Telecom Decision CRTC 2004-72

Ottawa, 9 November 2004

Primary inter-exchange carrier processing charges review

Reference: 8661-C12-200303306

In this Decision, the Commission ***approves*** *the Primary Inter-exchange carrier processing charges for the following incumbent local exchange carriers: Bell Canada, MTS Allstream Inc., Saskatchewan Telecommunications, Aliant Telecom Inc. and TELUS Communications Inc.*

1. In *Primary inter-exchange charges review*, Telecom Public Notice CRTC 2003-2, 20 March 2003, (Public Notice 2003-2), the Commission initiated a process to review the primary inter-exchange carrier (PIC) processing rates, including the costing methodologies, supporting assumptions and related resource inclusions, for the following incumbent local exchange carriers (ILECs): Bell Canada, MTS Communications Inc. (now known as MTS Allstream Inc. (MTS Allstream)), Saskatchewan Telecommunications (SaskTel), Aliant Telecom Inc. (Aliant Telecom) (collectively, The Companies) and TELUS Communications Inc. (TELUS).

2. PIC processing rates apply when an alternate provider of long distance service (APLDS) requests that a local exchange carrier (LEC) either establish or change the PIC selection associated with a LEC's customers access lines.

3. The PIC processing tariffs include the following components:

   - PIC processing charge per access line;
   - account set-up charge per PIC processing account;
   - changes to customer account record exchange (CARE) profile per request;
   - PIC/CARE user handbook, each additional copy;
   - billing telephone number (BTN) detail charge per working telephone number (WTN) provided;
   - verification record charge per access line; and
   - unauthorized PIC change charge per access line.

4. In Public Notice 2003-2, the Commission directed the ILECs to file revised Phase II cost studies in respect of the PIC processing charge per access line service. The Commission also directed the ILECs to track the monthly demand and revenues associated with their PIC processing charge per access line service commencing 20 March 2003, the issuance date of Public Notice 2003-2.

5. The Commission was of the view that the cost to develop Phase II studies for the remaining PIC processing rate components might not be commensurate with the resulting revenues received and expressed the preliminary view that, in the absence of costing information for the remaining PIC processing rates, it was appropriate for each ILEC to adopt the current rates of the Aliant Telecom Nova Scotia (Aliant Telecom-NS) region for these components. The Commission however indicated that if an ILEC disagreed with the use of the Aliant Telecom-NS rates for these remaining PIC processing charges, it could file revised cost studies for each of the remaining PIC processing rate components.

Process

6. Pursuant to the directives in Public Notice 2003-2, the ILECs filed revised cost studies for the PIC processing charge per access line.

7. Interrogatories were posed by Call-Net Enterprises Inc., Allstream Inc. and LondonConnect Inc. (collectively, the Competitors), Primus Telecommunications Canada Inc. (Primus Canada), and the Commission on 4 June 2003. The Commission issued supplemental interrogatories on 31 October 2003.

8. The Competitors and Primus Canada filed comments on 22 December 2003 and reply comments on 14 January 2004. The Companies and TELUS filed reply comments on 14 January 2004.

Issues

9. The following issues are being addressed in this Decision:

- PIC demand forecasts;
- PIC service provisioning costs;
- Demand sensitivity cost submissions;
- Portfolio expenses;
- PIC processing charges per access line and other PIC charges; and
- Retroactivity.

PIC Demand forecasts

Position of parties

10. The Competitors argued that the ILECs' over-reliance on historic trends of PIC transactions led to an understatement of the PIC transaction demand. The Competitors submitted that over the 2003-2007 period, the level of competitive activity in the long distance market was expected to increase as a result of the Commission's competitive market initiatives as well as the expected improvement in general economic conditions.

11. The Competitors argued that a number of ILECs based their 2003 demand forecast on a simplistic approach which used the actual number of PIC transactions for the first four months of 2003 multiplied by three to arrive at the twelve-month estimate. The Competitors submitted that this approach did not factor in any seasonality effects such as increased PIC volumes associated with back-to-school activity nor increased residential moves occurring during the summer period.

12. The Competitors argued that the ILECs' PIC demand forecasts needed to be adjusted upward by 10% to 15%. The Competitors noted that Bell Canada's PIC transaction demand for 2003 was assumed to be 15% lower than the 2002 demand, while the 2002 demand was 10% lower than 2001. The Competitors stated that this demand was inappropriately low which in turn led to an understatement of the PIC transaction demand for each of the following years in the study period. The Competitors also noted that TELUS had assumed that total PIC transactions would be held constant over the three-year study period while each of Aliant Telecom, SaskTel and MTS Allstream had assumed decreasing PIC transaction demand over the study period.

13. The Competitors submitted that a more reasonable PIC transaction forecast should be based on the growth in transaction demand over the 2002 transaction volumes and that the growth trend continue throughout the five-year study period.

14. The Competitors and Primus Canada noted that SaskTel had used a different base of PIC transactions than the rest of the ILECs.

15. Primus Canada argued that SaskTel's interpretation of what qualified as a PIC transaction resulted in SaskTel not including certain types of transactions in its demand. Primus Canada submitted that all customers with access to long distance should have a PIC selection, whether that PIC was made to the ILEC or an APLDS. Primus Canada submitted that a PIC transaction was defined as the overall process to populate the PIC field in the ILEC switches, and thus the default selection as applied by SaskTel for new telephone numbers would qualify as a PIC transaction.

16. The Competitors submitted that by excluding the demand and costs associated with the newly-established telephone numbers defaulted to SaskTel, its cost per transaction was significantly overstated. Primus Canada noted that in response to a supplemental interrogatory, SaskTel had provided an updated cost study with a revised demand forecast that included the demand and costs associated with new telephone numbers defaulted to SaskTel. The Competitors argued that SaskTel's demand forecast should be adjusted to include the same demand components as the other ILECs.

17. The Companies submitted that each of the ILECs' PIC transaction demand forecasts, as submitted to the Commission in this proceeding, was reasonable and entirely appropriate.

18. The Companies submitted that PIC processing comprised a relatively insignificant input to a competing carrier's costs of providing toll service. The Companies estimated that the PIC processing charges are 2.6% of the average revenue per minute charged by competitive long distance providers.

19. The Companies argued that historic trending was a widely-used and accepted methodology for developing forecasts in the telecommunications and other industries. The Companies submitted that the Competitors had over-simplified and as a result, mischaracterised the manner by which each of the companies forecasted its demand during the study period. The Companies stated that when developing the demand forecasts, each company considered a number of factors including, but not limited to: current and past trends; seasonal variations; toll retail market changes; and, the impact of the expected economic and regulatory climate on the factors that influenced demand. The Companies submitted that only after considering the projected impact of these factors on PIC demand over the study period did each company develop its demand forecast. The Companies argued that as each company's territory was unique, the interplay of the factors would be different in each territory and that it was natural for each company to deploy different techniques to forecast demand.

20. The Companies submitted that after considering various factors and the impact of these factors on PIC processing demand, Aliant Telecom had used actual data from its PIC/CARE system for the years 2000 to 2002, and for the first four months of 2003 (the available historical data). The Companies noted that Aliant Telecom's actual data showed a sharp decline since the year 2000. The Companies further submitted that Aliant Telecom had used the most recent demand forecast for total market Type A loops to confirm general trending for PIC processing demand estimates and that the demand forecasts for PIC processing were projected over the study period based on the historical data and prospective information as well as judgemental considerations. The Companies indicated that allowances for the impact of less robust conditions within the Atlantic region were incorporated into the demand projections, and that Aliant Telecom anticipated declining PIC transaction activity, but at a much slower rate beyond 2003 than in the past several years.

21. The Companies stated that Bell Canada had examined actual demand over a multi-year period and submitted that for Bell Canada, total demand for 2003 could be accurately forecast by multiplying the first four months of data by three. The Companies submitted that this assumption was used because, in the case of Bell Canada, there were a number of spikes in demand throughout the year and hence the impact of seasonal variations and other demand "shocks" could be captured by multiplying the first four months of data by three. The Companies stated that in order to estimate the PIC transaction demand for 2004 to 2007, Bell Canada took into consideration past trends, the impact of a projected economic recovery on such trends, and the expected customer churn in the market place. The Companies submitted that this resulted in a slight growth for the period 2004 to 2007 even though PIC demand in Bell Canada had been declining for the past few years up to 2002.

22. The Companies stated that MTS Allstream had examined actual demand over a multi-year period and submitted that for MTS Allstream, total demand for a given year could be accurately forecast by multiplying the first four months of data by three. For MTS Allstream between the years 2000 and 2002 the PIC transaction demand had declined by almost 20%. The Companies indicated that MTS Allstream developed its forecast of 2003 PIC demand by multiplying the first four months of data for 2003 by three. In order to estimate the PIC transaction demand for 2004 to 2007, MTS Allstream took into consideration historical data, the anticipated customer movement activities in the Manitoba market-place and the rapid increase in the Manitoba market-place of "dial around carriers" that did not require a PIC

transaction. The Companies submitted that although MTS Allstream's PIC transaction demand had declined in the last few years, it now expected a more stable telecommunications industry which should result in a relatively stable level of PIC demand.

23. The Companies stated that SaskTel's demand forecasts were not based on a simple extrapolation of actual demand for a portion of 2003, but, rather, SaskTel had developed its demand forecast based on the relationship between historical PIC transactions and total lines to which PIC selections were possible for the corresponding periods. The Companies submitted that this relationship was then applied to SaskTel's forecast of lines to which PIC selections were possible to develop a forecast of PIC transactions. The Companies submitted that SaskTel's approach was completely valid and the forecast derived using it should not be arbitrarily increased as the Competitors had suggested. The Companies submitted that in its view SaskTel had understated, rather than overstated PIC costs, by using a PIC transaction forecast that, in hindsight, was overstated by about 18% based on its 2003 PIC transaction tracking from January to October 2003.

24. The Companies submitted that SaskTel's newly established telephone numbers did not contribute to the costs of PIC processing and had been properly excluded from the cost study used to calculate the PIC processing charge. The Companies submitted that SaskTel's methodology used to develop the costs in its 5 May 2003 Phase II submission was appropriate and should be used to establish the revised PIC processing rate.

25. The Companies submitted that the Competitors had provided no reasonable arguments that would warrant changes to each company's demand forecast, and that the Competitors' request for such changes should be denied.

26. TELUS argued that the demand forecast for the PIC transactions over the study period should not be inflated by 10% to 15% as suggested by the Competitors. TELUS submitted that to further increase demand by 10% as postulated by Commission staff in an interrogatory or by up to 15% as suggested by the Competitors would greatly overstate anticipated demand for the number of PIC transactions over the study period.

27. TELUS stated that over the 1998 to 2002 period, the number of PIC transactions had steadily declined at a compounded average rate of 4.7% per year. TELUS submitted that it based its forecast of demand for the first year of its cost study on the 2002 demand for all automated transactions and held this demand constant over the five-year study period. TELUS stated that it considered that its conservative approach to forecasting the demand for the number of PIC transactions over the study period had already overstated demand for the study period resulting in a lower rate for the PIC processing charge than if the historical decline in demand had been projected to continue during the study period.

Commission's analysis and determination

28. The Commission notes that, in response to an interrogatory, SaskTel submitted that its PIC transactions demand in its 5 May 2003 submission excluded the demand associated with new telephone numbers that were automatically defaulted to itself. The Commission considers that this approach differs from that adopted by the other ILECs and is inconsistent with *Unbundled*

rates to provide equal access, Telecom Decision CRTC 97-6, 10 April 1997 (Decision 97-6). In Decision 97-6, the Commission concluded that on the basis of the record of that proceeding, it found it more appropriate to employ the "all carrier demand approach"[1] to determine the rates for PIC selection service. The Commission considers that SaskTel's demand forecasts should include the demand associated with new telephone numbers defaulted to the company.

29. The Commission notes several differences in the demand forecast assumptions across ILECs. For example, TELUS assumed a constant level of demand over the 2003-2007 study period, based on its 2002 level of demand. By contrast, Bell Canada, MTS Allstream and Aliant Telecom assumed that there would be a significant drop in demand from 2002 to 2003, the base year of the study period. For each of the subsequent years 2004 to 2007, Aliant Telecom and MTS Allstream assumed negative growth in their demand. By contrast, Bell Canada assumed a small negative growth for the year 2004 with small positive growth for each of the subsequent years 2005 to 2007.

30. The Commission notes that while each of Bell Canada, Aliant Telecom and MTS Allstream have assumed a lower demand for the year 2003 and the remainder of the study period relative to 2002, they did not identify specific factors to support their lower demand forecasts.

31. The Commission considers that the PIC transaction demand would depend on several factors such as the market size (i.e., the number of toll subscribers), the degree of competitive activity in the toll market, toll retail market changes, seasonal variations and the impact of the economic and regulatory climate.

32. The Commission considers that it would be reasonable to expect certain similarities in the forecast assumptions across ILECs unless specific factors were demonstrated to have a particular influence on an ILEC's demand.

33. The Commission notes that TELUS assumed a constant demand over the study period, while SaskTel's all carrier demand forecast assumed a nearly constant demand over the study period. The Commission considers this level of demand to be consistent with the expected continued competitive activity in the toll market over the period 2003 to 2007.

34. The Commission considers that the demand forecast for Bell Canada, Aliant Telecom and MTS Allstream should incorporate a demand pattern that is more in line with TELUS and SaskTel.

35. For Bell Canada, Aliant Telecom and MTS Allstream, the Commission has accordingly incorporated a constant annual demand forecast over the period 2003 to 2007, based on each ILEC's average demand level over 2002 and the first four months of 2003.

---

[1] In Decision 97-6, the Commission noted that under an all carrier approach, the unbundled rate structure which would be provided at the same tariffed rates for both the competitors and Stentor Owner Companies (SOCs), would be equitable, simple to understand and to implement; the Commission further noted that this approach would provide a disincentive to the SOCs to engage in cost shifting, would serve as a competitive safeguard and would lead to less regulatory oversight and costs.

PIC Service provisioning costs

Position of parties

36. The Competitors submitted that the cost studies filed in the current proceeding confirmed that the ILECs' cost of providing PIC processing service had fallen significantly over time.

37. The Competitors stated that despite the magnitude of the reductions in costs over time, the ILECs' proposed cost estimates revealed a significant range across ILECs for the provisioning of the same functionality. The Competitors argued that the key assumptions, inputs and results underlying these proposed cost-based rates needed to be fully examined to determine the reason for the significant variation in the cost estimates. The Competitors and Primus Canada submitted that any discrepancies or inappropriate assumptions should be adjusted to ensure that the resulting cost-based rates would be reasonable.

38. The Competitors noted that TELUS initially reported a cost of $2.38 per transaction, which was subsequently revised to $0.84 and then to $0.5046 in its July 2003 submission. The Competitors submitted that the magnitude of the changes demonstrated the sensitivity between the cost per transaction and the different cost assumptions and inputs.

39. The Competitors stated that the service provisioning cost estimates for Aliant Telecom exhibited a wide degree of variability which could not be explained by differences in processing volumes alone. The Competitors submitted that the major difference in Aliant Telecom's service provisioning cost per transaction was due to the difference in the cost per transaction associated with the CSG PIC/CARE team activities. The Competitors noted that the Aliant Telecom-New Brunswick (Aliant Telecom-NB) region's CSG PIC/CARE team cost per transaction was significantly lower that those of the remaining Aliant Telecom operating regions. The Competitors argued that the CSG PIC/CARE team cost per transaction should be determined based on the operation of an efficient operator such as the Aliant Telecom-NB region. The Competitors submitted that the other Aliant Telecom regions (Aliant Telecom-NS, Newfoundland and Labrador (Aliant Telecom-NL) and Prince Edward Island (Aliant Telecom-PEI)) should reflect the Aliant-NB region's CSG PIC/CARE team cost per transaction.

40. The Competitors argued that SaskTel's costs for service provisioning were significantly overstated when compared to other ILECs. The Competitors indicated that SaskTel's costs for service provisioning in its 31 October 2003 submission which reflected demand for new telephone numbers defaulted to SaskTel were twice those of MTS Allstream's 5 May 2003 submission while its transaction volumes were similar.

41. The Competitors noted that in an interrogatory response, TELUS changed the annual systems maintenance and enhancement cost from $50,000 per year to $70,000 per year based on TELUS's claim that the increase was associated with enhanced support and development activity including the establishment of new customer accounts and the customization required for each account. The Competitors argued that any increase in the number of new toll competitor's customer accounts should be accompanied by a corresponding increase in the number of PIC transactions processed. The Competitors submitted that TELUS's new cost inclusion was inappropriate and should be removed from the cost study.

42. The Companies argued that the Competitors' request to reflect the cost estimates of the Aliant Telecom-NB region's CSG PIC/CARE team unit costs for the remaining Aliant Telecom regions was inappropriate and should be dismissed by the Commission. The Companies noted the Competitor's claim that the Aliant Telecom regions other than the Aliant Telecom-NB region were operating in a non-efficient manner and indicated that the Aliant Telecom-NB region had the most mechanized PIC processing functionality while the remaining regions had legacy systems developed for the predecessor Aliant Telecom companies. The Companies stated that processes in the other regions, while mechanized, required some manual intervention and consequently costs for these regions were driven by a higher labour component. The Companies submitted that Aliant Telecom's current cost studies reflected cost savings resulting from the merger through the use of common labour rates and consolidation of operations. The Companies argued that the legacy system would continue to be used as it was the most cost effective way to proceed instead of replacing the legacy system with new systems which would then have to be recovered through higher PIC rates. The Companies argued that to arbitrarily reduce rates within a single region without any evidence of errors in the costing results would be tantamount to penalizing the company for operating in a certain part of the country.

43. TELUS argued that the Competitors' request to remove the enhanced support and development activities costs from the cost study should be denied as this would understate TELUS's support costs for PIC processing. TELUS stated that it had omitted these costs from its previous submissions due to an oversight and indicated that these activities were being currently incurred and would continue through the study period.

Commission's analysis and recommendation

44. The Commission notes that the service provisioning cost component consists of several activities including CSG PIC/CARE, Systems support, Information Technology, Manual processing, and typically represents over 80% of the total PIC cost per transaction.

45. The Commission notes that Aliant Telecom-NB's CSG PIC/CARE team unit costs were significantly lower than the other Aliant Telecom regions. As noted by the Companies, Aliant Telecom-NB region's PIC operations are the most mechanized in Aliant Telecom's operating territory, while the processes in the other Aliant Telecom regions (i.e., Aliant Telecom-NS, Aliant Telecom-NL, and Aliant Telecom-PEI) require more manual intervention, and consequently these regions have higher unit costs.

46. The Commission considers that the cost savings expected from Aliant Telecom's merger are not fully captured in its updated cost studies. The Commission considers that the remaining Aliant Telecom regions should, similar to Aliant Telecom-NB, be expected to become more efficient over time.

47. Accordingly, the Commission considers it appropriate to lower the CSG PIC/CARE team unit cost per transaction for the Aliant Telecom-NS, Aliant Telecom-NL and Aliant Telecom-PEI regions to a level double that proposed for the Aliant Telecom-NB region. The Commission considers that this unit cost reflects the efficiency gains that can be expected to accrue over the study period for these three regions while recognizing some differences in the mechanization of the PIC processing there compared to the Aliant Telecom-NB region.

48. The Commission notes that Primus Canada requested approval of SaskTel's PIC processing rate under the all carrier scenario noting that, while it was high, it was more in line with the rates of the other ILECs. The Commission notes its conclusion, on paragraph 28, that SaskTel's demand forecasts should include the demand associated with new telephone numbers defaulted to the company. SaskTel provided a revised cost study based on the all carrier demand approach similar to the other ILECs, and that under this scenario SaskTel's PIC processing rate was estimated at $1.84. The Commission considers it appropriate to adopt a PIC processing rate for SaskTel based on the all carrier demand approach, similar to that used by the other ILECs and consistent with the Commission's determination in Decision 97-6.

49. With respect to TELUS, the Commission considers it appropriate to include TELUS's enhanced support and development activity costs as they had been omitted from TELUS's previous submissions due to an oversight.

Demand sensitivity cost submissions

50. The Competitors argued that in response to an interrogatory reflecting a 10% increase in demand, Aliant Telecom, Bell Canada and MTS Allstream had inappropriately increased a number of costs that were not impacted by change in demand, leading to an overstatement of the per PIC transaction cost. The Competitors argued, for example, that in their 10% additional demand sensitivity submissions, these companies increased their service provisioning but these costs were not driven by the number of transactions. The Competitors submitted that Aliant Telecom's, Bell Canada's and MTS Allstream's cost estimates should be reduced to correct the inappropriate increases in non-transaction-sensitive costs.

51. The Competitors submitted that in response to an interrogatory reflecting a 10% increase in demand, TELUS had inappropriately assumed an additional 10% increase in manual transactions. The Competitors argued that, instead, the increase in TELUS's overall demand should result from increasing TELUS's automated transactions. The Competitors argued that this would lead to reduced service provisioning costs from $0.1982 to $0.1802.

52. The Companies argued against the Competitors' claim that their demand sensitivities had inappropriately increased certain cost components that were not impacted by changes in demand, leading to an overstatement of the resulting PIC processing unit costs. The Companies submitted that each ILEC's PIC processing unit costs associated with the 10% demand sensitivity runs had been estimated by reviewing all cost components in order to determine the items and related costs that would be impacted by a 10% increase in demand. The Companies submitted that the 10% additional demand sensitivity analysis depicted the PIC processing unit cost if demand increased 10% beyond the levels forecast in each ILEC's cost studies.

53. TELUS argued that the Competitors' request to lower the manual processing costs associated with service provisioning when its demand was increased by 10% should be denied. TELUS submitted that when the overall demand was increased as requested by the Commission, it was necessary to increase the number of manual transactions such that the historic relationship between automated and manually-processed changes would be maintained. In TELUS's view, there was no foundation for the Competitors' request to hold the number of manual PIC transactions constant over the study period when the total demand was increased by 10%.

Commission's analysis and determination

54. The Commission notes that costs associated with the handling of customer inquiries, investigating PIC disputes, manual intervention, etc. can be expected to increase linearly with demand since the increase in demand directly results in an increase in the number of inquiries received in the CSG and in the number of transactions requiring manual intervention. The Commission notes, by contrast, that costs like systems processing generally do not increase linearly with demand. The Commission considers that the ILECs have reflected this correctly in their 10% additional demand sensitivity costs studies. The Commission therefore considers that the 10% demand sensitivity cost results under the ILECs' demand cost sensitivities analysis are reasonable.

55. The Commission has relied on the demand sensitivity cost submissions of Aliant Telecom, Bell Canada and MTS Allstream to adjust the PIC transaction unit cost estimates for these companies to reflect the demand changes discussed in paragraph 35. Additionally, the CSG PIC/CARE team unit costs per transaction were adjusted for the Aliant Telecom-NS, Aliant Telecom-NL and Aliant Telecom-PEI regions as discussed in paragraph 47.

Portfolio Expenses

Commission's analysis and determination

56. The Commission notes that in response to a supplemental interrogatory, Bell Canada included portfolio costs in its PIC transaction cost study using a portfolio loading factor of 9.7%. The Commission further notes that the inclusion of portfolio costs complies with its directives set out in *TELUS Communications Inc. - Application to review and vary Decision 2000-745 and Decision 2001-238,* Telecom Decision CRTC 2002-67, 25 October 2002 (Decision 2002-67).[2]

57. The Commission notes that Aliant Telecom, MTS Allstream, and SaskTel did not include portfolio costs in their PIC transaction cost studies.

58. No comments were received regarding the ILECs' treatment of portfolio expenses in Phase II cost studies.

59. The Commission notes that under Bell Canada's proposal, the portfolio factor of 9.7% is proposed to be applied to direct/indirect expenses of all its Phase II cost studies (i.e., retail and non-retail services).

60. The Commission also notes that Bell Canada's portfolio loading factor of 9.7% was developed based on corporate account information where Bell Canada's proposed total portfolio expenses was divided by its total direct/indirect expenses. The Commission further notes that Bell Canada's average portfolio expense factor of 9.7% includes expenses other than those related to the development and management of marketing/promotional/sales programs (e.g., network management expenses).

[2] In Decision 2002-67, the Commission noted that TELUS included portfolio expenses in its service cost studies while Aliant Telecom, Bell Canada, and MTS Allstream excluded these expenses from their cost studies. In that decision, the Commission further directed each ILEC to reflect the inclusion of portfolio expenses in its Phase II cost studies, consistent with earlier directives and past practice.

61. By letter dated 11 June 2004 regarding general Phase II costing information, Bell Canada, MTS Allstream, Aliant Telecom, and SaskTel were asked to determine a portfolio expense factor based on the following portfolio expense definition: "expenses directly related to the development and management of marketing/promotional/sales programs associated with a common group of retail and/or Competitor services, which cannot be attributed (as direct/indirect expenses) to any specific service within that group". In addition, these companies were given an opportunity to comment on the appropriateness of the use of such a definition.

62. Bell Canada indicated that it had classified these portfolio expenses as non-service specific and that the inclusion of these expenses in Phase II studies would be inconsistent with the Commission's position in *Inquiry into Telecommunications Carriers' Costing and accounting procedures – Phase II: Information requirements for new service tariffs filings,* Telecom Decision CRTC 79-16, 28 August 1979. Bell Canada also submitted that if the Commission considered that the expenses included under its revised portfolio expense definition should be treated as variable, and thus included in Phase II cost studies, then these expenses should be included in its regulatory studies through the variable common cost factor.

63. Aliant Telecom indicated that due to its labour disruption, it was unable to estimate the Aliant Telecom-specific portfolio factor. Aliant Telecom also submitted that if the Commission considered that the expenses included in the revised portfolio expense definition should be treated as variable, and thus included in Phase II cost studies, then such factors should be developed and applied in a consistent manner by all parties. Aliant Telecom stated that it intended to use Bell Canada's portfolio factor in the interim until it would be able to finalize its own portfolio factor.

64. MTS Allstream indicated that it did not agree with the use of a portfolio loading factor in Phase II studies. MTS Allstream argued that expenses were either causal or not. If they were causal, then they would already be included in Phase II studies through direct/indirect and variable common costs. In MTS Allstream's view the inclusion of a portfolio-loading factor was simply an arbitrary allocation of fixed common costs and was thus inappropriate for Phase II studies.

65. SaskTel submitted that it did not consider it appropriate to incorporate portfolio expenses in Phase II cost studies since these costs did not represent valid service-driven incremental costs. SaskTel argued that if the Commission continued to require the inclusion of portfolio costs in Phases II cost studies, it should consider alternatives to the currently proposed method of calculating these costs based solely on a factor derived from and applied to expense cash flows.

66. Based on the above portfolio expense definition proposed in the 11 June 2004 interrogatories, the portfolio expense factors were estimated at 3.6% for Bell Canada, 1.78% for MTS Allstream, and 8.25% for SaskTel.

67. The Commission considers that portfolio expenses directly related to the development and management of marketing/promotional/sales programs associated with a common group of retail and/or Competitor services, which cannot be attributed (as direct/indirect expenses) to any specific service within that group, do vary as a result of these services. Accordingly, the Commission finds that these expenses are variable.

68. In light of the above, and consistent with the Commission directives in Decision 2002-67, the Commission considers that portfolio expenses should be included in the Phase II cost studies pertaining to PIC processing. As noted above, this would also be consistent with TELUS's approach.

69. The Commission considers it appropriate to adopt the definition of portfolio expenses proposed in its letter of 11 June 2004 and the costing approach and loading factors identified by Bell Canada, MTS Allstream and SaskTel, in response to that letter. The Commission further considers it appropriate to adopt Bell Canada's portfolio loading factor for Aliant Telecom until the company is able to develop its own factor.

70. The Commission has accordingly made the necessary adjustments to the Phase II expenses for Aliant Telecom, Bell Canada, MTS Allstream and SaskTel in order to include these costs.

71. The Commission notes TELUS's submission that its portfolio costs are already included in its direct/indirect costs and therefore, considers that no adjustment is required for TELUS.

PIC processing charges per access line and other PIC charges

72. The Commission notes that the PIC processing services are Competitor services that it classified as Category I in *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 10 May 2002 (Decision 2002-34). Consistent with the pricing approach set out in that decision, the rates for these services are to be determined based on Phase II costs plus a 15% mark-up.

73. The Commission has revised the ILECs' proposed cost estimates for the PIC processing charge per access line service in light of the findings set out above. The Commission **approves** the following PIC processing charges per access line based on the revised costs plus a 15% mark-up: $1.01 for the Aliant Telecom-NB region, $1.53 for the Aliant Telecom-NL region, $1.31 for the Aliant Telecom-NS region, $1.54 for the Aliant Telecom-PEI region, $0.7248 for Bell Canada, $0.7076 for MTS Allstream, $1.99 for SaskTel, and $0.6024 for TELUS.

74. The Commission notes that each ILEC agreed to adopt the Aliant Telecom-NS region rates for the remaining PIC processing rate components. The Commission further notes that the other parties of this proceeding did not oppose the use of such rates. In light of this and the absence of cost studies for the remaining PIC rate processing components, the Commission **approves**, for each ILEC, the following rates for the remaining PIC components which reflect the current Aliant Telecom-NS region Category I rates for these services: $345.94 for the Account Set-up charge (each PIC processing account), $86.48 for Changes to CARE profile (each request), $43.24 for each User Handbook (each additional copy), $30.52 for each Unauthorized PIC Change charge (each access line), $0.0965 for each BTN Detail charge (each WTN provided), and $0.0965 for each Verification Record charge (each access line).

Retroactivity

Position of parties

75. Primus Canada submitted that the Commission should approve the revised rates on a retroactive basis, to 1 June 2002, the date all ILEC rates, including PIC processing rates were made interim in Decision 2002-34.

76. Primus Canada cited two examples to support its case for retroactivity. Primus Canada submitted that in *Interim rates for Access Tandem Service and Direct Connection Service*, Telecom Order CRTC 2002-384, 24 September 2002, the Commission approved on an interim basis revised Direct Connect and Access Tandem rates retroactive to 1 June 2002. Primus Canada noted that the Commission's basis for this determination included: the length of the proceeding, the magnitude of the rate reduction, and the fact that interim approval of the proposed Direct Connect and revised Access Tandem rates retroactive to 1 June 2002 would enhance competition in the inter-exchange market. Primus Canada also indicated that the Commission had provided retroactive rate treatment in *Interim Competitor Digital Network Access service*, Telecom Decision CRTC 2002-78, 23 December 2002.

77. Primus Canada argued that to adopt rates on the date suggested by the ILECs (i.e., the date of Public Notice 2003-2 or the date of this Decision), would allow regulatory delays to unfairly penalize competitors.

78. The Competitors submitted that given the length of time since the costs studies for PIC processing were last revised and in light of the magnitude of the cost reductions in the provision of the PIC processing service, the revised rates for PIC processing should be applied retroactive to 1 June 2002, the date on which the rates for the service were made interim.

79. The Companies objected to Primus Canada's and the Competitor's request for implementation of the final rates resulting from this Decision retroactive to 1 June 2002. The Companies submitted that while the Commission could engage in retroactive ratemaking when rates were interim, the circumstances that justified declaring rates interim were limited. The Companies submitted that the Supreme Court of Canada had clearly explained the purpose of the Commission's power to make rates interim and submitted that Primus Canada's proposal would create the opposite result. The Companies submitted that should the Commission accede to Primus Canada's request, financial instability would be created through the use of a tool (power to make rates interim) made available to provide for financial stability.

80. TELUS submitted that the rate for the PIC processing charge be made effective 20 March 2003 to align with the Commission's direction and decision to undertake a review of PIC processing rates following the issuance of Public Notice 2003-2. TELUS noted that while the rates for Category I Competitor Services were made interim effective 1 June 2002, the Commission did not undertake to review the PIC processing rate until 20 March 2003 and at that time, directed the ILECs to track the monthly demand and revenues associated with PIC processing charge per access line, effective the date of the public notice.

81. TELUS submitted that although the Commission may have the ability to make a retroactive adjustment back to 1 June 2002, it clearly intended only to consider an adjustment retroactive to 20 March 2003. TELUS further submitted that should the Commission determine that the PIC processing charge be made effective 1 June 2002, this increase in the retroactive adjustment for APLDS should also be eligible for consideration as a deferral account draw-down in addition to the retroactive adjustment for the period from the date of the Commission's determination in this proceeding back to 20 March 2003.

Commission's analysis and determination

82. With the issuance of Public Notice 2003-2 on 20 March 2003, the Commission initiated a proceeding to review the costing methodologies, supporting assumptions and related resource inclusions associated with the PIC processing services for each ILEC and directed each of them to track as of that date the monthly demand and revenues associated with PIC processing charge per access line service. The Commission considers it appropriate in these circumstances to adopt the lower cost-based rates for the PIC processing charge per access line service, on a final basis, effective 20 March 2003.

83. With respect to TELUS's submission that any retroactive adjustment should be eligible for consideration as a deferral account drawdown, the Commission notes that, consistent with the treatment of all Category I Competitor services, there will be no compensation through a deferral account drawdown resulting from that portion of the recommended rate reductions that is attributable to cost decreases. The Commission further notes that any adjustments pertaining to the Commission's mandated mark-up reductions are being considered in the proceeding initiated by *Review and disposition of deferral accounts for the second price cap period*, Telecom Public Notice CRTC 2004-1, 24 March 2004 (Public Notice 2004-1 proceeding). Accordingly, the Commission considers that no further action regarding TELUS's request for compensation due to retroactive adjustments is required other than that which may be afforded in the Public Notice 2004-1 proceeding.

84. The Commission notes that by contrast with the PIC processing charge per access line service, the demand and revenues associated with the remaining PIC components are expected to be minimal and have not been tracked. Accordingly, the Commission **approves** effective the date of this Decision, the Aliant Telecom-NS region rates for the remaining PIC components, for each ILEC. These rates are set out in paragraph 73 above.

Implementation

85. The Commission directs the ILECs to issue tariff pages forthwith to reflect the approved PIC rates set out above.

86. The Commission further orders the ILECs to provide refunds retroactive to 20 March 2003 for the approved PIC processing charge per access line.

Secretary General