



Telecom Decision CRTC 2004-73

Ottawa, 9 November 2004

Modification to the affordability monitoring program for residential telephone service in Canada

Reference: 8665-A53-200403345

*In this Decision, the Commission **approves** the request made by Bell Canada, on behalf of itself, Aliant Telecom Inc., MTS Communications Inc. (now known as MTS Allstream Inc.¹), Northwestel Inc., TELUS Communications Inc., and TELUS Communications (Québec) Inc.² (the Companies), to reduce the frequency of (a) sponsoring the Statistics Canada Residential Telephone Service Survey and (b) reporting these survey results to the Commission from twice a year to once a year. Further, the Commission **denies** the Public Interest Advocacy Centre's request that any cost savings due to a decrease in the frequency of reporting under the affordability monitoring program be transferred to the Companies' deferral accounts.*

1. On 5 April 2004, Bell Canada, on behalf of itself, Aliant Telecom Inc., MTS Communications Inc.,³ Northwestel Inc. (Northwestel), TELUS Communications Inc. (TCI), and TELUS Communications (Québec) Inc.⁴ (collectively, the Companies), filed an application with the Commission pursuant to Part VII of the *CRTC Telecommunications Rules of Procedure*. The Companies requested that the Commission reduce the frequency with which the Companies are required to sponsor the Statistics Canada Residential Telephone Service Survey (RTSS) and file reports under the affordability monitoring program.
2. On 23 April 2004, the Public Interest Advocacy Centre (PIAC) filed comments on the Companies' application. The Companies filed reply comments on 3 May 2004.

Background

3. In *Local service pricing options*, Telecom Decision CRTC 96-10, 15 November 1996 (Decision 96-10), the Commission directed the telephone companies to begin filing quarterly and annual monitoring reports concerning the affordability of residential telephone service. The Commission noted that the quarterly reports would include, among other things:
 - the Statistics Canada Labour Force Survey (LFS) supplementary statistics, including penetration rates, non-subscription and other questions yet to be determined,

¹ MTS Communications Inc.'s corporate name was formally changed to MTS Allstream Inc. See MTS Allstream Inc. – Corporate name change, Telecom Order CRTC 2004-250, 27 July 2004.

² Effective 1 July 2004, TELUS Communications Inc. has assumed all rights, entitlements, liabilities and obligations relating to the provision of telecommunications services in the territories serviced by TELUS Communications (Québec) Inc.

³ See footnote 1.

⁴ See footnote 2.

- relevant disconnection information categorized by termination reasons,
 - take rates for bill management options, and
 - any analysis which would assist the Commission in determining the variables and/or events which best explain a given change in penetration rates, disconnection statistics or the take rate for bill management options.
4. The Commission also directed in that Decision that an annual supplementary report be filed containing analysis on affordability and penetration rates based on the socio-demographic statistics reported in the Statistics Canada Household Income Facilities and Equipment (HIFE) microdata file.
 5. In Decision 96-10, the telephone companies were also directed to file an initial submission outlining, *inter alia*, the survey methodology and supplementary questions to be used with the Statistics Canada LFS. This initial submission was to estimate (a) when the first report would be completed, and (b) any other relevant milestone dates. The Commission noted that subsequent to receiving the telephone companies' initial submission, it would seek comments from parties. The Commission indicated that upon completion of that process, it would finalize the details of the monitoring program.
 6. In Telecom Order CRTC 97-1214, 29 August 1997 (Order 97-1214), the Commission approved, with adjustments and modifications, the Stentor Resource Centre Inc. (Stentor⁵) submission for an affordability monitoring plan filed as directed by the Commission in Decision 96-10. The Commission directed Stentor to file quarterly reports in February, May, August and November of each year. The Commission also directed that Stentor's annual report was to be filed within three months of receipt of the microdata file from Statistics Canada.
 7. In *Commission modifies reporting requirements for affordability*, Order CRTC 2000-393, 10 May 2000 (Order 2000-393), the Commission permitted the Stentor-member companies, Québec-Téléphone⁶ and Northwestel, as well as Télébec Itée (now Société en commandite Télébec (Télébec)) to reduce the filing frequency of affordability monitoring reports. In particular, the Commission found that it was reasonable for the Stentor-member companies, Québec-Téléphone and Northwestel to report penetration rates twice a year in November and in March, since penetration rates had remained stable and were consistently high.
 8. The Commission also determined that the Stentor-member companies, Québec-Téléphone and Northwestel no longer needed to report on routine measures taken to promote bill management tools (BMTs), and that Télébec was permitted to report on its take-rate for BMTs and disconnect studies on a yearly basis rather than on a quarterly basis.

⁵ On 30 April 1997, Stentor filed the submission on behalf of BC TEL, Bell Canada, The Island Telephone Company Limited, Maritime Tel & Tel Limited, MTS NetCom Inc., The New Brunswick Telephone Company, Limited, NewTel Communications Inc., TCI, TELUS Communications (Edmonton) Inc., Québec-Téléphone, and Northwestel.

⁶ Québec-Téléphone changed its name to TELUS Communications (Québec) Inc. in May 2001.

Application

9. The Companies noted that they are currently filing with the Commission various Statistics Canada surveys and reports related to the program established by the Commission in Order 2000-393 to monitor the affordability of residential telephone service in Canada. The Companies indicated that these reports consist of an annual report based on results of the Statistics Canada Survey of Household Spending (SHS) filed in November, and reports filed in March and November based on results of the bi-annual RTSS. The Companies noted that these reports provide information on telephone service penetration rates and affordability issues. In its application, the Companies requested that the Commission make a determination to reduce the number of Statistics Canada surveys the Companies are required to sponsor in order to provide the required monitoring reports. Specifically, the Companies requested that the Commission eliminate the requirement for the Companies to sponsor the RTSS for which the results are reported in November of each year.
10. The Companies submitted that the requested change in reporting frequency was justified, since penetration rates across Canada have been high and have remained stable over the entire monitoring period from November 1997 to May 2003. The Companies noted that over the monitoring period, the overall RTSS-based penetration rates in Canada have varied from 98.1 percent, in February 1998, to 98.9 percent, in May 2001. Similarly, penetration rates for households with incomes below Statistics Canada's modified low-income cut-off (modified LICO⁷) have varied from 94.1 percent, in May 1998 and August 1999, to 96.0 percent, in May 2001. The Companies further noted that the penetration rates across Canada have not exhibited any seasonality variations and that this also held true for households below the modified LICO.
11. The Companies noted that the RTSS showed that, over the tracking period, 0.8 to 1.2 percent of Canadian households did not have telephone service, and had cited affordability as the primary reason why. The Companies indicated that about 90 percent of these households, who also reported their income, had income levels below the modified LICO. However, over the monitoring period, 86.1 to 93.0 percent of the non-subscribers reported they had access to telephone service in the event of an emergency at home.
12. The Companies noted that where affordability was reported as the primary reason for non-subscription, the reasons most often reported by non-subscribers were installation charges and the basic monthly charges. On average, over the monitoring period, 69 percent cited installation charges, 66 percent cited basic monthly charges, 53 percent cited the security deposit, 34 percent cited toll charges, 29 percent cited optional features, and 18 percent cited other charges. The Companies noted these numbers have been consistent over the entire monitoring period.
13. The Companies noted that a reduction in the frequency of the RTSS would reduce expenses associated with sponsoring the survey, analyzing results and preparing reports. The Companies submitted that there would be similar savings to interested parties and the Commission.

⁷ Modified LICO is Statistics Canada's LICO rounded to the nearest five hundred dollars.

PIAC's comments

14. PIAC submitted that the affordability of residential service in Canada remains an important consumer issue, noting that the Companies reported that 0.8 to 1.2 percent of Canadian households do not have telephone service for reasons related to affordability. PIAC noted that this amounted to 92,504 to 138,756 households in Canada.⁸ PIAC submitted that many low-income Canadians who have telephone service experience affordability problems but retain telephone service for such reasons as personal safety.
15. PIAC stated that the Companies appeared to have submitted this application as a measure to reduce their costs, but that no information relating to cost savings was provided in the application. PIAC noted that the cost of the affordability monitoring program was included in the rates subject to price caps, and therefore any savings should be transferred to subscribers via the deferral account established in the second price cap decision.⁹
16. PIAC agreed that the stability of the monitoring report results justified a reduction in the frequency of sponsoring the RTSS from twice a year to once a year; however, its support was contingent on the resultant cost savings being returned to subscribers.

The Companies' reply comments

17. The Companies submitted that PIAC's proposal that any cost savings realized from affordability monitoring process improvements be transferred to the deferral accounts should be denied. The Companies argued that the fact that PIAC supported their application to only issue the RTSS once a year showed that PIAC had acknowledged that there was no public policy interest served by continuing the filing of this survey twice a year. The Companies submitted that if an action was no longer required in order to further public policy objectives, then the efficient regulatory response would be to remove the required obligation independent of any corresponding cost considerations.
18. The Companies noted that, under the price cap regime, they are subject to a productivity offset that applies to residential service in non-high-cost serving areas that, in part, reflects the cost savings that accrue annually from process and other improvements. The Companies submitted that the reduction in the frequency of sponsoring the RTSS and production of related reports was one such process improvement.
19. The Companies also noted that under the first price cap regime there was no requirement to adjust prices when the frequency of reporting under the affordability monitoring program established by Order 97-1214 was reduced by Order 2000-393.

Commission's analysis and determinations

20. The Commission notes that in Order 2000-393, it acknowledged that penetration rates were stable and consistently high at that time. Based, in part, on that finding, the Commission found it reasonable to reduce the requirement to report penetration rates and related information on a

⁸ Based on an average household having 2.6 people (Statistics Canada, 2001), PIAC estimated that about 241,000 to 361,000 people do not have telephone services for reasons related to affordability.

⁹ *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34).

quarterly basis to a bi-annual basis. Based on an examination of the penetration rates reported over the monitoring period from November 1997 to May 2003, the Commission is of the view that penetration rates have remained stable and consistently high with no indications of any seasonality trends.

21. The Commission notes that in addition to penetration rates, the RTSS-based reports, filed twice a year, contain related information on the reasons for non-subscription and, in cases where affordability is raised as an issue, an identification of which charges on the telephone bill are the most difficult to afford. The Commission agrees with the Companies' assessment that the reasons for non-subscription have remained consistent over the monitoring period.
22. The Commission further notes that the Companies, in their application, proposed to continue to file the annual SHS-based report in November, and that the May RTSS survey would continue with the results also being reported in November in a separate filing. Thus, the RTSS survey would continue to contain the same information as before; however, the RTSS survey would be conducted once a year, rather than twice a year.
23. The Commission considers that affordability of residential service is an important issue and that access to affordable telephone service should continue to be monitored by the Commission. However, the Commission considers that with the stability of the survey results to date, a reduction in the frequency of conducting the RTSS from twice a year to once a year is justified.
24. The Commission notes PIAC's request to have any cost savings transferred to the price cap deferral accounts. The Commission notes that such a transfer would occur on the basis of an exogenous adjustment or Z-factor. In Decision 2002-34 and *Implementation of price cap regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002, the Commission established the criteria for consideration of exogenous adjustments to the deferral account. In these Decisions, the Commission stated that the Z-factor or exogenous factor adjustment would be considered for events or initiatives which satisfy the following criteria:
 - a) they are legislative, judicial or administrative actions that are beyond the control of the company;
 - b) they are addressed specifically to the telecommunications industry; and
 - c) they have a material impact as measured against the total company.
25. The Commission notes that all three conditions must be met in order for an exogenous adjustment to be applied. The Commission is of the view that a reduction in the frequency of filing affordability monitoring reports does not meet all three of the Z-factor criteria. The Commission considers that criterion c) has not been met in that the costs of conducting a survey and subsequently filing a report with the Commission are not material expenses to the Companies and would, therefore, not have a material impact on the Companies. Further, the Commission notes that during the first price cap period when the Commission, in Order 2000-393, reduced the frequency of reporting from quarterly to bi-annually, the Commission did not require the Companies to adjust their prices. The Commission concludes that the cost savings resulting from a reduction in the frequency to sponsor and file reports should not be directly transferred to the Companies' deferral accounts.

26. In light of the above, the Commission **approves** the Companies' request to reduce the frequency of sponsoring the RTSS and reporting these survey results to the Commission from twice a year to once a year. Further, the Commission **denies** PIAC's request that any cost savings due to a decrease in the frequency of reporting under the affordability monitoring program be transferred to the Companies' deferral accounts.

Secretary General

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