



Telecom Order CRTC 2004-143

Ottawa, 3 May 2004

Bell Canada

Reference: Tariff Notice 805 (National Services Tariff)

Customer Specific Arrangement

1. The Commission received an application by Bell Canada, dated 22 December 2003, and amended on 4 February 2004 (the application), pursuant to *Review of Bell Canada's customer-specific arrangements filed pursuant to Telecom Decision 2002-76*, Telecom Decision CRTC 2003-63, 23 September 2003 (Decision 2003-63), to introduce National Services Tariff Item 722.11 (CRTC 7400-E) for services provided under a Customer Specific Arrangement (CSA), Contract Number P1-86.
2. Bell Canada stated that the application reflected a new business arrangement for Contract Number P1-86, which replaced the proposed tariff for this customer filed as part of its original Tariff Notice 756 (TN 756), National Services Tariff Item Number 722.11.
3. The Commission received no specific comments with respect to the application.

Background

4. In Decision 2003-63, the Commission found that Bell Canada had understated the Phase II cost component of the imputation tests associated with CSAs filed pursuant to its direction in *Regulatory safeguards with respect to incumbent affiliates, bundling by Bell Canada and related matters*, Telecom Decision CRTC 2002-76, 12 December 2002 (Decision 2002-76), by at least 20%. This understatement of the Phase II cost component of the imputation test resulted from inappropriate costing methodologies such as (i) the use of fill at relief factors instead of average working fill factors which underestimate the capital costs for shared facilities, (ii) the exclusion of certain CSA related costs elements such as portfolio and advertising expenses, and (iii) the use of corporate-average, instead of contract-specific, data for certain CSA operating expenses, such as sales management expenses. The Commission, therefore, in evaluating the imputation tests filed in support of the CSAs, marked up Bell Canada's Phase II costs in each instance by 25%¹ and compared the resulting adjusted imputation test costs with the reported contract revenues provided. The Commission notes that the Phase II cost component referenced above refers to Bell Canada's imputation test cost category 'Phase II Costs of Non-GT Components' as filed in its CSA applications.
5. The Commission, in Decision 2003-63, identified five CSAs where the reported revenues did not recover the adjusted costs. Bell Canada was directed, with respect to each of the five CSAs, to either file proposed tariffs which reflected increased monthly revenues such that the revised CSA recovered sufficient revenues to satisfy the imputation test using the Commission's adjusted costs

¹ In order to correct a value that has been understated by 20%, a factor of 25% must be applied to the understated value.

on a going-forward basis or to discontinue provision of service under the contract in question. With respect to the CSA that is the subject of this application, the Commission found that Bell Canada would need to increase the monthly revenues received by \$195,000 in order to satisfy the imputation test using the Commission's adjusted costs.

Commission analysis and determination

6. The Commission notes that, pursuant to its existing regulatory framework, the onus is on Bell Canada seeking approval of a CSA, to demonstrate that its proposed tariff meets the imputation test. The Commission further notes that, in this particular case, the onus is on Bell Canada to also demonstrate that it has properly applied the Commission's costing determinations set out in Decision 2003-63.
7. As noted above, in Decision 2003-63, the Commission determined that, as a result of a number of costing methodology irregularities, Bell Canada had understated the Phase II cost component of the imputation test by at least 20%, and hence this Phase II cost component needed to be increased by 25%. However, the Commission notes that, on an annualized basis, the updated Phase II cost estimate provided in the application was reduced by approximately 2% compared to that provided by Bell Canada in its original imputation test submitted under TN 756.
8. The Commission further notes that, despite the fact that it bears the onus to demonstrate its compliance with the Commission's costing determinations set out in Decision 2003-63, Bell Canada has not provided an explanation or justification why the updated Phase II cost component of the imputation test associated with the application had been reduced rather than increased to reflect the corrected costing methodologies. In addition, the Commission notes other costing irregularities in the imputation test. For example, the Expenses Causal to Service cost element was eliminated in the updated imputation test associated with the application, compared to the company's original filing under TN 756. Bell Canada provided no explanation for eliminating this cost element in its application. Accordingly, the Commission considers it appropriate to adjust the imputation test costs associated with the application, by replacing the annualized Phase II cost estimate included in the application with that provided under TN 756 and adjusted upwards by 25%.
9. In addition to the changes proposed to the Phase II cost component, the Commission notes that the imputation test filed under the application, expressed on an annualized basis, included increases in the two non-Phase II cost elements, namely, 'Bell GT Components at Tariff' and 'Third-Party' costs, compared to those filed under TN 756. Bell Canada provided no explanation for these cost increases. Because of the increase to these non-Phase II cost components, when the imputation test associated with the application is adjusted by replacing the Phase II cost component with the TN 756 Phase II costs increased by 25%, a minimum monthly increase in revenue of \$211,000 is required for this CSA to pass the adjusted imputation test.
10. In light of the above, the Commission **denies** Bell Canada's application.
11. The Commission notes that it has been well over a year since it directed Bell Canada in Decision 2002-76 to file tariffs for CSAs of this type in order to bring itself into regulatory compliance. With regard to this particular CSA, the Commission subsequently determined in

Decision 2003-63 that Bell Canada's original proposed tariff for Contract Number P1-86 was non-compliant and, as noted above, the Commission considers the current tariff application to be non-compliant. Accordingly, the Commission directs Bell Canada to file, within 45 days of the date of this order, an application for a new tariff for this CSA that passes the above-adjusted imputation test for the services provided by this application, by increasing the monthly revenues by at least \$211,000. If any changes are made to the services proposed in the new tariff for this CSA compared to the current application, the additional demand/services are to be costed in a manner that is consistent with Decision 2003-63.

12. If the Commission does not receive a tariff application from Bell Canada within the prescribed time frame or if the Commission determines upon review of Bell Canada's revised tariff application that Bell Canada has again failed to properly apply the above costing determination, the Commission will register this decision with the Federal Court pursuant to subsection 63(1) of the *Telecommunications Act*.
13. The Commission further directs that for any contract re-negotiations, Bell Canada must provide imputation tests that fully explain the changes made to the revised contracts, associated services, demand and costs. The Commission notes that the imputation test associated with the application used a study start date that is different from the effective date shown in the proposed tariff pages. The Commission therefore expects that for any CSAs filed in the future, the supporting study start-date of the imputation test is to coincide with the effective date of the proposed tariff.

Secretary General

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