Canadian Radio-television and Telecommunications Commission | Conseil de la radiodiffusion et des télécommunications canadiennes

Telecom Decision CRTC 2004-77

Ottawa, 18 November 2004

Société en commandite Télébec – Follow-up to Decision 2002-43 – Service improvement plan

Reference: 8638-C12-69/02 and Tariff Notice 294

In this Decision, the Commission ***approves with changes*** *Société en commandite Télébec's (Télébec's) service improvement plan (SIP), and* ***approves on an interim basis*** *high-cost serving area SIP funding for the company of $627,000 per year, and an exogenous factor adjustment of $483,500 to allow Télébec to recover its non-high-cost serving area SIP costs. The Commission also directs Télébec to provide toll-free Internet access to the six localities in its territory that currently do not have such access and* ***approves on an interim basis*** *$200,000 per year in associated funding.*

Application

1. The Commission received an application dated 31 October 2002 by Société en commandite Télébec (Télébec) proposing a service improvement plan (SIP) pursuant to the Commission's directives in *Implementation of price regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002 (Decision 2002-43).

2. The Commission also received a tariff application dated 31 March 2003 by Télébec to introduce General Tariff item 4.4.1, 2003-2006 Service Improvement Plan (SIP), and General Tariff item 4.4.2, Instalment Payment Plan (IPP). Télébec stated that it was filing these tariff revisions pursuant to the Commission's determinations in Decision 2002-43 related to unserved residential premises in the company's SIP.

Background

3. In *Implementation of competition in the local exchange and local payphone markets in the territories of Télébec and TELUS (Québec)*, Public Notice CRTC 2001-69, 14 June 2001 (Public Notice 2001-69)[1], the Commission stated that it would review, among other things, the rate band structure, the definition and the identification of high-cost serving areas, the local loop rates per band and associated costs for Télébec and TELUS Québec.

4. In Decision 2002-43, the Commission directed Télébec to file a SIP and start a project in a locality if the maximum average cost per premises did not exceed $25,000, for both permanent and seasonal residences, assuming a 100 percent take rate, and if at least one customer

[1] A decision has not been issued in the proceeding initiated by Public Notice 2001-69.

requested service and was willing to contribute $1,000 towards the cost of the service improvement. The Commission further directed Télébec to start the SIP roll-out in localities with the highest demand, and to provide a tracking report by 31 March of each year. Télébec was further directed to file tariff pages implementing the Commission's determinations.

5. The Commission directed Télébec to identify the dwellings included in the SIP and the capital expenditures by year over the price regulation period, segregated between high-cost serving areas (HCSAs) and non-high-cost serving areas (non-HCSAs).

6. The Commission also directed Télébec to provide the Phase II costs for its SIP in HCSAs and non-HCSAs. The Commission determined that Télébec's SIP in HCSAs was to be funded by the National Contribution Fund (NCF), by adding its Phase II SIP costs in HCSAs used to calculate the total subsidy requirement (TSR). The Commission also determined that funds that had accumulated in the deferral account could be used to compensate the company for expenditures associated with its SIP in non-HCSAs.

7. In Decision 2002-43, the Commission determined that, until a decision was issued in the proceeding initiated by Public Notice 2001-69, Télébec's TSR should be calculated using the national proxy Phase II costs, the associated rate band structure, and Télébec's average going-in residential local service rates, including the implicit optional local service revenue of $5 per month per network access service (NAS) in each of the HCSA rate bands eligible for subsidy.

8. In that Decision, the Commission noted Télébec's statement that customers in some areas of the company's serving territory did not have toll-free Internet access available to them, and it directed Télébec to monitor this situation. The Commission stated that if there were no Internet service providers (ISPs) providing toll-free Internet access to these locations by the second quarter of 2003, it would consider whether Télébec's obligation to serve included an obligation to provide toll-free access to the Internet.

9. The Commission directed Télébec to file tariff pages to introduce a $1,000 instalment payment plan (small IPP), an IPP for construction charges from $1,001 to $10,000 (medium IPP), and an IPP for construction charges of greater than $10,000 (large IPP) per customer premises.

Process

10. The Commission received comments dated 9 April 2003 from l'Union des consommateurs (l'Union) and reply comments dated 25 April 2003 from Télébec.

11. On 29 January, 8 April, and 17 June 2004, the Commission addressed interrogatories to Télébec, to which the company filed responses on 19 March, 19 April, and 30 June 2004, respectively.

12. On 26 March 2004, Télébec filed a report with the Commission with respect to localities that did not have toll-free access to the Internet. On 31 March 2004, Télébec filed a tracking report on the progress of its SIP pursuant to Decision 2002-43.

Service Improvement Plan

Commission's analysis and determinations

13. The Commission notes that Télébec's SIP is based on the capital cost criteria and take rates established in Decision 2002-43, and a four-year roll-out plan commencing in 2003. Accordingly, the Commission finds that Télébec's SIP and the proposed tariff revisions comply with the Commission's directives in Decision 2002-43.

14. The Commission also finds that the proposed tariff revisions related to the SIP reflect its determinations in Decision 2002-43.

Funding of the Service Improvement Plan

15. Télébec estimated its annual SIP funding requirement to be $803,000 for HCSAs and $445,000 for non-HCSAs, including a 15 percent mark-up for the recovery of fixed and common costs. Télébec proposed that its annual SIP Phase II costs of $803,000 in HCSAs should be funded by the NCF by adding its Phase II costs to its TSR calculation.

16. Télébec stated that it expected that it would have no funds in its deferral account during the price cap period. Télébec submitted that if, at the conclusion of the proceeding initiated by Public Notice 2001-69, the Commission determined that some of its exchanges were to be classified as non-HCSAs, the company would have no choice but to raise rates to receive compensation for its non-HCSA SIP costs.

Commission's analysis and determinations

SIP costing issues

17. The Commission notes that, consistent with Decision 2002-43, Télébec provided its SIP Phase II costs and associated funding requirement for HCSAs and non-HCSAs based on the banding structure approved by the Commission in *Restructured bands, revised loop rates and related* issues, Decision CRTC 2001-238, 27 April 2001 (Decision 2001-238).

18. The Commission has reviewed Télébec's Phase II cost studies and has concerns with respect to the company's estimated maintenance costs. Specifically, the Commission is concerned that Télébec's present worth of maintenance, when expressed as a percentage of capital, was substantially higher than the maintenance estimates of the other incumbent local exchange carriers (ILECs), when similarly expressed as a percentage of capital. The Commission notes that, in an interrogatory response, Télébec indicated that, to determine the annual maintenance costs for its SIP, it had applied its maintenance factor for outside plant to its average capital expenditures in each band.

19. The Commission notes that the most significant component of Télébec's SIP spending is related to transmission and central office equipment, which represents more than 75 percent of Télébec's SIP capital expenditures. In the Commission's view, it is not appropriate for the

company to apply outside plant maintenance factors to capital expenditures which, to a large extent, are related to central office and transmission equipment. The Commission notes that there are significant differences in the failure rates and maintenance activities between these two classes of plant.

20. The Commission notes that, in response to an interrogatory asking Télébec to substantiate its maintenance costs, the company stated that the factors used to estimate its maintenance costs for this SIP proceeding were developed from the studies submitted in the proceeding initiated by Public Notice 2001-69. In that proceeding, Télébec's maintenance estimates for its loops and primary exchange services were based on the company's corporate maintenance to capital ratio.

21. The Commission notes that the company's SIP expenditures are related to the provision of primary exchange service. Accordingly, the Commission concludes that Télébec's annual maintenance costs for its SIP should also have been estimated by using the company's corporate maintenance to capital ratio rather than the average maintenance factor for outside plant used by the company in its SIP.

HCSA SIP funding

22. In the circumstances, the Commission has determined that Télébec's proposed annual revenue requirement for SIP funding in HCSAs should be reduced by $176,000, resulting in an annual funding requirement of $627,000. Accordingly, Télébec should receive from the NCF monthly amounts equal to one-twelfth of $627,000, retroactive to 1 January 2003. The Commission notes that until a decision is issued in the proceeding initiated by Public Notice 2001-69, Télébec's SIP funding will have to remain interim.

Non-HCSA SIP funding

23. In Decision 2002-43, the Commission determined that funding for the SIP in non-HCSAs should come from the deferral account established in that Decision. The Commission also determined that Télébec's transitional subsidy of $9.5 million would have to be amortized before the revenue shedding, resulting from the inflation less productivity pricing constraint applicable to the Residential Local Services in non-HCSAs basket, would accumulate in the deferral account.

24. Based on the adjustment made to the company's maintenance estimates above, the Commission has determined that Télébec's estimated SIP annual revenue requirement in non-HCSAs should be reduced by $80,000 for non-HCSAs, resulting in an adjusted annual funding requirement of $365,000 for non-HCSAs.

25. The Commission estimates that Télébec will have a cumulative non-HCSA funding shortfall in the order of $967,000 by the end of the current four-year price cap period. The Commission considers that the company should be allowed to recover this shortfall over two years, resulting in an annual funding requirement of $483,500 per year.

26. The Commission considers that, on an interim basis, an exogenous factor of $483,500 on the Residential Local Services in non-HCSAs basket would give Télébec the flexibility to recover its SIP costs in non-HCSAs.

27. The Commission notes that, in *Télébec – Interim rates for the 2004 annual price cap period*, Telecom Decision CRTC 2004-53, 30 July 2004, all of the company's capped rates were made interim effective 1 August 2004, pending the Commission's determination on rate proposals to be filed by Télébec. The Commission notes that this decision will allow Télébec to make rate adjustments over the full year to fund the implementation of its SIP.

Toll-free Internet access

28. On 26 March 2004, Télébec filed a report with the Commission that indicated that there were 1,980 NAS in the six localities that did not have toll-free access to the Internet. Télébec identified the six localities as Clova, Laforge, Notre-Dame-de-Stanbridge, Parc-de-la-Vérendrye, Parent, and Schefferville. The company estimated that the capital expenditures to provide toll-free Internet access would not exceed $300,000, and that the associated annual operating expenses would be $111,000. The company stated that a large portion of its annual operating expenses would be for leasing satellite circuits.

29. The company noted that all six localities were situated in HCSAs and estimated that $200,000[2] would be required annually to fund this project.

Commission's analysis and determinations

30. The Commission notes that the amount of capital expenditures per customer estimated by Télébec to provide toll-free Internet access to these six localities is comparable to the amount of expenditures approved for Northwestel Inc., where the average capital cost per subscriber was $586 at a take rate of 30 percent.[3] Using the same take rate, the Commission estimates that the capital cost would be approximately $500 per NAS for the six communities in Télébec's serving territory. The Commission finds that the capital expenditures and the proposed amount of funding from the NCF are reasonable on an interim basis. However, to determine the amount of funding on a final basis, the Commission directs Télébec to file a detailed Phase II cost study in support of the requested NCF funding, and to provide the planned completion date for the project. In addition, the Commission notes that the amount of final funding may need to be revised following the issuance of a decision in the proceeding initiated by Public Notice 2001-69. Accordingly, the Commission considers that Télébec should provide toll-free Internet access to the following localities: Clova, Laforge, Notre-Dame-de-Stanbridge, Parc-de-la-Vérendrye, Parent, and Schefferville.

Instalment payment plans

31. Télébec proposed a small IPP that included a customer deposit of $200, with the balance to be paid in 11 equal monthly payments. For the medium IPP, the company proposed a customer deposit of 20 percent, an instalment period of up to 36 months, and interest at the company's

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2 Includes operating expenses, finance charges, capital cost allowance, and income taxes.

3 *Northwestel Inc. – Initial annual review of supplemental funding*, Telecom Decision CRTC 2003-39, 20 June 2003.

cost of capital on the unpaid balance. Regarding the large IPP, Télébec proposed a customer deposit of 20 percent, an instalment period of up to 60 months, and interest on any unpaid balance at the company's cost of capital. Télébec also proposed that the customer be required to meet certain credit criteria and sign the Basic Service Construction Agreement.

32. L'Union submitted that the Commission should direct Télébec to remove the requirement for the customer to commit to a basic service payment for five years.

33. Télébec replied that the tariff item regarding a five-year payment commitment, which the l'Union had referred to, was not part of its tariff proposal and that the item had been approved by the Commission in Telecom Order CRTC 94-741, on 5 July 1994. The company stated that the provisions of this tariff item had not been contested by its customers.

Commission's analysis and determinations

34. The Commission notes that matters related to IPPs will be addressed in a subsequent decision.

35. In regard to l'Union's request that the Commission direct Télébec to remove the requirement for the customer to commit to the payment of basic service for five years, the Commission notes that the provisions of item 4.3.2 (5) of Télébec's General Tariff deal with network extensions, and would not apply to SIP customers.

36. In light of the foregoing, the Commission:

a) **approves** Télébec's $10 million SIP with a 2003-2006 roll-out;

b) **approves, on an interim basis**, for Télébec's HCSA SIP, annual funding of $627,000 from the NCF, retroactive to 1 January 2003, pending the issuance of a decision in the Public Notice 2001-69 proceeding;

c) **approves, on an interim basis,** an exogenous factor adjustment of $483,500, applicable to the Residential Local Services in non-HCSAs basket, for the recovery of non-HCSAs SIP costs, effective 1 August 2004, pending the issuance of a decision in the Public Notice 2001-69 proceeding;

d) directs the Central Fund Administrator to distribute to Télébec, on an interim basis, monthly HCSA SIP funding amounts equal to one-twelfth of $627,000, retroactive to 1 January 2003;

e) directs Télébec to provide toll-free Internet access to the localities of Clova, Laforge, Notre-Dame-de-Stanbridge, Parc-de-la-Vérendrye, Parent, and Schefferville;

f) directs Télébec to file a detailed Phase II cost study in support of the requested NCF funding for providing toll-free Internet access to these locations, and provide the planned completion date of the project by **17 January 2005**;

g) **approves, on an interim basis**, an additional annual funding requirement of $200,000 from the NCF, for providing toll-free Internet access to these locations;

h) directs the Central Fund Administrator to distribute to Télébec, on an interim basis, monthly HCSA SIP funding amounts equal to one-twelfth of $200,000, effective 1 January 2005; and

i) directs Télébec to issue, forthwith, revised tariff pages, to clarify that there is no five-year subscription commitment for customers who receive service pursuant to its SIP.

Secretary General