



## Telecom Order CRTC 2006-42

Ottawa, 22 February 2006

### Société en commandite Télébec

Reference: Tariff Notices 321 and 321A

### 2005 Price cap filing

#### Background

1. In *Implementation of price regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002 (Decision 2002-43), the Commission established the price regulation regime applicable to Société en commandite Télébec (Télébec) and TELUS Communications (Québec) Inc. (collectively, the Companies). This regime includes eight baskets or groups of services, some of which are subject to a constraint of inflation less a productivity offset on an annual basis (annual I-X adjustments). In order to implement this transitional subsidy mechanism for Télébec, the Commission however suspended application of the annual I-X adjustments applicable to the baskets of Residential Services in non-high cost serving areas and Other Capped Services, as well as Competitor Services.
2. In *Implementation of competition in the local exchange and local payphone markets in the territories of Société en commandite Télébec and the former TELUS Communications (Québec) Inc.*, Telecom Decision CRTC 2005-4, 31 January 2005 (Decision 2005-4), the Commission restored, among other things, the annual I-X adjustments that it had suspended effective 1 August 2002.

#### The application

3. The Commission received an application by Télébec on 17 June 2005, proposing to reduce certain rates for services in the Other Capped Services basket and an amendment to its application dated 19 December 2005. Télébec proposed that these tariff revisions come into effect 1 August 2005. On 8 August 2005, Télébec filed economic studies in support of its application.
4. Télébec proposed revising the following items of its General Tariff to include contract terms:
  - item 2.1.8 - Basic Service Provided Outside the Company's Serving Area;
  - item 2.6.3 - Access to switched automated private central network equipped with direct access;
  - item 3.1.3 - Channels between buildings on continuous property; and
  - item 8.9.2.6 - Integrated Services Digital Network (ISDN) Service 23B+D Premium Option - Terminating numbers.

5. Télébec submitted that in order to comply with directives concerning the 2005 price cap filing, it would have to reduce revenues from the Other Capped Services basket by 4.9 percent, which would equal \$847,548. Télébec noted that by applying the proposed rate reductions, the resulting reduction would be less than that amount. Télébec therefore proposed to transfer annually to its deferral account the amount required to satisfy the above directives, i.e., \$355,851. Télébec also proposed that the Commission review its use of the deferral account at the next price cap update scheduled for 31 May 2006.
6. For the services listed above, all of which belong to the Other Capped Services basket, Télébec proposed introducing contract options. The rate reduction percentage varies from 10 percent to 82 percent based on the contract term selected (one, two, three, four or five years).
7. Télébec filed an imputation test in support of each proposed rate reduction.
8. Télébec noted that the proposed tariff revisions, in addition to the transfer of revenue to the deferral account, would ensure that the service band index (SBI) would not exceed the service band limit (SBL) for the Other Capped Services basket.
9. Télébec filed an update of its SBI and SBL for the period 1 August 2005 to 31 July 2006, in consideration of the directives in Decision 2002-43 and Decision 2005-4.
10. Télébec requested that the proposed tariff revisions take effect 1 August 2005.

#### **Commission's analysis and determinations**

11. In Telecom Order CRTC 2006-13, 17 January 2006, the Commission approved on an interim basis Télébec's application for the tariff revisions set out in Tariff Notices 321 and 321A, with the rates to take effect on the date of the Order.

#### **Costs**

12. The Commission notes that for a new service or rate reduction, the proposed rates must be supported by and comply with an imputation test. The Commission further notes that under the current price regulation regime, the imputation test is the accepted method for determining whether the proposed rates would be anti-competitive.
13. The Commission finds that the proposed rates for the services listed above satisfy the requirements of the imputation tests.

#### **Compliance with pricing constraints established in Decision 2002-43**

14. In Decision 2002-43, the Commission applied the following pricing constraints for services in the Other Capped Services basket:
  - (i) a basket constraint based on the SBL to be updated each year based on the annual I-X adjustments;

- (ii) a rate element constraint limiting rate increases for a service to 10 percent per year; and
  - (iii) to prevent an incumbent local exchange carrier from reducing rates in more competitive areas and increasing them in less competitive areas in the same band, a provision stating that the rates should not be de-averaged within the band.
15. The Commission finds that the proposed tariff revisions are not sufficient to ensure compliance with the basket constraint stipulating that the SBI cannot exceed the SBL for the Other Capped Services basket. The Commission notes that as a remedy, Télébec proposed to transfer revenues to its deferral account in addition to those generated by the tariff revisions to comply with the basket constraint. This proposal is considered below.
  16. With respect to the rate increase constraint, because Télébec did not propose any price increases for Other Capped Services, the Commission therefore finds that the constraint limiting annual rate increases to 10 percent is not relevant.
  17. The Commission however finds that the proposed tariff revisions satisfy the requirement prohibiting the further de-averaging of the rates for Other Capped Services within the same band.
  18. The Commission notes that in Decision 2002-43, it also introduced a mechanism by which the Companies are required to establish a deferral account.
  19. In view of the fact that Télébec submitted that it is not able to propose and justify other rate reductions at this time, the Commission agrees with Télébec's proposal to transfer \$355,851 into its deferral account each year. The Commission notes that it ruled on the disposition of deferral accounts in *Disposition of funds in the deferral accounts*, Telecom Decision CRTC 2006-9, 16 February 2006.
  20. In light of the above, the Commission finds that the proposed tariff revisions, in addition to the transfer of revenue into the deferral account, will allow Télébec to satisfy the basket constraint requirement that the SBI cannot exceed the SBL for the Other Capped Services basket.
  21. The Commission **approves on a final basis** the proposed tariff revisions and directs Télébec to transfer the amount of \$355,851 to its deferral account on an annually recurring basis.
  22. The Commission directs Télébec to file the revised tariff pages.

Secretary General

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