evaluated in order to improve the accuracy of cost estimation. For example, ongoing marketing and sales activity costs should be included in every service evaluated but should be included only in those services that require advertisement.

Should the Commission's determinations set out in Telecom Decision 2008-14 apply to Northwestel?

Northwestel

7. Northwestel agreed that there should be consistency between the costing methodologies used by ILECs in regulatory economic studies and that the cost inputs to those studies should reflect company-specific cost data to the extent feasible, as recognized in Telecom Decision 2008-14. Northwestel indicated that it already follows the general costing methodologies set out in the ILECs' Manuals in many respects.
8. Northwestel acknowledged that it would be helpful to document the costing methodologies, procedures, and inputs that should be used in its regulatory economic studies. However, the company expressed the view that it would be appropriate to delay the development of a Northwestel-specific Costing Manual (Northwestel Manual) until the completion of the Commission's planned review in 2019 of the approach to setting wholesale rates (the 2019 Wholesale Costing Review).⁴ Northwestel supported its request by indicating that it would not be prudent for it to use extensive time and resources to develop a Northwestel Manual, in light of the Commission's planned 2019 Wholesale Costing Review. Further, Northwestel indicated that a delay would allow it to better develop updated cost factors and other inputs for use in its regulatory economic studies, and to document the development of those inputs for inclusion in a Northwestel Manual and related company-specific appendices.
9. Northwestel agreed that once the Commission's 2019 Wholesale Costing Review is completed, the determinations that are issued as an outcome of that review could apply to Northwestel as well, where appropriate. At that time, Northwestel would be in a position to develop its Manual and the related company-specific appendices, taking into account the Telecom Decision 2008-14 determinations and any new costing-related directives that the Commission will issue as a result of the 2019 Wholesale Costing Review.
10. Northwestel indicated that, if the Commission does not agree that the development of a Northwestel Manual should await the outcome of the 2019 Wholesale Costing Review, on the basis of Northwestel's initial review of Telecom Decision 2008-14, it is willing to adopt all the costing-related determinations set out in that decision except the elimination of the VCCF from regulatory economic studies. In support of its position on the VCCF, the company argued that it does not have an activity-based costing system nor sufficient resources to be able to eliminate the use of the VCCF.
11. Northwestel submitted that, if the Commission decides that the company should provide a Northwestel Manual along with appendices similar to those of the large

⁴ *CRTC Forecast 2019-2020 – Review of the CRTC's approach to setting wholesale service rates*

ILECs, it will undertake a review to update the VCCF for inclusion in future regulatory economic studies.

12. Northwestel indicated that once it actually undertakes a comprehensive review of the other ILEC Manuals and reassesses both Telecom Decision 2008-14 and any related directives that may have been issued at a later date, it is possible that Northwestel will discover that certain directives are contrary to its practices. If this arises, Northwestel reserved the right to identify this to the Commission at the time and to provide justification as to why specific rules should not apply to Northwestel or, alternatively, recommend appropriate modifications.
13. Northwestel supported the preparation of a Northwestel Manual, including the supporting appendices, subject to the following conditions:
 - the level of detail in any Northwestel Manual and related appendices must be commensurate with the resources that are available to Northwestel and must reflect the unique company-specific databases and data sources that are available to Northwestel;
 - Northwestel will require a minimum of 12 months to develop the initial draft of such a manual. The company anticipates that some of the appendices, such as those that provide cost factors or corporate average costs, will require more time to prepare because the company will be required to review each appendix associated with the Manuals of other ILECs to determine the appropriateness of developing a similar appendix that would contain inputs for use in Northwestel regulatory economic studies; and
 - Northwestel will not be able to provide the same level of information in its Manual that some of the large ILECs report in their Manuals. Doing so would be a very costly and resource intensive endeavour and the cost and effort to develop and maintain such systems, for the sole purpose of developing extensive unit costs for regulatory economic studies, would not be commensurate with the benefit of such an exercise.

SSi Micro

14. SSi Micro submitted that Northwestel has not demonstrated why the determinations set out in Telecom Decision 2008-14 should not apply to it, arguing that the indeterminate delay being sought by Northwestel is unwarranted and inappropriate.
15. SSi Micro argued that it is not appropriate for Northwestel to use a VCCF, noting that the Commission, in Telecom Decision 2008-14, provided ILECs with specific directions concerning which costs they must treat as fixed common costs, and which costs they could include as variable common costs. The Commission additionally provided the ILECs with specific directions concerning how they should attribute variable costs in certain categories (Maintenance and Provisioning; Information Services and Information Technology (IS/IT); Marketing and Sales; Network

Operations; and Network Design and Development) to the individual services that are the subject of a regulatory economic study.

16. SSi Micro submitted that a number of Northwestel's assertions were unreasonable, including the claim that it must review each appendix associated with the Manuals of other ILECs in order to develop a similar appendix for its Manual. SSi Micro also questioned the need to examine the Manuals and appendices of ILECs other than Bell Canada for guidance, given Northwestel's corporate ownership by Bell Canada.
17. SSi Micro noted that the Commission had made an important determination concerning the principle of consistency when it concluded in Telecom Decision 2008-14 that a fundamental regulatory requirement is for expense inclusions to be consistent across ILECs on the basis of prospective incremental costing.⁵ Northwestel has not demonstrated why this principle of consistency should not apply to it.

Commission's analysis and determinations

VCCF

18. As part of any process of setting just and reasonable rates for Northwestel, elimination of the use of the VCCF is necessary in order to improve accuracy and introduce consistency among all incumbents in estimating variable common costs.
19. Northwestel's rationale for not eliminating the use of the VCCF is that (i) the company does not have activity-based costing systems, and (ii) its removal would be very resource-intensive and not cost justified. However, the Commission notes that a number of ILECs do not have activity-based costing systems and yet these companies have been able to eliminate the use of VCCF in regulatory economic studies in accordance with the determinations set out in Telecom Decision 2008-14.
20. All ILECs have been able to eliminate the use of the VCCF and no company has complained that the process of eliminating the VCCF is very resource intensive.
21. Based on the above, the Commission finds that Northwestel's rationale for not eliminating the use of the VCCF and the proposed perpetuation of its VCCF exception is not substantiated.

Northwestel Manual

22. In addition to the request to delay the development of its Manual until the completion of the planned 2019 Wholesale Costing Review, Northwestel estimated that it will require a minimum of 12 months to develop an initial draft of its Manual and anticipates that some of the appendices, such as those that provide cost factors or corporate average costs, will require more time to prepare.

⁵ See paragraph 27 of Telecom Decision 2008-14.

23. With respect to the components of the ILECs' Manuals that are common to all Manuals, the Commission considers that it would be straightforward for Northwestel to adopt these components of the Manuals; as such, this activity should not require much time or effort.
24. Concerning the development of company-specific appendices for Northwestel, the Commission recognizes that this will take time, noting that the ILECs' Manuals have 20 company-specific appendices. However, some of these appendices are not applicable to Northwestel, and some should require minimal work to complete. The Commission considers that the company would need less than 12 months to develop company-specific appendices on the basis of the following:
- Northwestel has confirmed that it closely follows the determinations in Telecom Decision 2008-14 and the general costing methodologies set out in the ILECs' Manuals. As such, it should not be difficult for the company to document its existing costing methodologies in the appropriate appendices.
 - Northwestel is not expected to develop the costing data in the same level of detail as done by the larger ILECs, but to identify and document the methodology and assumptions used to estimate Northwestel's costing data that it uses in regulatory economic studies.
 - Northwestel indicated that it has to review each appendix associated with the Manuals of other ILECs to determine the appropriateness of developing a similar appendix that would contain inputs for use in Northwestel regulatory economic studies. This activity is not necessary given Northwestel's corporate ownership by Bell Canada. In the Commission's view, it would be prudent for Northwestel to rely on the Bell Canada Manual for direction and consistency rather than the other large ILECs' Manuals, thus saving considerable time and effort.
 - Northwestel can seek assistance and guidance from Commission staff, as needed, to help develop its Manual, as have the other ILECs in developing their respective Manuals.

Conclusions

25. With the exception of the elimination of the use of the VCCF and the development of Northwestel's Manual, Northwestel did not comply with the Commission directive to show cause why all the determinations in Telecom Decision 2008-14 should not apply to it. Although the company reserved the right to conduct the review and make the submissions being asked of it in this proceeding at a future time, the Commission considers that such an approach would cause unwarranted delay. Accordingly, the Commission **directs** that all of the determinations set out in Telecom Decision 2008-14, with the exception of the elimination of the use of the VCCF and the development of Northwestel's Manual, are to apply to Northwestel as of **the date of this decision**.

26. With respect to the VCCF, taking into consideration that Northwestel has to identify natural and practical drivers for attribution of variable costs, the Commission finds that it would be reasonable to allow Northwestel some time to eliminate the use of the VCCF in its regulatory economic studies filed in support of tariff filings. Based on a consideration of the record of this proceeding, the Commission **directs** Northwestel to eliminate the use of the VCCF in regulatory economic studies within **four months** from the date of this decision.
27. Northwestel's request to delay the development of its Manual until the completion of the planned 2019 Wholesale Costing Review is not reasonable, given that the 2019 Wholesale Costing Review has not yet been initiated and it will take some time to decide the appropriate costing methodologies that will ensure that the wholesale rates are just and reasonable. In light of all this uncertainty, allowing an indeterminate delay is not prudent in ensuring that rates are just and reasonable.
28. Northwestel's estimate of 12 months to develop the first draft of the Manual and additional time for certain company-specific appendices is overestimated. Taking into consideration that Northwestel has limited resources, the Commission is of the view that it would be reasonable to allow Northwestel 12 months from the date of this decision to develop the Manual and all of its company-specific appendices. Accordingly, the Commission **directs** Northwestel to develop its Manual and file for the Commission's approval the company-specific appendices identified in Appendix 3 of Telecom Decision 2008-14 within **12 months** from the date of this decision.

Secretary General

Related documents

- *Show cause proceeding and call for comments – Applicability of the Commission's determinations set out in Telecom Decision 2008-14 to Northwestel Inc.*, Telecom Notice of Consultation CRTC 2018-339, 31 August 2018
- *Northwestel Inc. – Wholesale Connect service – Final rates*, Telecom Order CRTC 2018-338, 31 August 2018
- *Review of certain Phase II costing issues*, Telecom Decision CRTC 2008-14, 21 February 2008; as amended by Telecom Decision CRTC 2008-14-1, 11 April 2008
- *Regulation under the Telecommunications Act of cable carriers' access services*, Telecom Decision CRTC 99-8, 6 July 1999