



Telecom Public Notice CRTC 2006-5

Ottawa, 9 May 2006

Review of price cap framework

Reference: 8678-C12-200605553

In this Public Notice, the Commission initiates a proceeding to establish the price cap regime that will go into effect in 2007, in the operating territories of Aliant Telecom Inc., Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications, and TELUS Communications Company. The proceeding will include an oral hearing to be held in Gatineau, Quebec in October 2006.

Introduction

1. In *Extension of the price regulation regime for Aliant Telecom Inc., Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications and TELUS Communications Inc.*, Telecom Decision CRTC 2005-69, 16 December 2005 (Decision 2005-69), the Commission extended the current price cap regime without changes for Aliant Telecom Inc. (Aliant Telecom), Bell Canada, MTS Allstream Inc. (MTS Allstream), Saskatchewan Telecommunications (SaskTel) and TELUS Communications Company (TCC)¹ for a period of one year, to 31 May 2007.
2. In *Extension of the price regulation regime for Société en commandite Télébec and TELUS Communications (Québec) Inc.*, Telecom Decision CRTC 2005-70, 16 December 2005 (Decision 2005-70), the Commission extended the current price cap regime without changes for Société en commandite Télébec (Télébec) and TELUS Communications (Québec) Inc. (TCQ)² for a period of one year, to 31 July 2007.
3. In Decisions 2005-69 and 2005-70, the Commission stated its intention to initiate a proceeding to review the existing price cap regime following the release of the decision in the proceeding initiated by *Forbearance from regulation of local exchange services*, Telecom Public Notice CRTC 2005-2, 28 April 2005. *Forbearance from the regulation of retail local exchange services*, Telecom Decision CRTC 2006-15 (Decision 2006-15) was issued by the Commission on 6 April 2006.

¹ Effective 1 March 2006, TELUS Communications Inc. assigned and transferred all of its assets and liabilities, including all of its service contracts, to TELUS Communications Company.

² In July 2004, TELUS Communications Inc. assumed all rights, entitlements, liabilities and obligations relating to the provision of telecommunications services in the territory previously served by TCQ.

Existing price cap regime

4. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission set out the price cap regime, effective 1 June 2002, for Aliant Telecom, Bell Canada, Manitoba Telecom Services Inc.,³ SaskTel and TCC. In *Implementation of price regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002 (Decision 2002-43), the Commission set out the price cap regime, effective 1 August 2002, for Télébec and TCQ which was similar to the general regulatory regime as set out for the other large incumbent local exchange carriers (ILECs) in Decision 2002-34.
5. The Commission designed the price cap regime to achieve the following objectives:
 - 1) to render reliable and affordable services of high quality, accessible to both urban and rural area customers;
 - 2) to balance the interests of the three main stakeholders in telecommunications markets, i.e., customers, competitors and incumbent telephone companies;
 - 3) to foster facilities-based competition in Canadian telecommunications markets;
 - 4) to provide incumbents with incentives to increase efficiencies and to be more innovative; and
 - 5) to adopt regulatory approaches that impose the minimum regulatory burden compatible with the achievement of the previous four objectives.
6. Based on, among other things, the state of competition identified in the proceedings leading up to Decisions 2002-34 and 2002-43 (collectively, the price cap decisions), the current price cap regime involves multiple baskets and service groups with individualized basket constraints, as well as, in some instances, specific rate element constraints.
7. The price cap regime includes eight baskets or groups of services: residential local services in high cost serving areas (HCSAs); residential local services in non-high cost serving areas (non-HCSAs); business services; other capped services; Competitor Services; services with frozen rates; public payphones; and uncapped services. Each of these baskets or service groups is subject to pricing constraints.

³ On 4 June 2004, Manitoba Telecom Services Inc. completed its acquisition of Allstream Inc. and is subsequently referred to as MTS Allstream Inc.

8. The individual basket constraints rely on an inflation factor (I), a productivity factor (X) and an exogenous factor (Z), as appropriate. The Commission selected the chain weighted Gross Domestic Product – Price Index (GDP-PI) published by Statistics Canada as the inflation measure and it set the productivity offset at 3.5 percent. In addition to basket constraints, a variety of rate element constraints were imposed on specific services which provide customers with additional price protection.
9. In the residential market, the Commission applied a basket constraint equal to inflation less the productivity factor to the basket of residential services in non-HCSAs. The Commission did not impose a basket constraint on the basket of residential services in HCSAs as such a constraint would have forced down local exchange rates in HCSAs which were already set below cost.
10. In order to ensure that rates were just and reasonable, the Commission implemented a deferral account mechanism to mitigate the adverse effects on local competition for residential services in non-HCSAs that might have resulted from mandated rate reductions. With a deferral account mechanism, an amount equal to the revenue reduction required by the residential non-HCSA basket constraint is assigned to the deferral account and retained in that account, instead of reducing the revenues of the basket by means of rate reductions.
11. In addition, in the sub-baskets for residential services in HCSAs and non-HCSAs, the Commission applied basket constraints and a number of service-specific rate element constraints in order to provide adequate price protection to subscribers where local competition was expected to develop slowly.
12. In the business market, given the extent to which market forces were present and the extent to which business rates were reduced in the initial price cap regime, the Commission did not consider it necessary to subject business services to a productivity offset.
13. With respect to other capped services, the Commission considered that market forces could not be relied upon to sufficiently discipline the prices of these services and anticipated that the ILECs would continue to achieve productivity and efficiency gains in respect of these services. Accordingly, these services were made subject to the productivity offset.
14. The Commission established two categories of Competitor Services. Category I Competitor Services are those services found to be in the nature of an essential service. These services comprise interconnection and ancillary services required by Canadian carriers and resellers interconnecting to the ILECs' networks. Since there were few, if any, competitive alternatives for services assigned to Category I Competitor Services and having regard to the expectation that ILECs would experience productivity and efficiency gains in respect of these services, the Commission considered that rates for Category I Competitor Services should reflect productivity gains on an ongoing basis.
15. Category II Competitor Services are Competitor Services that are not in the nature of an essential service. The Commission considered it appropriate not to apply a productivity offset to the rates for these services.

16. The rates for 9-1-1 service and Message Relay Service were frozen. Also, public and semi-public pay telephones were placed in a separate category and their rates were frozen. All tariffed services not assigned to one of the previous baskets or service groups were classified as uncapped services and are not subject to any upward pricing constraints.
17. In keeping with the ongoing effort to streamline and improve the efficiency of regulation, in the price cap decisions, the Commission revised the reporting requirements of the ILECs by eliminating the filing requirements of both Phase III/Split Rate Base and intercorporate transaction reports. The Commission considered that the concept of a Utility Segment no longer had relevance. This was due, in part, to the introduction of a Phase II-based determination of the subsidy requirement starting in 2002 and the structure of the current price cap regime.

Scope of the proceeding

18. The Commission hereby initiates a proceeding to establish that price cap regime that will go into effect in 2007, in the operating territories of Aliant Telecom, Bell Canada, MTS Allstream, SaskTel, and TCC (the telephone companies).
19. By letter dated 20 April 2006, Télébec submitted that the price cap regime applicable to the company should not be reviewed as part of this proceeding. Télébec proposed that subsequent to a decision in this proceeding it would file a submission with the Commission indicating whether the regime set out was appropriate to the company going forward, noting any changes it would prefer.
20. The Commission considers Télébec's request to be appropriate. Accordingly, the Commission will not make Télébec a party to this proceeding. Coincident with the issuance of a decision in this proceeding, the Commission will request Télébec to indicate why the regime set out in the decision resulting from this proceeding should not be applicable to it.
21. In order to streamline this proceeding, the Commission is limiting the issues to be considered to those which it considers directly related to a price cap regime.
22. The Commission is inviting comments on what changes, if any, should be made to the price cap regime with regard to the following:
 - objectives of the regime;
 - basket structure and assignment of services, except for Competitor Services;
 - constraints for basket(s) of services (e.g., I-X);
 - constraints for individual services or rate elements (e.g., the percentage increase per year allowable for basic residential services), except for Competitor Services;

- rate deaveraging within a band;
 - components of the price cap formula (e.g., I, X, and Z);
 - the continuing need for a deferral account for the residential non-HCSA basket; and
 - the length of the next price cap regime, including whether the regime should be of a fixed duration.
23. In addition, the Commission will also consider in this proceeding how the price cap regime should be modified pursuant to the framework set out in Decision 2006-15.
24. This proceeding will strictly focus on issues directly related to those identified above and will not include the following:
- proposals for new Competitor Services or new categories of Competitor Services;
 - examination of Phase II costs for existing Competitor Services;
 - existing assignments of Competitor Services between Categories I and II;
 - definition of Category I and Category II Competitor Services;
 - safeguards for promotions, bundling rules and the winback rule;
 - imputation test;
 - other forms of regulation (e.g., earnings overlay);
 - "re-initialization" of prices at the start of the next regime;
 - review of the basic service objective; and
 - review of competitor and retail quality of service indicators, including standards, and rate adjustment/rebate plans.

ILEC reorganizations

25. TCC assumed all rights, entitlements, liabilities and obligations relating to the provision of telecommunications services in the territory previously served by TCQ. In addition, BCE Inc. announced in February 2006 and in March 2006, that it would create a "regional trust" containing some 3.4 million lines that would include:
- 1) Bell Canada's rural wireline operations in Ontario and Quebec;

- 2) Aliant Telecom's wireline operations in Atlantic Canada; and
 - 3) BCE Inc.'s 63.4 percent interest in Bell Nordiq.
26. The Commission notes that these ILEC reorganizations will have an impact on the price cap regime under consideration in this proceeding. Aliant Telecom, Bell Canada and TCC are to propose what changes are necessary to the existing price cap regime to reflect these reorganizations. These changes should address the issues set out in paragraph 22 above as they relate to the new corporate structures.

Procedure

27. Aliant Telecom, Bell Canada, MTS Allstream, SaskTel, and TCC are all made parties to this proceeding.
28. Other persons interested in participating in this proceeding (including receiving copies of all submissions) must notify the Commission of their intention to do so by filling out the on-line form, or by writing to the Secretary General, CRTC, Ottawa, Ontario, K1A 0N2, or by faxing at: (819) 994-0218 by **9 June 2006** (the registration date). Parties are to provide their e-mail address, where available. If parties do not have access to the Internet, they are to indicate in their notice whether they wish to receive disk versions of hard copy filings.
29. The Commission will issue on its website, as soon as possible after the registration date, a complete list of interested parties and their mailing addresses (including their e-mail addresses, if available), identifying those parties who wish to receive disk versions.
30. Any person who wishes merely to file written comments in this proceeding, without receiving copies of the evidence filed or appearing at the hearing may do so by writing to the Commission, at the address or fax number noted in paragraph 28, or by filling out the on-line form, by **26 October 2006**.
31. The Commission will not formally acknowledge comments. It will, however, fully consider all comments and they will form part of the public record of the proceeding.
32. The Commission will shortly address interrogatories to the telephone companies regarding issues set out in this Public Notice. The telephone companies are directed to file responses to the interrogatories with the Commission and serve copies on all parties by **10 July 2006**.
33. Parties are to file with the Commission, serving copies on all parties, their evidence on all matters within the scope of this proceeding. All such material is to be filed with the Commission and served on all parties, by **10 July 2006**.
34. Parties may address interrogatories to any party who files evidence pursuant to paragraph 33. Any such interrogatories must be filed with the Commission and served on the relevant party or parties by **8 August 2006**.

35. Responses to interrogatories addressed pursuant to paragraph 34 are to be filed with the Commission and served on all parties by **6 September 2006**.
36. Requests by parties for further responses to their interrogatories, specifying in each case why a further response is both relevant and necessary, and requests for public disclosure of information for which confidentiality has been claimed, setting out in each case the reasons for disclosure, must be filed with the Commission and served on the relevant party or parties by **13 September 2006**.
37. Written responses to requests for further responses to interrogatories and for public disclosure must be filed with the Commission and served on the party or parties making the request by **20 September 2006**.
38. A determination will be issued with respect to requests for further information and public disclosure as soon as possible. Any information to be provided pursuant to that determination will be filed with the Commission and served on all interested parties by **4 October 2006**.
39. An oral hearing will take place in Gatineau, Quebec commencing on **10 October 2006** at the Conference Centre, Phase IV, Outaouais Room, 140 Promenade du Portage, Gatineau, Quebec and is expected to last approximately two weeks.
40. Interested parties wishing to appear at the oral hearing shall file notice of their intention to participate no later than **11 August 2006**. An organization and conduct letter, providing directions on procedure with respect to the oral hearing, including the scope of the issues to be examined during the oral hearing, will be issued prior to the commencement of the oral hearing.
41. Persons requiring communications support such as assistive listening devices and sign language interpretation are requested to inform the Commission at least twenty (20) days before the commencement of the oral hearing so that necessary arrangements can be made.
42. All parties may file argument with the Commission on any matter within the scope of this proceeding, serving a copy on all other parties, by **26 October 2006**.
43. All parties may file reply argument with the Commission, serving a copy on all other parties, by **6 November 2006**.
44. The Commission intends to issue a decision by 30 April 2007.
45. Where a document is to be filed or served by a specific date, the document must be actually received, not merely sent, by that date.
46. Electronic submissions should be in the HTML format. As an alternative, those making submissions may use "Microsoft Word" for text and "Microsoft Excel" for spreadsheets.
47. Each paragraph of all submissions should be numbered. In addition, please enter the line *****End of document***** following the last paragraph. This will help the Commission verify that the document has not been damaged during transmission.

48. The Commission also encourages parties to monitor the record of this proceeding (and/or the Commission's website) for additional information that they may find useful when preparing their submissions.

Important notice

49. Note that all information that you provide as part of this public process, except information granted confidentiality, whether sent by postal mail, facsimile, e-mail or through the Commission's website at www.crtc.gc.ca, becomes part of a publicly-accessible file and will be posted on the Commission's website. This information includes your personal information, such as your full name, e-mail address, postal/street address, telephone and facsimile number(s), and any other personal information you provide.
50. Documents received electronically or otherwise will be posted on the Commission's website in their entirety exactly as you send them, including any personal information contained therein, in the official language and format in which they are received. Documents not received electronically will be available in PDF format.
51. The personal information you provide will be used and may be disclosed for the purpose for which the information was obtained or compiled by the Commission, or for a use consistent with that purpose.

Location of CRTC offices

52. Submissions may be examined or will be made available promptly upon request at the Commission offices during normal business hours:

Central Building
Les Terrasses de la Chaudière
1 Promenade du Portage, Room 206
Gatineau, Quebec J8X 4B1
Tel: (819) 997-2429 - TDD: 994-0423
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Metropolitan Place
99 Wyse Road, Suite 1410
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Secretary General

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