



## Telecom Decision CRTC 2003-70

Ottawa, 17 October 2003

### **MTS Communications Inc. – Reclassification of Band D exchanges to Band F and related rate issues**

Reference: Tariff Notices 499 and 499A, 8661-M3-200303933

*In this decision, the Commission **approves** MTS Communications Inc.'s (MTS') proposed reclassification of 17 exchanges from Band D to Band F. The Commission also **approves** (a) revised monthly loop rates for MTS' Bands D and F; (b) a monthly residential primary exchange service cost rate for Band F; and (c) a subsidy amount per residential Network Access Service per month for Band F, on an interim basis.*

#### **Introduction**

1. The Commission received an application by MTS Communications Inc. (MTS), dated 14 March 2003 and amended on 22 April 2003 (Tariff Notices 499 and 499A), to reclassify 17 of its exchanges currently classified in Band D to a new Band F and to revise related tariff pages. On 22 April 2003, MTS also filed its proposed unbundled Type A<sup>1</sup> loop rates for Bands D and F in accordance with the Band classification changes proposed in Tariff Notice 499, and proposed service charges for Band F.
2. By application dated 17 March 2003, as amended on 2 April 2003, MTS submitted that according to the criteria adopted by the Commission in *Restructured bands, revised loop rates and related issues*, Decision CRTC 2001-238, 27 April 2001 (Decision 2001-238) to identify high-cost serving areas (HCSAs), the 17 exchanges for which MTS had requested reclassification from Band D to Band F under Tariff Notice 499 would qualify for a monthly subsidy per residential Network Access Services (NAS).<sup>2</sup> MTS proposed a monthly subsidy amount of \$10.14 per residential NAS for Band F.
3. No comments were received with respect to MTS' applications.

#### **The applications**

4. In Tariff Notice 499, MTS submitted that in the follow-up activities relating to the implementation of Decision 2001-238, it determined that in the proceeding leading to Decision 2001-238 it had incorrectly limited the definition of Band F to those exchanges where the copper loop length was greater than four kilometres. MTS argued that it should have included

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<sup>1</sup> A Type A loop is an analog transmission path between the customer network interface and the incumbent local exchange carrier's loop termination point, and supports a voice grade signal of about 3 kHz usable bandwidth.

<sup>2</sup> In Decision 2001-238, the Commission determined that the residential NAS in Bands E, F and G would be eligible to receive subsidies from the national central fund. In that decision, Band F was defined to include wire centres or exchanges with greater than 1,500 and less than 8,000 total NAS, and where the average loop length was greater than four kilometres.

the entire length of the loop between its central office and the customer's premises in determining the classification of its exchanges in the proceeding leading to Decision 2001-238. In support of its position, MTS submitted that it had learned that other incumbent local exchange carriers (ILECs) had used the entire loop length as the qualification for Band F.

5. MTS argued that 17 of its Band D exchanges met the criteria for Band F based on the Decision 2001-238 definition of Band F adopted by the Commission. In order to be in agreement with Decision 2001-238, MTS requested approval of the reclassification of 17 exchanges from Band D to Band F and filed revised tariff pages to reflect the proposed Band reclassification. As indicated in its application of 17 March 2003, this reclassification would result in the transfer of 35,216 residential NAS to Band F.
6. In order to implement the proposed Band reclassification set out above, MTS, in its 22 April 2003 filing associated with Tariff Notice 499A, proposed (a) revised unbundled Type A local loop monthly rates for Bands D and F; and (b) Band F service charges that were the same as those that currently apply to the other rate bands. MTS calculated the proposed Type A local loop rates by first using the average loop rates approved by the Commission in Decision 2001-238 for Bands D and F for the other ILECs, determining them to be \$17.26 for Band D and \$28.92 for Band F. These rates reflected a mark-up of 25%. MTS then adjusted these rates downwards in order to reflect the lower mark-up of 15% mandated by the Commission in *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34). This resulted in proposed Type A loop rates for Bands D and F of \$15.88 and \$26.61, respectively.
7. In its 17 March 2003 application, as amended on 2 April 2003, MTS noted that the Commission, in *Final 2002 revenue-percent charge and related matters*, Telecom Decision CRTC 2002-71, 22 November 2002 (Decision 2002-71), had approved the subsidy per residential NAS for the ILECs' HCSA bands for 2003 on an interim basis. MTS also noted that the 17 HCSA exchanges referenced above qualified for a subsidy per residential NAS.
8. Noting that there were no approved residential primary exchange service (PES) costs necessary to establish the subsidy for Band F in its territory, MTS sought Commission approval for its proposed methodology for determining an estimate of such costs and the estimate itself. The company also sought approval for its proposed methodology for estimating the company's Band F subsidy requirement per residential NAS, until such time as the Commission would approve company-specific Phase II costs for MTS' Band F. In this regard, MTS noted that it had filed revised Phase II costs with the Commission in its submission in the proceeding initiated by *CRTC to review loop and primary exchange service cost filings*, Public Notice CRTC 2001-119, 30 November 2001.
9. First, MTS proposed a residential PES cost estimate for Band F of \$33.94 for 2003. This amount was derived by starting with the monthly Band F-1<sup>3</sup> subsidy requirement per residential NAS of \$15.93 established for small ILECs in *Regulatory framework for the*

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<sup>3</sup> In Decision 2001-756, the Commission approved four sub-bands in Band F for the small ILECs. Band F-1 pertained to those wire centres or exchanges consisting of 1,501 to 2,500 NAS.

*small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001 (Decision 2001-756). MTS then adjusted the Band F-1 subsidy requirement for the small ILECs:

- a) by adding the national weighted-average monthly residential local rate of \$22.75 approved in Decision 2001-756 for the small ILECs and a \$5.00 per month deemed revenue from other local services;
  - b) then subtracting the Commission adjustment specific to the small ILECs from Decision 2001-756 and a 15% mark-up on costs;
  - c) then adding an amount to cover estimated Band F service improvement plan (SIP) costs; and
  - d) finally applying inflation and productivity factors.
10. In estimating the 2003 subsidy requirement per residential Band F NAS, the proposed Band F cost of \$33.94 was adjusted upwards to reflect a 15% mark-up on costs and the revenue-percent charge of 1.3%, and was then reduced by MTS' Band F residential local rate of \$24.20 and the deemed revenues from other local services of \$5.00. This resulted in an estimated subsidy requirement per residential Band F NAS per month of \$10.14. MTS, accordingly, requested that the Commission revise the monthly subsidy per residential NAS set out in Decision 2002-71, to include MTS' proposed monthly subsidy per residential NAS of \$10.14 for Band F.

### **Commission analysis and determination**

11. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000, the Commission introduced a new subsidy requirement calculation that would establish the appropriate amount of subsidy payable to local exchange carriers which provide service in HCSAs. In brief, the subsidy requirement consists of the sum of the average annual residential PES revenue and an annual implicit contribution target amount of \$60.00 less the average annual PES costs, established on the basis of Phase II costs with an approved mark-up, per residential NAS in each high-cost band.
12. In Decision 2001-238, the Commission adopted a uniform approach to identifying HCSAs. In that decision, the Commission determined that wire centres or exchanges with greater than 1,500 and less than 8,000 total NAS, and where the average loop length was greater than four kilometres, were classified as Band F, one of the three HCSA bands.
13. The Commission notes that the average loop length used to establish bands in Decision 2001-238 was based on the entire loop length between the wire centre and the customer premises, including both the copper loop facilities and the fibre facilities associated with loops served from integrated digital loop carrier (IDLC) remotes.<sup>4</sup>

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<sup>4</sup> A loop that is served from an IDLC remote will typically consist of a copper facility from the customer premises to the IDLC remote terminal, which will then be extended to the wire centre via a fibre feeder system.

14. The Commission agrees that when the entire loop length between the wire centre and the customer's premise is considered, 17 exchanges currently classified in MTS' Band D would meet the Band F criteria as set out in Decision 2001-238. In light of the above, the Commission **approves**, effective the date of this decision, MTS' proposed reclassification of 17 exchanges from Band D to Band F and the proposed revisions to the corresponding tariff pages.
15. The Commission notes that MTS proposed revised Type A loop costs of \$13.81<sup>5</sup> and \$23.14<sup>6</sup> for its revised Bands D and F, respectively, to reflect the proposed reclassification of exchanges referenced above. In assessing these proposed Type A loop costs for Bands D and F, the Commission notes that, following Decision 2001-238, it adopted a "cost-neutral"<sup>7</sup> approach for establishing revised loop costs for other ILECs, like Aliant Telecom Inc., Bell Canada and TELUS Communications Inc., that resulted from wire centre or exchange reclassifications. The Commission considers that a similar approach should be used to assess MTS' applications.
16. The Commission's examination of the data presented by the company shows that the weighted-average loop cost for the aggregate of the proposed Bands D and F after the reclassification of exchanges, when weighted by the percentages of NAS in Bands D and F, differs from the loop cost approved in Decision 2001-238 for Band D. The Commission, therefore, finds that MTS' proposed loop costs are not "cost-neutral" and lead to an overestimation of costs in the company's subsidy determination.
17. Furthermore, the Commission notes that MTS' approved Band D monthly loop costs in Decision 2001-238 included IDLC fibre feeder costs. The Commission is of the view that the IDLC fibre feeder costs including maintenance expenses, as approved in Decision 2001-238, could be reassigned from the current Band D to the proposed Bands D and F, such that the weighted-average IDLC fibre feeder costs would be unchanged. The Commission is also of the view that the majority of these IDLC fibre feeder costs would be found in the exchanges transferred to Band F since these exchanges would have longer loop lengths and would typically make greater use of the IDLC remote solutions. The Commission, therefore, has assigned 75% of the IDLC fibre feeder costs to Band F and 25% to Band D.
18. The Commission notes that MTS' remaining Band D loop costs approved in Decision 2001-238, excluding the IDLC fibre feeder costs including maintenance expense, were not changed. These remaining costs plus the reassigned IDLC fibre feeder costs discussed in paragraph 17 above results in a revised loop cost of \$18.57 for Band D and a loop cost of \$21.46 for Band F.

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<sup>5</sup> Proposed Band D rate of \$15.88 divided by 1.15.

<sup>6</sup> Proposed Band F rate of \$26.61 divided by 1.15.

<sup>7</sup> In *Interim approval of revised unbundled loop rates for reclassified bands*, Order CRTC 2001-848, 28 November 2001, the Commission approved, on an interim basis, revised unbundled loop rates for the reclassified bands of a number of the ILECs. In that Order, the Commission was of the view that the weighted-average loop cost across the bands implied by the rates set in Decision 2001-238 should be the same with or without wire centre reclassifications.

19. After consideration of the above, the Commission **approves**, effective the date of this decision, monthly Type A loop rates of \$21.35 for Band D and \$24.68 for Band F. These rates include a 15% mark-up as mandated in Decision 2002-34.
20. The Commission notes that MTS proposed to adopt service charges for Band F that are consistent with the current service charges in the other bands. The Commission considers it reasonable to adopt the same service charges for Band F, and therefore **approves**, effective the date of this decision, the corresponding revision to MTS' tariff pages to include Band F service charges.
21. With respect to MTS' proposed residential PES cost for Band F of \$33.94 for 2003, the Commission considers that, similar to the "cost-neutral" approach adopted above for the loop costs, the revised weighted-average residential PES cost estimates for the proposed Bands D and F should be equivalent to the residential PES costs currently approved for MTS' current Band D.
22. The Commission notes that, in Decision 2001-238-2, the approved Band D loop costs for MTS represented 73.2% of MTS' residential PES costs. The Commission also notes that with the approval of MTS' proposed Band reclassification and the introduction of Band F, MTS is entitled to receive a subsidy per NAS from the national central fund. Assuming a loop-to-residential PES cost ratio of 73.2%, and the Type A loop rate approved above for Band F, the Commission determines that the monthly residential PES cost for Band F should be \$29.32. The Commission, accordingly, **approves** a monthly residential PES cost for MTS' Band F of \$29.32, effective the date of this decision.
23. The Commission notes that this approved PES cost of \$29.32 per residential NAS for Band F is stated in 2001 dollars since it was derived from information filed in the proceeding leading to Decision 2001-238. Therefore, the Commission considers that it is appropriate to adjust the PES cost for inflation, productivity, a 15% mark-up and the revenue-percent charge of 1.3% in order to determine the interim subsidy per residential NAS amount. This approach would be consistent with the calculations performed to determine the final 2002 and interim 2003 subsidy per residential NAS amounts for other HCSA bands.
24. The Commission notes that this adjusted cost, decreased by the average monthly residential local rate of \$24.20 and a \$5.00 per month deemed revenue from other local services, results in a Band F subsidy calculation of \$4.05 per residential NAS for MTS.
25. The Commission also notes that, while MTS had included a Band F SIP cost adjustment in its subsidy calculations, no Band F SIP information has been filed with the Commission. Therefore, no Band F SIP cost adjustment has been included in the calculation of the interim Band F subsidy of \$4.05 per residential NAS. If MTS considers that it requires a Band F SIP, then MTS should file the required SIP information for the Commission's consideration.

26. Therefore, the Commission **approves on an interim basis**, effective the date of this decision, a subsidy of \$4.05 per residential NAS per month for MTS Band F and directs the Central Fund Administrator to make the necessary subsidy payments to MTS based upon the approved Band F subsidy per residential NAS and the monthly Band F residential NAS reported by MTS.

Secretary General

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