



Telecom Order CRTC 2003-358

Ottawa, 2 September 2003

Bell Canada

Reference: Tariff Notices 753/A/B/C (National Services Tariff)

Ex parte application

1. The Commission **denies** the above-referenced *ex parte* application¹ by Bell Canada, dated 27 January 2003 and amended on 21 February 2003, 19 March 2003 and 30 May 2003.
2. In reviewing the Phase II cost information provided in support of Tariff Notices 753/A/B/C (TN 753) the Commission found a number of costing methodology irregularities. These irregularities are the result of a failure to correctly apply the directives set out by the Commission in *Inquiry into Telecommunications Carriers' Costing and Accounting Procedure Phase II: Information Requirements for New Service Tariff Filings*, Telecom Decision CRTC 79-16, 28 August 1979 in the economic study of the specific service proposed in TN 753.
3. The major irregularities are discussed below.
 - a) The Commission considers Bell Canada's study life estimate to be inappropriate, by comparison with customer specific arrangement (CSA) contract lives which are typically five years in length or less;
 - b) The Commission considers Bell Canada's frequency of the capital injections over the study period to be inappropriate and expects that the demand will typically occur at the beginning of the contract;
 - c) The Commission considers Bell Canada's treatment of advertising expenses to be inappropriate. The Commission is of the view that advertising expenses should apply to the service regardless of whether it is a component of a CSA or provided on a stand-alone basis;
 - d) The Commission considers Bell Canada's exclusion of portfolio expenses, which are non-service specific expenses causal to groupings of services, to be inappropriate; and

¹ An *ex parte* application, is an application that has been filed with the Commission without notice to the public and, as such, is not placed on the public record when initially filed. An *ex parte* decision is one in which the Commission disposes of an application solely on the basis of the applicant's submissions. Section 61(3) of the *Telecommunications Act* allows the Commission to make an *ex parte* decision where it considers that the circumstances of the case justify it. In *Review of regulatory framework*, Telecom Decision CRTC 94-19, 16 September 1994, the Commission set out several considerations to be balanced in any determination to permit *ex parte* tariff filings, including the public interest in the effective operation of the competitive marketplace and the public interest in an open regulatory process.

- e) The Commission considers Bell Canada's use of corporate-average expenses rather than contract-specific expenses to capture certain operating expenses to be inappropriate. The Commission expects that most operating expenses associated with Bell Canada's CSA contracts will be greater than the corporate-average expenses.
4. The Commission further notes that a confidential Commission staff letter dated 18 July 2003 (the staff letter) addressed costing methodologies generally applicable to customer specific arrangements proposed by Bell Canada. In the staff letter Bell Canada was advised of the costing methodology procedures to be applied by the company in the development of imputation test results for CSAs.
 5. Were Bell Canada to apply the proper Phase II costing methodologies in this case, the Commission does not consider that the proposed service would be shown to generate sufficient revenues in excess of costs to justify approval of the proposed tariff. Accordingly, the application is denied.
 6. In order that the application may be available for public examination consistent with the *CRTC Telecommunications Rules of Procedure*, the company is directed to file with the Commission, within two business days of the date of this order, a hard copy of the application for the public examination room at the Commission's headquarters in Gatineau, and an electronic version for the Commission's web site.

Secretary General

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