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

Telecom Decision CRTC 2005-3

Ottawa, 31 January 2005

Direct toll and network access costing methodology for small incumbent local exchange carriers – Follow-up to Decision 2001-756

Reference: 8638-C12-59/02

In this Decision, the Commission replaces each of the small incumbent local exchange carriers' (ILECs') direct toll rates, which were based on Phase III costs, with a direct connection (DC) rate, an equal access (EA) charge, and trunking tariffs for the facilities used to interconnect an interexchange carrier's point of interconnection with a small ILEC's switch. This Decision will move the small ILECs' rates closer to market-based interconnection rates based on forward-looking Phase II-like costs, and away from interconnection rates based on embedded Phase III costs. This change applies to all small ILECs, except for O.N.Telcom, NorthernTel, Limited Partnership (NorthernTel), and Cochrane Telecom Services (Cochrane).

For O.N.Telcom, NorthernTel, and Cochrane, the Commission ***approves on a final basis*** *the DC and EA rates that were set in* O.N.Telcom – Implementation of toll competition and related matters, *Decision CRTC 2001-583, 13 September 2001, but later made interim in* Regulatory framework for the small incumbent telephone companies, *Decision CRTC 2001-756, 14 December 2001.*

Introduction

1. In *Regulatory framework for the independent telephone companies in Quebec and Ontario (except Ontario Northland Transportation Commission, Québec-Téléphone and Télébec ltée),* Telecom Decision CRTC 96-6, 7 August 1996 (Decision 96-6), the Commission directed the small independent telephone companies to implement equal access (EA), where technologically feasible, by 1 January 1998. The small independent companies were directed to recover the start-up costs associated with modifications to their networks, such as the cost of modifying switches, over a 10-year period.

2. In Decision 96-6, the Commission noted that the small independent telephone companies assigned the ongoing costs they incurred to connect interexchange carriers (IXCs) to their networks to the Toll broad service category (BSC). The Commission directed that the ongoing costs associated with the switching and aggregation (S&A) of toll traffic and the EA start-up costs be included in the Toll BSC.

3. Pursuant to Decision 96-6, the small independent telephone companies filed their Phase III costs on an annual basis, from which they derived their direct toll (DT) rates, their network access (NA) rates, and their contribution rates. Specifically, they calculated their DT rates on the basis of their total Toll BSC costs divided by total originating and terminating conversation minutes associated with trunk-side access. The DT rates have allowed the small independent telephone companies to recover the costs they incurred to originate and terminate toll traffic on behalf of IXCs.

4. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000, the Commission determined that, as of 1 January 2002, the small independent telephone companies would be part of the new contribution mechanism and would use a Phase II costing approach to determine their subsidy requirements.

5. In *New regulatory framework for small independent telephone companies and related issues*, Public Notice CRTC 2001-61, 30 May 2001 (Public Notice 2001-61), the Commission noted that as a result of the change in methodology for calculating the subsidy requirements, it might no longer be appropriate to use Phase III costs and originating and terminating toll minutes to estimate the small independent telephone companies' DT costs and rates. The Commission invited participants to submit proposals to modify the existing method of identifying, quantifying, and recovering DT costs in the small independent telephone companies' territories.

6. In *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001 (Decision 2001-756), the Commission concluded that an appropriate DT cost recovery methodology and the requirement for a transition mechanism could not be determined based on the record of the proceeding initiated by Public Notice 2001-61. The Commission stated that it would initiate a CRTC Interconnection Steering Committee (CISC)-like consultative process to review all aspects of DT costing in the small incumbent local exchange carriers' (ILECs')[1] territories, as well as NA costs, in order to determine a final methodology for cost recovery and allocation of costs in time for 1 January 2003 implementation.

7. In Decision 2001-756, the Commission froze the DT revenue requirement and proxy minutes at approved 2001 levels, and made the small ILECs' 2001 DT rates interim for 2002, pending the outcome of the consultative process. The Commission also froze NA per quarter-mile costs at approved 2001 levels and made the 2001 NA tariff per quarter-mile rates interim for 2002 pending the outcome of the consultative process. Further, the Commission was of the view that a true-up mechanism might be required for 2002 to account for any overpayments or underpayments of network costs, based on the outcome of the consultative process.

8. In Decision 2001-756, the Commission also stated that because O.N.Telcom,[2] NorthernTel, Limited Partnership (NorthernTel), and Cochrane Public Utilities Commission (Cochrane)[3] might be disadvantaged by their earlier conversion from DT Phase III-based costing to direct connection (DC)[4] and EA Phase II-based costs, the DC and EA rates[5] established in *O.N.Telcom – Implementation of toll competition and related matters*, Decision CRTC 2001-583, 13 September 2001 (Decision 2001-583) would be made interim, effective 1 January 2002.

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1 The Commission notes that it now uses the term "small incumbent local exchange carriers" instead of "small independent telephone companies."

2 O.N.Telcom is now known as Ontera.

3 The Cochrane Public Utilities Commission is now known as Cochrane Telecom Services.

4 DC covers S&A costs, which are ongoing costs primarily associated with aggregating and terminating competitors' traffic for delivery to and from the toll carriers' networks. Other ongoing cost components are associated with customer and operator services and carrier billing functions. The large ILECs, as well as O.N.Telcom, NorthernTel, and Cochrane, currently use DC rates to recover the ongoing costs they incur to originate and terminate toll traffic on behalf of IXCs.

5 The EA rate is used to recover the start-up costs to implement equal access service, to the extent that the costs remain unrecovered.

9. On 4 April 2003, Commission staff issued a proposal (the Proposal) for DT cost recovery that, in its view, represented a baseline for consensus among the small ILECs and IXCs, whose views remained diametrically opposed.

10. This Decision is presented in seven parts, as follows:

    I. Matters related to O.N.Telcom, NorthernTel, and Cochrane;

    II. Components of the new methodology – direct connection rate, equal access charge, and trunking tariffs;

    III. Mitigating revenue impacts;

    IV. Network access tariff;

    V. Payments by IXCs;

    VI. Other issues – trunking issues raised by parties and flow-through tariffs; and

    VII. Commission's conclusions.

    Part I of the Decision applies only to O.N.Telcom, NorthernTel, and Cochrane. Parts II to VI apply only to the small ILECs – other than O.N.Telcom, NorthernTel, and Cochrane. In Part VII of this Decision the Commission's conclusions are set out.

Process

11. The small ILECs and IXCs participated in the consultative process initiated by the Commission pursuant to Decision 2001-756. However, during the consultative process, parties did not reach consensus on an appropriate DT cost recovery mechanism and did not address NA cost recovery.

12. On 2 August 2002, the Commission addressed interrogatories regarding DT cost recovery to the small ILECs. The small ILECs filed responses to these interrogatories on 30 August 2002. Parties filed comments on 13 September 2002 and reply comments on 20 September 2002.

13. On 4 April 2003, the Commission invited parties to comment on the Proposal and to file revised data.

14. On 23 June 2003, the Ontario Telecommunications Association (the OTA); Canadian Alliance of Publicly-Owned Telecommunications Systems (CAPTS); Société d'administration des tarifs d'accès des télécommunicateurs (SATAT); La Compagnie de Téléphone de St-Victor, La Compagnie de Téléphone de Lambton Inc., and Le Téléphone de St-Éphrem inc. (St-Éphrem et al.); and O.N.Telcom filed verifications and revisions, where necessary, to the company-specific data related to DC, EA, and trunking provided in the Proposal.

15. On 9 July 2003, comments were filed by Bell Canada, Distributel Communications Ltd., the OTA, CAPTS, SATAT, St-Éphrem et al., O.N.Telcom, NorthernTel, and TELUS Communications (Québec) Inc. (TELUS Québec).[6]

16. On 23 July 2003, reply comments were filed by the OTA, CAPTS, SATAT, O.N.Telcom, TELUS Québec, Bell Canada, and NorthernTel.

I. Matters related to O.N.Telcom, NorthernTel, and Cochrane

17. In Decision 2001-583, the Commission established DC and EA rates based on Phase II-like costs for O.N.Telcom, NorthernTel, and Cochrane. As noted earlier, in Decision 2001-756, the Commission determined that, because these companies might be disadvantaged by their earlier conversion from DT rates based on Phase III costs to rates based on Phase II costs, the DC and EA rates established in Decision 2001-583 would be made interim, effective 1 January 2002.

18. In *Cochrane Public Utilities Commission – Charge for recovery of equal access start-up costs*, Telecom Order CRTC 2002-151, 12 April 2002, the Commission approved an application by Cochrane to add a charge for the recovery of EA start-up costs, as well as charges and conditions for interconnecting circuits with trunk-side access, network charges, and carrier network profile change.

19. In *O.N.Telcom – Interconnection with interexchange carriers*, Telecom Order CRTC 2004-267, 5 August 2004, the Commission approved O.N.Telcom's request to decrease its host-remote link charge to $0.00215 per minute, effective 1 January 2005, and to eliminate the charge effective 1 January 2006.

20. In *NorthernTel, Limited Partnership – Host Remote and Direct Connect Agreement*, Telecom Order CRTC 2004-280, 19 August 2004, the Commission approved the Host Remote and Direct Connect agreement between NorthernTel and O.N.Telcom. This agreement covers the exchange of toll traffic information and the ongoing management and operation of the host-remote network.

21. During the consultative process, O.N.Telcom and NorthernTel submitted that the DC and EA rates established in Decision 2001-583 should apply on a final basis. In addition, O.N.Telcom argued that the Commission had established Phase II rates for DC and EA as part of a larger competitive regime that included complex arrangements for co-location and trunking facilities, and that any changes to these arrangements could have a potential impact on the competitive playing field.

22. Furthermore, O.N.Telcom argued that the record of this process did not contain submissions by ILECs within O.N.Telcom's territory that specifically advocated changes to the competitive regime determined in Decision 2001-583. O.N.Telcom stated that, historically, it had been co-located with the ILECs in its territory and that any change to the co-location or trunking rules in the regime would translate purely into a rate increase over and above the rates approved in Decision 2001-583.

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[6] Effective 1 July 2004, TELUS Communications Inc. (TCI) has assumed all rights, entitlements, liabilities, and obligations relating to the provision of telecommunications services in the territories previously served by TELUS Communications (Québec) Inc.

23. The Commission notes that it determined the rates set in Decision 2001-583 after exploring, in detail, numerous issues pertaining to interconnection, and that these rates were based on Phase II-like costs filed by O.N.Telcom. The Commission also notes that the rates were determined in order to encourage long distance competition to commence and flourish in O.N.Telcom's traditional toll territory.

24. The Commission, having considered the current regime established in Decision 2001-583, and carefully looking at the record of this consultative process, is of the view that the existing regime remains appropriate for O.N.Telcom, NorthernTel, and Cochrane. The Commission is also of the view that its determinations relative to the other small ILECs set out later in this Decision, will not result in these three companies being disadvantaged. The Commission considers, therefore, that the DC and EA rates approved in Decision 2001-583, which were made interim by Decision 2001-756, should be made final.

25. The Commission notes that Parts II through VI of this Decision do not apply to O.N.Telcom, NorthernTel or Cochrane. Further references to small ILECs from this point forward in the Decision include all small ILECs, except for O.N.Telcom, NorthernTel, and Cochrane.

II. Components of the new methodology

Direct connection rate

26. The Proposal suggested a proxy 2005 DC rate of $0.0037 per conversation minute for all of the small ILECs, based on the DC rate approved by the Commission in Decision 2001-583 for NorthernTel and Cochrane.

27. The Proposal recommended a transition period with current DT revenues frozen at 2001 levels in 2002, gradually reducing them on an annual basis to the level associated with the final DC rates – which would be applied in 2005.

28. The Proposal suggested freezing the number of originating and terminating toll conversation minutes at approved 2001 levels until 2005, while giving the small ILECs the option to approach the Commission to request an adjustment should actual conversation minutes increase in any year by more than 15 percent over 2001 levels. The Proposal further suggested that if actual conversation minutes increased by more than 15 percent in any year over the preceding year, a small ILEC could request that the Commission adjust its monthly DC revenue requirement for the remainder of the transition period.

Positions of parties

29. Bell Canada submitted that the per-minute rate in the Proposal was an insufficient response to the challenge of fostering long distance competition in the territories of the small ILECs. The company further submitted that the small ILECs should adopt a DC rate equal to their company-specific Phase II costs plus a 15 percent mark-up. It suggested that in the absence of Phase II cost studies, the nearest equivalent DC rate should be used – that being Bell Canada's DC rate of $0.00139 per conversation minute.

30. Bell Canada stated that it would not object to using either 2001 or 2002 minutes as proxy conversation minutes. It submitted, however, that if an IXC's minutes decreased by more than 15 percent over the preceding year, the IXC should be allowed to apply for an adjustment, similar to the relief proposed for the small ILECs in situations where minutes increased by more than 15 percent.

31. SATAT submitted that the financial viability of the vast majority of small ILECs would be threatened if the Proposal was adopted. It also submitted that the "one-tariff-for-all" approach did not recognize the interests of the small ILECs, or adequately address the small ILECs' financial viability during the transition to a DC regime. In SATAT's view, however, the Proposal included adequate measures (such as frozen minutes) to protect the small ILECs from alternate routing by IXCs for the transition period. It submitted, therefore, that reducing DC cost recovery to artificially low rates was unnecessary.

32. SATAT submitted that as a starting point, no individual company should have to absorb a decrease in its DT revenues of more than 35 percent over the proposed transition period. It suggested different tariffs for different-sized companies based on their number of conversation minutes, arguing that companies with lower toll volumes incurred higher costs per minute. It suggested four proxy DC rates based on: a) two generic Phase II cost studies; b) O.N.Telcom's DC rate of $0.0080 per minute; and c) the DC rate of $0.0037 per minute approved for companies with no host-remote component, namely NorthernTel and Cochrane, with a possible upward adjustment to account for host-remote configurations.

33. According to SATAT's studies, La Corporation de Téléphone de La Baie – with a traffic volume of two million minutes – generated a DC rate of $0.0178 per minute, and Téléphone Milot inc. – at 14 million minutes – generated a DC rate of $0.0132 per minute. Based on this evidence, SATAT concluded that a typical small ILEC would not be adequately compensated by the DC rate of $0.0037. SATAT submitted that its proposal was more appropriate than applying a uniform DC rate of $0.0037 per minute to all companies, in that it would better reflect their costs. It stated that its cost studies were performed using a methodology approved in recent decisions, such as Decision 2001-583, and included a 15 percent mark-up.

34. The OTA and CAPTS submitted that a DC rate closer to the O.N.Telcom Phase II-based rate of $0.0080 per minute set in Decision 2001-583 would be more representative than the proposed rate of $0.0037 per minute. CAPTS further submitted that a DT rate of $0.0098 per minute approved for Thunder Bay Telephone had not deterred competitive entry in its territory, and that a low DC rate might not, in itself, generate additional long distance competition.

35. CAPTS proposed that 2002, rather than 2001, actual minutes should be used as the proxy conversation minutes.

36. St-Éphrem et al. submitted that the proposed uniform DC rate of $0.0037 per minute was not reasonable in light of the level of their DC costs and the small volumes of toll traffic in their territories.

Parties' reply comments

37. Bell Canada submitted that evidence had not been provided by parties to support the use of O.N.Telcom's rate of $0.0080 per minute. The company also submitted that there was insufficient information to comment fully on the validity of the Phase II-like cost studies filed by SATAT. It argued that SATAT's studies had many shortcomings and had been developed on the basis that the small ILECs were providing an overlay network to the IXCs for the origination and termination of toll calls. Bell Canada argued that this was incorrect and that the small ILECs' DC costs should be calculated as the incremental cost of carrying toll traffic over the small ILEC's network based on the toll share of total traffic over that network in the busy hour.

38. SATAT, the OTA, and CAPTS submitted that Bell Canada's DC rate of $0.00139 per minute was inappropriate for the small ILECs. In SATAT's view, there was no reason why the smallest telephone companies in Canada should be benchmarked to the largest one. CAPTS submitted that O.N.Telcom's approved DC rate of $0.0080 per minute and SATAT's proposed rates of $0.0178 and $0.0132 per minute based on its generic Phase II cost studies would serve as better proxy rates for the small ILECs than Bell Canada's DC rate.

39. SATAT, the OTA, CAPTS, and St-Éphrem et al. submitted that each small ILEC should have the option to file company-specific DC rates based on Phase II cost studies.

40. SATAT and the OTA disagreed with Bell Canada's submission that IXCs should also be allowed to apply to the Commission for an adjustment if their actual minutes decreased by more than 15 percent over the preceding year. SATAT further stated it would prefer no adjustment mechanism at all over a system that would allow adjustments for minutes to increase and decrease.

41. The OTA and CAPTS supported SATAT's proposal to use Phase II-like cost studies and the principle of varying DT rates based on such studies. They submitted, however, that the DC floor rate should be set at $0.0080 per minute.

42. The OTA submitted that extended area service bypass had affected both the DC and NA components of the small ILECs' DT costs. In the OTA's view, if Phase II cost-based rates for the small ILECs were higher than Bell Canada's DC rate, the incentive for toll bypass would not be reduced. However, the OTA argued that if Bell Canada's DC rate was adopted for the small ILECs, Bell Canada's costs of interconnection would decrease but the financial viability of the small ILECs would be seriously jeopardized.

Commission's analysis and determinations

43. The Commission acknowledges that interconnection rates and traffic volume will affect the decisions made by IXCs as to whether to compete for toll traffic originated in the territories of the small ILECs. Where the small ILECs' DC rates are set too high, potential competitors may choose not to offer their services, to the detriment of subscribers in the small ILECs' territories. In addition, high DC rates may lead to a significant level of toll bypass, which would in turn result in reduced revenues for the small ILECs.

44. The Commission notes that in *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002, the Commission approved DC rates for the large ILECs based on their Phase II costs. The approved DC rates for the large ILECs ranged from $0.001389 per minute for Bell Canada to $0.004738 per minute for Saskatchewan Telecommunications, effective 1 June 2002.

45. The Commission considers that it must take action to reduce the gap between the DT rates of the small ILECs and the DC rates of the large ILECs. The Commission finds that introducing a DC regime based on Phase II-like cost studies for the small ILECs would help to harmonize regulatory regimes in Canada. The Commission also finds that reducing the gap in toll interconnection rates between the small and large ILECs will facilitate long distance competition within the small ILECs' territories.

46. The Commission notes that, generally, parties opposed the total elimination of the gap between the small ILECs' DT rates and the large ILECs' DC rates. However, there was a suggestion by Bell Canada that the small ILECs move directly to DC rates based on Phase II costing, or in the alternative, adopt its DC rate.

47. The Commission acknowledges that the small ILECs are not a homogenous group. The Commission expects that smaller companies would have higher per-minute costs, since a minimum level of investment in infrastructure is required for interconnection, independent of the number of conversation minutes. The Commission finds, therefore, that a uniform DC rate of $0.0037 per minute would not adequately compensate each small ILEC for its DC costs. In addition, the application of this rate would have a significant negative financial impact on some small ILECs, possibly jeopardizing their ability to provide quality service.

48. The Commission agrees that moving to DC rates based on company-specific Phase II costs, as suggested by Bell Canada, would adequately compensate the small ILECs for the costs they incur. However, the Commission recognizes that conducting company-specific Phase II cost studies might be too expensive and time-consuming for these companies. Further, the Commission considers that Bell Canada's alternative proposal to use its DC rate of $0.00139 per minute would not be appropriate since it is based on an average of its Phase II costs across its largely urban customer base, which is not reflective of conditions in a typical small ILEC's operating territory.

49. The Commission considers that the OTA's and CAPTS's proposals to use O.N.Telcom's DC rate of $0.0080 per minute, which was based on a Phase II-like cost study, would not be appropriate, since it was based on the company's DC costs ($0.0037) plus the costs incurred by O.N.Telcom to provide host-remote links in NorthernTel's territory ($0.0043).

50. The Commission considers that SATAT's Phase II-like cost studies are similar in nature to the Phase II cost studies relied upon by the Commission to establish rates for O.N.Telcom in Decision 2001-583. Although there may be shortcomings to the studies filed by SATAT, the Commission considers that SATAT's proposal for 2005 DC rates better reflects the wide range of costs and operating conditions across the small ILECs. However, SATAT's proposal to use O.N.Telcom's DC rate of $0.0080 per minute for companies with 20 to 30 million minutes is not appropriate, for the reasons outlined above.

51. On balance, the Commission finds that the rates set out below will contribute to the Commission's goals of setting rates based on Phase II-like costs, moving rates more in line with current retail long distance service prices, and minimizing the financial hardship on the small ILECs.

52. The Commission considers that these rates should be effective 1 January 2005:

Size of company by annual volume of toll traffic	0 to 5 million minutes	5+ to 20 million minutes	20+ million minutes
DC rate	$0.0178/min	$0.0132/min	$0.0037/min

53. The Commission considers, however, that the small ILECs should have the option of filing Phase II cost studies in support of company-specific DC rates.

54. The Commission notes that the intended purpose of freezing originating and terminating conversation minutes at 2001 levels, and using them as a proxy, was to afford the small ILECs a measure of stability during the transition period to a new methodology. It also notes that most parties agreed that conversation minutes should be frozen at some level for the transition period. Accordingly, the Commission considers that total proxy conversation minutes should be frozen for the period from 2001 to 2005 at the level approved for each of the small ILECs in setting their final 2001 carrier access tariffs (CATs).

55. The Commission notes that the 2002 DT rates of the small ILECs were made interim in Decision 2001-756, pending the outcome of this follow-up process. The Commission also notes that the outcome of the current process was not finalized as originally envisaged for 1 January 2003 implementation, and considers, in the circumstances of this case, that the DT rates of the small ILECs, which were made interim in Decision 2001-756, should be made final for 2002, 2003, and 2004. Consequently, the Commission considers that a process to allow upward or downward adjustments to conversation minutes is not necessary.

Equal access charge

56. The Proposal noted that, pursuant to Decision 96-6, the small ILECs had to amortize all start-up costs to implement EA over a 10-year period, and proposed that these EA costs be included, without adjustments, in the total revenue amount to be received by each company. The Proposal stated that there would be no requirement to establish individual EA rates per minute for the duration of the transition period. Instead, the Proposal suggested that the small ILECs allocate costs to IXCs based on actual conversation minutes. Finally, the Commission proposed that recovery of remaining EA costs beyond the end of the transition period be dealt with in a follow-up proceeding.

Positions of parties

57. Bell Canada agreed with the Proposal, whereby the recovery of each small ILEC's remaining EA costs would be allocated to the IXCs based on the proportions of actual monthly conversation minutes of traffic by carrier, providing that satisfactory arrangements for monthly reporting could be established.

58. SATAT, the OTA, and CAPTS submitted that a mark-up should be added to the EA depreciation amounts in order to calculate the EA revenues for the small ILECs, and that this modification would simulate the recovery of the fixed and common costs of the service. They proposed using a uniform EA rate of $0.00125, which was consistent with that previously approved for O.N.Telcom, NorthernTel, and Cochrane in Decision 2001-583.

59. SATAT submitted that since the amortization of EA costs would continue beyond 2005, the small ILECs should be allowed to either recover the remaining unamortized EA costs after 2005 or accelerate the EA amortization amounts during the transition period.

Parties' reply comments

60. SATAT suggested that in situations where additional EA costs were to be incurred in the future, the small ILECs should be able to recover these costs through an exogenous adjustment.

Commission's analysis and determinations

61. The Commission notes that in Decision 96-6, it directed the small ILECs to implement EA where technologically feasible by 1 January 1998. It also notes that, for the small ILECs that put EA in place by that date, the 10-year amortization period for EA costs will end on 31 December 2007. The Commission notes, however, that some small ILECs will still have unamortized EA costs beyond December 2007 since their service improvement programs and the installation of updated switches have delayed EA implementation.

62. The Commission observes that in Decision 96-6, it directed the small ILECs to amortize EA start-up costs, without any mark-up, over 10 years. The Commission notes that it had previously directed the large ILECs to amortize their EA start-up costs, without any mark-up, over 10 years. The Commission considers that it would not be equitable to allow the small ILECs to add a mark-up to non-recovered EA start-up costs. In the Commission's view, there also would be little purpose in allowing acceleration of the amortization of EA costs, in that the 10-year amortization period will soon end for most small ILECs.

63. The Commission finds that the EA rate of $0.00125, as approved in Decision 2001-583, was based on costs specific to O.N.Telcom, NorthernTel, and Cochrane, and should not apply on a broad basis to all small ILECs. In addition, the Commission notes that most parties did not propose setting company-specific EA rates per minute for the small ILECs.

64. The Commission considers that these costs should continue to be recovered by allocating the EA charges to the IXCs based on conversation minutes and notes that none of the parties objected to this.

65. In light of the above, the Commission concludes that EA start-up costs should continue to be amortized over a 10-year period, without mark-up, and that cost recovery should continue to be allocated to the IXCs based on conversation minutes.

Trunking tariffs

66. The Proposal suggested that the interconnection trunking cost be recovered using tariffs for DS-1 and DS-3 services based on Bell Canada's National Services Tariff (NST) rates for digital network services, with upward adjustments to the NST rates to account for economies of scale not available to the small ILECs.

67. The Proposal also suggested that trunking charges would include a) link charges, b) base charges, and c) mileage (distance) charges, with the measurement of distance based on the vertical/horizontal (V/H) co-ordinates between two points. The Proposal further suggested that the number of toll DS-1 and DS-3 trunks in place as of 31 December 2002 would be the minimum used to calculate trunking revenues.

68. The Proposal further suggested that co-location of IXCs at a small ILEC's switch for toll interconnection should be permitted, and that the small ILECs would be required to file co-location tariffs upon application by an IXC.

Positions of parties

69. Bell Canada submitted that the length of toll interconnecting trunks should be measured according to industry standards, based on straight-line distance using the V/H co-ordinates methodology. It argued that the interconnection trunking rates proposed by the Commission were excessive and well above the rates proposed by the small ILECs in the early part of this process. The company also noted that the Proposal did not provide for term and volume discounts, and guaranteed undiscounted rates through 2005.

70. Bell Canada also submitted that if rates for interconnection trunks were established above market-based levels, then all IXCs should have the option during the transition period to self-provision these trunks and to co-locate in a small ILEC's central office at rates established on the same basis as in the other ILECs' territories. The company stated that these arrangements did not require payment of base rate or distance charges and that until a small ILEC had filed and received approval for its own Phase II cost-based co-location rates, the small ILECs should be directed to file co-location rates equal to the prevailing co-location rates in Bell Canada's territory.

71. SATAT submitted that it agreed with the Commission's proposed tariff structure, but proposed modifications to the rates. Specifically, it argued that the trunking charges should vary according to company size, and proposed four bands based on the number of trunks. SATAT also proposed higher base rates for trunks in the 0-5 mile and 6-10 mile bands to the point of interconnection (POI) for the smaller ILECs, to account for the higher cost per trunk that companies with a low volume of trunks would incur, as compared to the per-trunk costs of companies with a larger volume of trunks.

72. SATAT conceded that V/H distance could be used to calculate the trunking distance as long as network configurations were adequately considered. It also proposed that a minimum distance of one mile per trunk be used to calculate the applicable rates instead of requiring the small ILECs to file co-location tariffs. SATAT submitted that, for the transition period, the number of DS-1 trunks in service as at 31 December 2002 should be frozen and that trunking revenues should remain constant. SATAT also argued that co-location should only be allowed after the transition period.

73. CAPTS proposed that since V/H calculations could result in zero distance, the minimum distance for a non-co-located arrangement should be one mile for each DS-1 or DS-3 trunk (in the absence of a band with a "zero mile" starting point).

74. The OTA submitted that the small ILECs had so few distance bands connected to the rate centres that they could not achieve an averaging effect implicit to rates based on V/H methodology. The OTA stated that it preferred using route distance, since using rates based on V/H methodology would have a large negative impact on its member companies' network revenues.

Parties' reply comments

75. The OTA indicated that if Phase II cost studies had been conducted, route distance would have been used. The OTA recommended a 12 percent increase to the rates in the Proposal if V/H methodology was used instead of route distance. The OTA further submitted that co-location must not be approved solely as a means to reduce termination costs to the IXCs, and that the applicable rates must be based on the economic realities of the small ILECs, and not just Bell Canada's rates.

76. CAPTS submitted that SATAT's proposal, in comparison to the Commission's Proposal, would result in a 26.3 percent decrease in DS-1 trunking revenues, with the majority of the decrease coming from OTA and CAPTS members – effectively buffering the majority of the SATAT member companies from significant impact. It stated that SATAT had offered no support for its trunking rate bands other than the belief that per-unit costs were greater for smaller companies than they were for the larger ones. CAPTS stated that it agreed with the trunking rates in the Proposal, providing that other applicable rates and the rate structure in the Bell Canada NST applied. It also submitted that volume and term discounts were neither necessary nor appropriate in the context of the limited number of IXCs that would be operating in the small ILECs' territories. CAPTS observed that the small ILECs' co-location costs were similar to those of the large ILECs, but the impact of co-location would be greater on the small ILECs. It noted that, as a result, the members of CAPTS would seriously review any request for co-location before filing relevant rates.

77. O.N.Telcom submitted that the small ILECs' submissions appeared to be focused upon ensuring that toll carriers did not manage to circumvent responsibility for trunking charges by co-locating with them. It suggested that this position seemed to be based upon the alleged need to subsidize certain small ILECs in order to ensure their ongoing viability. O.N.Telcom noted that, in a competitive environment, it was critical to the competitor's potential ongoing viability that an IXC be free to choose the best alternative for its operations, i.e., whether to use a small ILEC's trunks or to provide its own trunks and co-locate in that small ILEC's central office.

O.N.Telcom further stated that it supported Bell Canada's view that if an IXC could be more efficient by providing its own facilities to the central office, then the IXC should reap the benefit of that efficiency and that any other arrangement would amount to the enforced subsidization of the small ILEC by the IXC.

Commission's analysis and determinations

78. In the Commission's view, the use of straight-line distance measurement between the V/H co-ordinates is an industry-accepted practice for rating interexchange channels. The Commission considers this methodology to be easily understood and administered, and to be verifiable by the customers themselves. It also considers that this formula will eliminate many of the questions and problems that could arise with respect to the measurement for interexchange service provisioning based on route distance.

79. The Commission considers that a trunking rate made up of an adequate mix of both fixed and distance-based components would be reasonable for the small ILECs at this time. The Commission notes that large ILECs have multiple customers with trunks of various lengths, which allows them to recover their costs over their entire customer bases. The Commission also notes that many of the small ILECs have relatively few DS-1 interconnection trunks and, further, that many of them have DS-1s with lengths of 25 miles or less between the small ILEC's host office and the IXC's POI, making it difficult to recover costs solely based on distance charges.

80. For the same reason that the Commission considers, in this Decision, that DC rates should vary by company size, the Commission also considers it appropriate that the trunking rates for the small ILECs vary based on the size of the company. The Commission considers that SATAT's proposed rates are reasonable since they would provide higher base rates for smaller companies, recognizing that the costs per trunk would be greater for companies with fewer trunks.

81. The Commission considers that the trunking rates, as detailed in Appendix A, should apply effective 1 January 2005. The Commission considers, however, that the small ILECs should have the option of filing Phase II cost studies in support of cost-based trunking rates.

82. The Commission considers that implementing a minimum DS-1 count would afford the small ILECs a certain amount of protected trunking revenue. The Commission considers, therefore, that for the small ILECs, the number of toll DS-1 and DS-3 trunks – and associated distance – should be frozen at the 31 December 2002 level for 2005.

83. The Commission is of the view that the number of interconnection trunks sold by each of the small ILECs is insufficient to justify the use of volume and term discounts. In addition, the Commission notes that the use of volume and term discounts could potentially increase the financial impact on the small ILECs in 2005, and is of the view, therefore, that they should not apply.

84. The Commission considers that it is important that IXCs in a competitive environment be free to choose the best alternative for their operations – whether that is using a small ILEC's trunks or providing its own trunks and co-locating in the small ILEC's central office. The Commission

is of the view that co-location would benefit the industry since it would be a further step towards harmonizing regulatory regimes throughout Canada and would enhance opportunities for toll competition within the small ILECs' territories.

85. The Commission considers, therefore, that co-location at the small ILEC's switch for the purpose of toll interconnection should be permitted, and that the small ILECs should file co-location tariffs upon receipt of a request for co-location by an IXC. The Commission recognizes, however, that it is equally important to mitigate the financial impact on the small ILECs when moving to a regime based on DC, EA, and trunking charges. Accordingly, the Commission considers that trunking rates based on a minimum distance of one mile should apply when IXCs are not co-located.

III. Mitigating revenue impacts

86. The Proposal recognized that most small ILECs would experience a reduction in revenues from the existing frozen 2001 DT amounts to the proposed total annual DC, EA, and trunking revenues in 2005. The Proposal suggested that the companies should not be able to recover any revenue shortfalls from the National Contribution Fund (NCF). It proposed a transition period that would assist the small ILECs in coping with a reduction in revenues, and proposed that they have the option of submitting Phase II costing studies requesting Commission approval of company-specific DC and trunking tariffs based on Phase II costs plus an appropriate mark-up.

Positions of parties

87. SATAT proposed that if any small ILEC's DC, EA, and trunking revenues in 2005 decreased by more than 35 percent from the frozen 2001 DT amounts, the difference in excess of 35 percent should be compensated through the NCF. SATAT submitted that if the Commission found it inappropriate to compensate such a difference through the NCF, the small ILECs must be given the option of increasing their local rates accordingly, with the rate increases considered separately from the local rate levels included in the local subsidy calculation.

88. The OTA submitted that, in light of the dramatic financial impact of implementing the Proposal, a portion of the shortfall should be permitted to be recovered from the NCF. The OTA further submitted that some portion of the DT revenue impact could also be treated as an exogenous event and appropriate adjustments allowed in local rates.

Parties' reply comments

89. CAPTS concurred with the request by SATAT and the OTA for a mechanism to allow shortfall recoveries from the NCF.

90. O.N.Telcom submitted that if the Commission concluded that a subsidy for certain small ILECs was required, it should either allow recovery from the NCF or local rate increases, rather than disrupt the competitive marketplace that was developing in the territories in question.

Commission's analysis and determinations

91. The Commission notes that the rates it is approving in this Decision will result in significant revenue losses for some small ILECs in 2005. The Commission's estimates of these revenue losses for each small ILEC are provided in Appendix B.

92. The Commission further notes that most parties, anticipating such losses, suggested two proposals for recovery – through compensation from the NCF and/or by increasing local rates. The Commission notes that the NCF was established to subsidize local service in high-cost serving areas and considers that it should not be used to subsidize any shortfall in the toll interconnection revenues of the small ILECs.

93. The Commission notes that based on its determinations in this Decision, the small ILECs have benefited from frozen DT revenues for almost the entire proposed transition period, without any transitional adjustments. The Commission is concerned that toll interconnection revenue losses in excess of 35 percent could have a significant impact on the financial viability of some small ILECs. Accordingly, the Commission finds that it would be reasonable to allow small ILECs whose 2005 revenues for toll interconnection (DC, EA, and trunking revenues) fall by more than 35 percent from 2001 levels to recover that portion of their losses in excess of 35 percent through rate increases to local (primary exchange) services.

94. The Commission, however, considers that increases to the monthly rates for primary exchange services should be limited to $4 in any given year to mitigate rate shock, consistent with its determination in Decision 2001-756.

95. As previously noted in this Decision, the Commission considers that the small ILECs should have the option of filing Phase II cost studies in support of company-specific DC and trunking rates.

IV. Network access tariff

96. The NA tariff provides a mechanism for the recovery of costs incurred by the small ILECs to provide analogue private line services or digital network services to connect IXCs to their clients in the small ILECs' territories. The NA tariff compensates the small ILECs for private line circuits provided from a small ILEC's customer to the IXC's POI. Currently, the small ILECs use Phase III costs assigned to the Network BSC, divided by the number of quarter miles in all their circuits, as the basis for the recovery of NA costs. Since the NA tariff is based on the estimated Phase III costs and the estimated number of circuits, an annual true-up mechanism has been required once the actual Phase III costs and circuit counts were available.

97. The Proposal for NA suggested using existing Bell Canada NST rates. NA revenue would be based on tariffs for DS-0, DS-1, and DS-3 services, using the Bell Canada NST rates for digital network services as a base, with an adjustment to compensate the small ILECs for circuits of less than one mile.

Positions of parties

98. All parties were of the view that the small ILECs should be given more time to negotiate revised agreements with the IXCs.

99. Bell Canada submitted that parties unable to reach agreement could seek resolution through the Commission.

100. SATAT proposed that the 2002 and 2003 NA revenues be approved at 2001 frozen levels pending the result of its negotiations with Bell Canada.

101. The OTA recommended that the 2003 NA tariff rate be made permanent at the frozen 2001 levels and that negotiated settlements be mandated to begin no earlier than 1 January 2004.

Commission's analysis and determinations

102. The Commission agrees with the view that NA cost recovery for the small ILECs with NA tariffs can best be achieved through negotiated settlement agreements between the small ILECs and those IXCs purchasing these services. The Commission considers that negotiated settlement agreements could be concluded with either individual small ILECs or through associations of small ILECs. The Commission also notes that several negotiated agreements to that effect, between Bell Canada and the small ILECs, have recently been filed. The Commission considers that NA rates should remain interim pending its approval of the negotiated agreements.

V. Payments by IXCs

103. The Proposal suggested that where one IXC operates in a small ILEC's territory, monthly payments would be 1/12 of the estimated annual DC, EA, and trunking revenues.

104. Where multiple IXCs operate in a small ILEC's territory, the Proposal suggested that payments related to the DC and EA components would be allocated among the IXCs directly connected to that small ILEC, including the small ILEC's own or its affiliates' toll traffic, in proportion to the actual monthly conversation minutes of traffic by carrier. The Proposal also suggested that payments for the trunking component be allocated among the IXCs directly connected to that small ILEC, including the small ILEC's own toll traffic or that of its affiliates, in proportion to the actual number of DS-1s and DS-3s in service per month where POIs are the same distance from the small ILEC's switch. In cases where IXCs have POIs at different distances from the small ILEC's switch, allocation of payments would be determined according to the trunking rates approved in this process.

105. The Proposal suggested that payments for any new DS-1 and DS-3 requirements, added after the 31 December 2002 counts of DS-1s and DS-3s had been used to determine the transition trunking component, would be the direct responsibility of the IXC requesting the service. The Proposal also provided for a minimum level of trunking revenue, indicating that should the actual total number of DS-1s and DS-3s fall below the minimum floor number frozen at 31 December 2002 levels, the IXCs in the territory directly connected to the small ILEC would assume an appropriate share of any trunking revenue shortfall based on the proportions of actual numbers of DS-1s and DS-3s in service per month.

Positions of parties

106. Bell Canada and O.N.Telcom submitted that the Proposal lacked clarity for allocating trunking revenue obligations between multiple IXCs. Bell Canada noted that this lack of clarity in the rules for establishing and sharing in these revenue obligations could lead to controversy and disputes. Bell Canada proposed that each IXC should pay trunking rates for the actual number of trunks that it had in service, based on actual distance, to minimize the burden of administering the trunking component during the transition period.

107. SATAT submitted that interim DC and EA payments to a small ILEC should be made on a monthly basis by the toll carriers as a percentage of their actual toll traffic (conversation minutes) in that small ILEC's territory, with year-end adjustments to ensure that each carrier had paid its fair share of DC and EA amounts based on its own percentage of actual toll conversation minutes for that given year. SATAT stated that it fully agreed with the proposal that the small ILECs' trunking revenues should not decrease over the transition period, and submitted that it was imperative that each toll carrier assumed payment over that same period based on its own configuration of trunks and distance as of 31 December 2002. SATAT submitted further that trunk reductions after 31 December 2002 should be assumed by the IXC responsible unless the small ILEC was compensated by the addition of trunks for another IXC. It stated that where POI distances differed, the reduction in trunking revenue would be assumed by the IXC reducing the trunks.

108. The OTA submitted that where there was only one IXC operating in a small ILEC's territory, and other IXCs using those facilities, the IXC with the POI should pay the small ILEC on a monthly basis and then arrange settlement with the other IXCs. The OTA also submitted that where there were multiple IXCs operating in a small ILEC's territory, payments for the DC and EA components could only be allocated to the extent actual monthly conversation minutes were available. It further submitted that payments for the trunking component should be allocated in the same manner as the DC and EA components, based on minutes.

Parties' reply comments

109. SATAT noted that, in a multi-IXC territory, the applicability of the Proposal was somewhat unclear. SATAT further noted that for the multi-IXC territories in Quebec, interim monthly payments were based on the historical proportion of toll traffic with adjustments made during the year if the current tendency showed significant change. It also noted that year-end adjustments were based on actual minutes to ensure each carrier paid a fair share based on percentage of actual traffic.

110. SATAT submitted that the alternatives proposed by Bell Canada could lead to a reduction in trunking revenues since these alternatives did not protect the small ILECs against fluctuations in the number of DS-1s or distance. SATAT submitted that freezing the number of trunks and associated distance was preferable but, if there was no guarantee of minimum payments, it proposed that annual differences between pre-calculated and actual transition revenues should be made up by the NCF or local rate increases.

Commission's analysis and determinations

111. As noted earlier in this Decision, the Commission considers that the DT rates of the small ILECs, which were made interim in Decision 2001-756, should be made final for 2002, 2003, and 2004. Accordingly, the small ILECs' toll interconnection revenues will have remained constant for 2001 through 2004. Therefore, the Commission will only examine the issues regarding payments by IXCs for 2005 in this section. The DT payments for 2002, 2003, and 2004 should be allocated to the IXCs operating in the small ILEC's territory based on actual conversation minutes for each of these years.

112. As noted earlier in this Decision, the Commission found that the small ILECs should be guaranteed a minimum level of trunking revenue to mitigate financial impacts during the transition to this new regime. The Commission notes that having IXCs pay for actual trunks in service, rather than amounts frozen at 31 December 2002 levels, will not provide this guarantee.

113. The Commission notes that parties did not object to the proposal that a single IXC would pay 1/12 of the annual requirement for DC, EA, and trunking revenues on a monthly basis when only one IXC is interconnected to a small ILEC. The Commission further notes that for DC and EA payments when multiple IXCs are interconnected to a small ILEC, most parties recommended allocating DC and EA revenues among interconnected IXCs based on actual conversation minutes.

114. In light of the above, the Commission considers that where there is a single IXC operating in the territory of a small ILEC, monthly payments should be calculated by dividing the small ILEC's annual DC, EA, and trunking revenues by 12. Where there are multiple IXCs operating in a small ILEC's territory, the Commission considers that monthly payments for DC and EA should be allocated among the IXCs directly connected to that small ILEC, in proportion to the actual conversation minutes of traffic by carrier, including the small ILEC's own toll traffic or that of its affiliates.

115. The Commission also considers that 2004 actual conversation minutes should be used to allocate interim monthly DC and EA payments between IXCs in 2005, with year-end adjustments for IXCs to be made based on actual minutes for 2005.

116. Where there are multiple IXCs operating in a small ILEC's territory, the Commission considers that the methodology for apportioning trunking payment obligations between multiple interconnected IXCs ought to be consistent with the methodology used for calculating the trunking payments themselves, i.e., based on the number of trunks and the length of the trunks, rather than based on conversation minutes, because number of minutes is not a factor in determining the number of trunks required.

117. The Commission considers that trunks and associated distance, as of 31 December 2004, should be used to allocate interim monthly trunking payments between IXCs in 2005. An IXC's interim monthly payment will be estimated by allocating an IXC's proportion of the small ILECs' trunking revenues, derived using 31 December 2004 demand data and the rates approved in this Decision, to the frozen trunking revenues calculated in this Decision. Year-end adjustments for IXCs will be made based on actual data for 2005.

118. In light of the above, the Commission concludes that the small ILECs should calculate the payments by IXCs, when multiple IXCs are operating in their territory, as follows:

- monthly payments for DC and EA are to be apportioned using 2004 conversation minutes;
- trunking payments are to be apportioned using trunking configurations as of 31 December 2004; and
- year-end adjustments for IXCs are to be made based on actual 2005 data.

In the event that issues or concerns arise regarding the estimated monthly payments by IXCs, parties may come to the Commission for resolution.

VI. Other issues

Trunking issues raised by parties

119. The Commission notes that the small ILECs have provided updated conversation minutes and trunking data, which were used in this process to derive their DC, EA, and trunking revenues. The Commission also notes that parties raised issues with respect to the trunking data, which are addressed below.

Nexicom Telephones mileage

Bell Canada's position

120. Bell Canada submitted that Nexicom Telephones Inc. (Nexicom Telephones) was providing service using a remote switch hosted by Nexicom Telecommunications Inc. (Nexicom Telecom) since Nexicom Telephones' switch did not have the capability to interconnect directly to an IXC. Bell Canada stated that because of the limited functionality of Nexicom Telephones' switch, it could not provide toll service directly to customers in Nexicom Telephones' territory, and that it had to provide service via interconnecting arrangements at Nexicom Telecom's switch instead.

121. Bell Canada also submitted that distance charges should be based on the distance to the switch to which it was interconnected to provide toll service and should not include the additional distance of 16 miles between Nexicom Telephones' and Nexicom Telecom's switches. The company argued that other small ILECs had agreed on mileage between the POI and host switch only.

The OTA's reply

122. In reply, the OTA indicated that the distance submitted for Nexicom Telephones was representative of its trunking and should include the 16-mile distance from Nexicom Telecom's host switch to the POI with Bell Canada.

Commission's analysis and determination

123. The Commission notes that it was Nexicom Telephones' decision to use a remote switch hosted by Nexicom Telecom to provide local service in its territory. The Commission also notes that the host-remote link would carry both local and toll traffic. As such, the Commission considers that it would not be appropriate to include the costs associated with the host-remote link when determining the length of the interconnecting circuits. Accordingly, the Commission has reduced the distance per trunk for Nexicom Telephones by 16 miles.

Thunder Bay Telephone trunks

Bell Canada's position

124. Bell Canada submitted that the number of trunks reported to the Commission by Thunder Bay Telephone was overstated, since 31 December 2002 fell during a time period when that company was transferring a significant number of trunks from one default IXC provider to another. It noted that this had resulted in an excessive number of trunks in service in order to ensure customer service was not affected during the transfer period. Bell Canada noted that the information provided for Thunder Bay Telephone in CAPTS's 23 June 2003 submission showed 173 toll DS-1s as of 31 December 2002, compared with 142 trunks in the information previously provided by CAPTS. Bell Canada argued that guaranteeing Thunder Bay Telephone revenues based on 173 toll DS-1s in service would have the effect of granting Thunder Bay Telephone substantial revenues based on incorrect and misleading information for the duration of the transition period, and that this would be unacceptable.

CAPTS's reply comments

125. CAPTS stated that Thunder Bay Telephone had confirmed that the difference in toll DS-1s as highlighted by Bell Canada included a number of trunks that were in place for the transfer from one carrier to another, and reflected a consistent treatment of toll trunks. CAPTS stated that Thunder Bay Telephone's original number (142) represented interconnection trunks as of May 2002, prior to any transfer undertakings. CAPTS submitted that no incorrect or misleading information had been filed, as alleged by Bell Canada, and that the higher number of trunks was the number of trunks in service as of 31 December 2002. Furthermore, CAPTS stated there was no reason why Thunder Bay Telephone's 31 December 2002 interconnection trunk total should be lessened by the number of trunks Bell Canada maintained in place for ensuring its customers' service during the Bell Canada-initiated transfer.

Commission's analysis and determination

126. The Commission notes that CAPTS provided updated information on the number of toll trunks and their related distance for IXCs interconnected with Thunder Bay Telephone as of 23 July 2003. In the Commission's view, although the number of trunks reported by Thunder Bay Telephone as of 31 December 2002 was the actual number of trunks in service at that time, it reflected a temporary situation. In the Commission's view, the lower number of trunks in place before and after the transfer of service would more accurately represent the typical number of interconnection trunks in place. The Commission finds that the number of trunks for determining trunking revenue for Thunder Bay Telephone should be set at 142.

Sogetel trunks and associated distance

TELUS Québec's position

127. TELUS Québec requested that the total number of toll interconnection trunks for Sogetel inc.'s (Sogetel's) operating territory as of 31 December 2002 be set at 19. It objected to SATAT's addition of circuits for a new IXC that had started operations in Sogetel's territory in the summer of 2002, and requested that the date of entry of the new IXC be set at 1 January 2003. TELUS Québec indicated that it would have to make adjustments to its network with the arrival of competition and that it expected to complete the necessary circuit reduction in the fall of 2003, once the competitive situation had stabilized. It also argued that the length of the toll interconnection circuits should be set at 18 miles, and not at 38 miles as submitted by SATAT. TELUS Québec stated that the 38 miles included the length of the protection circuit of 20 miles, in addition to the length of the working circuit of 18 miles. TELUS Québec also submitted that the NST for interexchange circuits covered the costs of protection circuits.

SATAT's reply comments

128. SATAT argued that Sogetel had not added the trunks of the new competitive IXC, but rather had counted all trunks in service as of 31 December 2002, which included the 19 toll interconnection trunks that were connected to Sogetel by TELUS Québec, at TELUS Québec's request. SATAT noted that while TELUS Québec recognized that other IXCs had started doing business in 2002, it had argued that the start date should be changed to 2003.

129. SATAT stated that the ring configuration between Sogetel's host in Lac Etchemin and TELUS Québec's POI had been determined jointly between the two parties and that, contrary to TELUS Québec's assertion, the NST for interexchange trunks did not take into account robustness investments, unless the distance of the protection circuit in such ring configurations was added to the distance of the interconnection trunk with the IXC. In addition, SATAT noted that many of its members had similar ring configurations with other IXCs, and it was agreed by Bell Canada that adding the length of both sides of the ring was the appropriate methodology to use in these circumstances.

Commission's analysis and determinations

130. Regarding the number of trunks in Sogetel's territory, the Commission notes that in a competitive marketplace, it is reasonable to expect that there will be a change in the number of trunks in service as a result of new IXCs entering a small ILEC's operating territory. The Commission also notes that since the new IXC started operations in Sogetel's territory during 2002, these trunks should be included in the total number of interconnection trunks in service as of 31 December 2002. Further, the Commission notes that TELUS Québec has not provided evidence of how many, if any, it removed. In addition, the Commission disagrees with TELUS Québec that the NST provides for the recovery of the costs of protection circuits. The Commission notes that it has been the standard practice of the ILECs to apply the NST to the protection circuit as well as the working circuit. The Commission finds, therefore, that it is appropriate to include the trunk distance from both sides of the ring configuration.

131. In light of the above, the Commission finds the number of trunks in service and applicable distance for Sogetel as of 31 December 2002, as provided by SATAT, to be correct.

Flow-through tariffs

132. The Commission notes that based on previous decisions, long distance resellers are not required to compensate the small ILECs directly for originating and terminating conversation minutes. The Commission notes, however, that an IXC receives compensation for any difference in costs associated with carrying originating and terminating minutes on behalf of an alternate provider of long distance service (APLDS) using flow-through tariffs.

133. The Commission also notes that as a result of Decision 2001-756, the contribution portion of the CAT is recovered from the NCF and only the DT portion of the small ILEC's CAT remains subject to flow-through tariff arrangements.

134. Since this Decision will replace DT with a combined DC, EA, and trunking amount, the Commission considers that an ILEC carrying originating and terminating toll traffic into the territory of the small ILECs, on behalf of APLDS, may file revisions to their flow-through tariffs for Commission approval to reflect any difference between the ILEC's DC rate and the estimated DC, EA, and trunking charges of a small ILEC.

VI. Commission's conclusions

135. In light of the above, the Commission determines that:

- The existing DC and EA rates for O.N.Telcom, NorthernTel, and Cochrane that were approved in Decision 2001-583, and made interim by Decision 2001-756, are made final;

- DT rates of the small ILECs, which were made interim by Decision 2001-756, are **approved on a final basis** for 2002, 2003, and 2004;

- DC and trunking rates set out in Appendix A are **approved** for the small ILECs, effective 1 January 2005;

- Total proxy conversation minutes are to be frozen for the period from 2001 to 2005, inclusive, at the level approved for each of the small ILECs in setting their final 2001 CATs;

- The number of toll interconnection trunks – and associated distance – set out in Appendix C are to be frozen at this level for 2002 to 2005, inclusive;

- Co-location at each small ILEC's switch for the purpose of toll interconnection is permitted and the small ILECs are required to file co-location tariffs upon receipt of a request for co-location by an IXC;

- Trunking rates based on a minimum distance of one mile are to apply when

IXCs are not co-located;

- Conversation minutes and trunking data, as provided in Appendix C, will be used by the small ILECs to calculate their toll interconnection revenues in 2005;

- Small ILECs whose 2005 revenues for toll interconnection (DC, EA, and trunking revenues) fall by more than 35 percent from 2001 levels are permitted to recover that portion of their losses in excess of 35 percent through rate increases to primary exchange services. These increases to the monthly rates will be limited to $4 in any given year;

- Alternatively, small ILECs have the option of filing Phase II cost studies in support of company-specific DC and trunking rates;

- For a single IXC operating in the territory of a small ILEC, monthly payments are to be calculated by dividing the small ILEC's annual DC, EA, and trunking revenues by 12;

- For multiple IXCs operating in a small ILEC's territory:

  - monthly payments for DC and EA are to be apportioned using 2004 conversation minutes,

  - monthly trunking payments are to be apportioned using trunking configurations as of 31 December 2004, and

  - year-end adjustments for IXCs are to be made based on actual 2005 data; and

- NA rates will remain interim pending the Commission's approval of negotiated agreements.

136. The Commission directs the small ILECs to:

- File revised tariff pages within 30 days for Commission approval to implement the determinations set out in this Decision;

- Use the conversation minutes and trunking data, as provided in Appendix C, to calculate their 2005 toll interconnection revenues;

- Estimate their 2005 monthly payments by IXCs using the determinations in this Decision; and

- Inform the Commission, within 60 days of this Decision, of the date when they anticipate their EA costs will be fully amortized.

137. The Commission notes that issues such as the recovery of remaining EA costs beyond 2005 and the appropriate level of conversation minutes and trunks to be used going forward will be dealt with in the next review of the regulatory framework for the small ILECs.

Secretary General

Appendix A

Direct Connection Rates

	For companies with annual conversation minutes ranging from:		
	0 to 5 million minutes	5+ to 20 million minutes	20+ million minutes
DC rate per conversation minute	$0.0178	$0.0132	$0.0037

Trunking rates

		For companies whose number of interconnection trunks range from:			
		1 to 3	4 to 7	8 to 30	31+
Rate per month					
Link rates					
A) Link charge per DS-1		$60.00	$60.00	$60.00	$60.00
B) Link charge per DS-3		N/A	N/A	$100.00	$100.00
Base charges					
A) Base charge per DS-1	in 0-5 mile band	$2,000.00	$1,440.00	$935.00	N/A
B) Base charge per DS-1	in 6-10 mile band	$2,000.00	$1,440.00	$1,440.00	N/A
C) Base charge per DS-1	in 11-25 mile band	$560.00	N/A	N/A	N/A
D) Base charge per DS-1	in 26-50 mile band	$2,360.00	$1,800.00	$1,800.00	$1,800.00
E) Base charge per DS-1	in 51-100 mile band	$3,440.00	$2,880.00	$2,880.00	$2,880.00
F) Base charge per DS-3	in 101-200 mile band	N/A	N/A	$44,280.00	$44,280.00
Distance charges					
A) Per-mile charge per DS-1	in 0-5 mile band	N/A	N/A	N/A	$144.00
B) Per-mile charge per DS-1	in 6-10 mile band	N/A	N/A	N/A	$144.00
C) Per-mile charge per DS-1	in 11-25 mile band	$144.00	$144.00	$144.00	$144.00
D) Per-mile charge per DS-1	in 26-50 mile band	$72.00	$72.00	$72.00	$72.00
E) Per-mile charge per DS-1	in 51-100 mile band	$50.40	$50.40	$50.40	$50.40
F) Per-mile charge per DS-3	in 101-200 mile band	N/A	N/A	$270.00	$270.00

Service charge for each DS-1 or DS-3: $1,400.00

Minimum distance: 1 mile per trunk, unless co-location tariffs are in place

Appendix B

Direct Connection, Equal Access, and Trunking Revenue Estimates

Company	2001 Total $	2005 Revenue Estimate EA $	DC $	Trunking $	Total $	Variation 2005 over 2001 $	Variation %	Estimated revenues assuming max. 35% decrease $	Estimated revenue loss in excess of 35% $
Amtelecom	3,218,400	33,000	284,223	595,008	912,231	(2,306,169)	-71.7	2,091,960	1,179,729
Brooke	247,200	6,739	95,951	72,000	174,690	(72,510)	-29.3		
Execulink Telecom	519,700	9,822	81,027	183,276	274,125	(245,575)	-47.3	337,805	63,680
Gosfield North	203,200	8,411	91,039	72,000	171,450	(31,750)	-15.6		
Hay Communications	931,800	932	79,956	95,520	176,408	(755,392)	-81.1	605,670	429,262
HuronTel	709,500	932	239,211	208,656	448,799	(260,701)	-36.7	461,175	12,376
Lansdowne	197,500	725	138,416	72,000	211,141	13,641	6.9		
Mornington	339,600	1,674	135,932	108,000	245,606	(93,994)	-27.7		
Nexicom Telcom	499,800	3,302	172,021	198,420	373,743	(126,057)	-25.2		
Nexicom Telephones	201,500	2,315	103,958	170,208	276,481	74,981	37.2		
North Frontenac	243,200	932	98,960	72,000	171,892	(71,308)	-29.3		
North Renfrew	128,100	6,289	108,686	100,368	215,343	87,243	68.1		
People's	468,200	0	89,279	177,552	266,831	(201,369)	-43.0	304,330	37,499
Quadro	513,100	4,885	108,686	252,576	477,645	(35,455)	-6.9		
Roxborough	59,200	2,000	44,477	49,440	95,917	36,717	62.0		
Tuckersmith	404,700	6,453	195,477	108,000	309,930	(94,770)	-23.4		
Westport	193,800	509	134,169	108,000	242,678	48,878	25.2		
Wightman	796,400	6,655	119,845	292,032	418,532	(377,868)	-47.4	517,660	99,128
CoopTel	596,990	19,850	262,030	216,396	498,276	(98,714)	-16.5		
Courcelles	171,961	2,675	30,533	49,440	82,648	(89,313)	-51.9	111,775	29,127
Guèvremont	284,570	3,575	79,508	126,000	209,083	(75,487)	-26.5		
La Baie	142,356	2,725	37,773	84,528	125,026	(17,330)	-12.2		
Milot	421,429	2,900	188,284	291,600	482,784	61,355	14.6		
Nantes	45,179	480	11,333	24,720	36,533	(8,646)	-19.1		
St-Liboire	214,077	1,560	77,866	90,000	169,426	(44,651)	-20.9		
Sogetel	1,422,119	8,055	221,365	1,280,880	1,510,300	88,181	6.2		
Upton	305,298	1,840	106,757	90,000	198,597	(106,701)	-34.9		
Warwick	650,057	16,105	231,632	179,820	427,557	(222,500)	-34.2		
Lambton	218,054	3,136	80,827	74,160	158,123	(59,931)	-27.5		
St-Éphrem	157,297	2,850	83,425	74,160	160,435	3,138	2.0		
St-Victor	180,304	10,892	68,520	74,160	153,572	(26,732)	-14.8		
BMTS	916,400	1,120	244,529	473,844	719,493	(196,907)	-21.5		
Dryden MTS	285,800	5,000	96,323	131,340	232,663	(53,137)	-18.6		
KMTS	839,600	5,000	150,408	214,920	370,328	(469,272)	-55.9	545,740	175,412
CityTel	833,870	30,656	209,050	214,920	454,626	(379,244)	-45.5	542,016	87,390
Thunder Bay Telephone	2,956,800	51,373	1,112,516	347,616	1,511,505	(1,445,295)	-48.9	1,921,920	410,415
Total	$20,517,061	$265,367	$5,725,488	$6,973,560	$12,964,415	($7,552,646)	-36.8		$2,524,018

Appendix C

2001 Proxy Conversation Minutes and Trunking Configurations

Company	2001 Minutes	DS-1										DS-3	
		0-5		6-10		11-25		26-50		51-100		101-200	
		Trunks	Miles	Trunks	Miles	Trunks	Miles	Trunks	Miles	Trunks	Miles	Trunks	Miles
Amtelecom	76,817,005	5	10	20	153	7	168	0	0	0	0	0	0
Brooke	7,268,998	2	8	2	12	0	0	0	0	0	0	0	0
Execulink Telecom	21,899,195	3	15	6	48	2	22	0	0	0	0	0	0
Gosfield North	6,896,919	4	8	0	0	0	0	0	0	0	0	0	0
Hay Communications	21,609,627	8	29	0	0	0	0	0	0	0	0	0	0
HuronTel	18,122,014	0	0	6	36	3	57	0	0	0	0	0	0
Lansdowne	10,486,066	4	18	0	0	0	0	0	0	0	0	0	0
Mornington	10,297,848	6	30	0	0	0	0	0	0	0	0	0	0
Nexicom Telcom	13,031,896	1	5	0	0	7	105	0	0	0	0	0	0
Nexicom Telephones	7,875,586	0	0	0	0	6	96	0	0	0	0	0	0
North Frontenac	7,496,972	4	4	0	0	0	0	0	0	0	0	0	0
North Renfrew	8,233,811	0	0	0	0	5	56	0	0	0	0	0	0
People's	24,129,388	0	0	0	0	9	99	0	0	0	0	0	0
Quadro	16,680,619	0	0	4	35	6	102	0	0	0	0	0	0
Roxborough	2,498,688	2	6	0	0	0	0	0	0	0	0	0	0
Tuckersmith	14,808,868	2	2	4	36	0	0	0	0	0	0	0	0
Westport	10,164,292	3	15	3	21	0	0	0	0	0	0	0	0
Wightman	32,390,591	0	0	0	0	12	164	0	0	0	0	0	0
CoopTel	19,850,760	3	3	0	0	6	102	0	0	0	0	0	0
Courcelles	1,715,324	0	0	2	12	0	0	0	0	0	0	0	0
Guèvremont	21,488,528	7	11	0	0	0	0	0	0	0	0	0	0
La Baie	2,122,066	2	8	0	0	1	16	0	0	0	0	0	0
Milot	14,263,931	0	0	0	0	9	165	0	0	0	0	0	0
Nantes	636,688	1	1	0	0	0	0	0	0	0	0	0	0
St-Liboire	5,898,916	1	1	4	32	0	0	0	0	0	0	0	0
Sogetel	59,828,425	6	6	6	48	0	0	21	822	0	0	0	0
Upton	8,087,687	4	4	1	8	0	0	0	0	0	0	0	0
Warwick	17,547,904	3	3	8	64	0	0	0	0	0	0	0	0
Lambton	6,123,221	0	0	3	18	0	0	0	0	0	0	0	0
St-Éphrem	4,686,785	0	0	3	24	0	0	0	0	0	0	0	0
St-Victor	3,849,455	0	0	3	27	0	0	0	0	0	0	0	0
BMTS	66,089,013	5	15	11	88	5	123	0	0	0	0	0	0
Dryden MTS	26,033,291	11	11	0	0	0	0	0	0	0	0	0	0
KMTS	40,650,677	18	28	0	0	0	0	0	0	0	0	0	0
CityTel	56,500,000	18	18	0	0	0	0	0	0	0	0	0	0
Thunder Bay Telephone	300,680,102	142	142	0	0	0	0	0	0	0	0	0	0
Total	966,761,156	265	401	86	662	78	1,275	21	822	0	0	0	0