Telecom Decision CRTC 2005-75

Ottawa, 22 December 2005

Follow-up to *Access to pay telephone service*, Telecom Decision CRTC 2004-47 - Société en commandite Télébec request to recover costs associated with upgrading pay telephones with teletypewriter units

Reference: 8678-T78-200509911

In this Decision, the Commission ***approves*** *for Société en commandite Télébec the recovery of certain costs associated with upgrading pay telephones with teletypewriter units through draw downs from the company's deferral account.*

The application

1. The Commission received an application by Société en commandite Télébec (Télébec), dated 19 August 2005, filed pursuant to *Access to pay telephone service*, Telecom Decision CRTC 2004-47, 15 July 2004 (Decision 2004-47). The company requested an exogenous adjustment to recover the costs of upgrading certain pay telephones with teletypewriter (TTY) units. The company requested that this exogenous adjustment be achieved through an annual draw down of $0.3 million from its deferral account for seven years to recover the estimated total costs of $1.6 million. In support of its application, the company filed a Phase II cost study.

Process

2. Interrogatories were issued to Télébec on 19 September 2005. Responses to the interrogatories were received on 3 October 2005.

3. The Commission received no comments with respect to the application.

Background

4. In *Price cap regulation and related issues*, Telecom Decision CRTC 97-9, 1 May 1997 (Decision 97-9), the Commission determined that an exogenous factor would be a component of the price cap formula in the initial price cap regime. An exogenous factor serves to flow through the costs associated with events not captured by other elements of the price cap formula, provided the events or initiatives:

   - are legislative, judicial, or administrative actions which are beyond the control of the company;
   - are addressed specifically to the telecommunications industry; and
   - have a material impact on the Utility segment of the company.

5. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission concluded that the criteria for exogenous events set out in Decision 97-9, modified to measure materiality in relation to the total company, remained appropriate.

6. In Decision 2004-47, the Commission directed Aliant Telecom Inc., Bell Canada, MTS Allstream Inc. (MTS Allstream), Saskatchewan Telecommunications, Télébec, and TELUS Communications Inc. (TCI), collectively the incumbent local exchange carriers (ILECs), to upgrade certain pay telephones with TTY units over a period extending from 2004 to the end of 2010. In that Decision, the Commission stated that the ILECs could file requests for an exogenous factor to recover the costs of upgrading their respective pay telephones with TTY units if the companies were of the view that they qualified for such treatment.

7. In *Follow-up to Access to pay telephone service, Telecom Decision CRTC 2004-47, 15 July 2004: Requests to recover costs associated with upgrading pay telephone with teletypewriter units,* Telecom Decision CRTC 2005-23, 14 April 2005 (Decision 2005-23), the Commission found that Bell Canada's, MTS Allstream's, and TCI's costs of upgrading pay telephones with TTY units were significant and material for each company and found that the companies' proposals met the three criteria for exogenous treatment.

8. In Decision 2005-23, the Commission stated that, considering that the TTY upgrades would benefit consumers in general, it was of the view that the use of the deferral account to fund the TTY upgrade program would be consistent with Decision 2002-34. The Commission found it appropriate that Bell Canada, MTS Allstream, and TCI be compensated for the costs associated with their TTY upgrades through draw downs from their deferral accounts.

9. In determining the amounts that the companies would be permitted to draw down from their deferral accounts, the Commission made the following determinations with respect to Bell Canada's, MTS Allstream's, and TCI's proposals:

    - The TTY upgrade costs would only reflect the installed TTY equipment costs and the associated service provisioning costs. The operating expenses proposed by the companies in their TTY cost studies associated with the ongoing incremental operation of the TTY service were not costs to upgrade pay telephones with TTY units and were therefore omitted.

    - A 10-year study period was appropriate as a common study period length in determining each company's annual draw down associated with the TTY upgrades.

    - The installation cost estimates for the TTY upgrades should be similar across the companies given that the procedures, expertise and labour rates to install TTY equipment would be similar across the companies. As a result, the Commission found it appropriate to reduce Bell Canada's and MTS Allstream's installation costs by 50 percent.

- One-time service provisioning expenses, defined as expenses related to the issuance of service orders and the dispatch of technicians to equip existing pay telephones with TTY units, were considered as part of the TTY upgrade costs. As a result, the Commission found it appropriate to include a service provisioning expense, based on Bell Canada's expense estimates, in the annual draw down amounts for each of the companies.

- The costs associated with the TTY upgrades would be recovered over a seven-year period.

10. The Commission also found that the proposed TTY capital and service provisioning costs, as adjusted by the Commission, represented appropriate estimates of the TTY upgrade costs, and that therefore, tracking of installation or other costs was not warranted.

Eligibility of TTY upgrade costs for treatment as an exogenous adjustment

11. Télébec noted that in Decision 2005-23, the Commission specified that the telephone companies would be able to recover the costs of equipping pay telephones with TTY units over a seven-year period through draw downs from their deferral accounts. Télébec requested that these determinations be applied to the company for its TTY upgrade costs.

Commission's analysis and determinations

12. The Commission notes that it has previously determined in Decision 2005-23 that the costs associated with upgrading pay telephones with TTY units met the first two exogenous event criteria. The Commission considered that the requirement to implement the upgrades resulted from the Commission's directives in Decision 2004-47, and therefore, qualified as a legislative, judicial, or administrative action that was both beyond the control of the company and addressed specifically to the telecommunications industry.

13. The Commission notes that Télébec estimated that its TTY upgrade program will cost $1.6 million. As discussed in the following section, the Commission has reduced certain elements of the company's cost estimate, which will reduce Télébec's approved TTY upgrade program costs to $0.8 million. The Commission considers that the costs associated with upgrading pay telephones with TTY units are significant and material for Télébec, and therefore meet the third criteria for an exogenous event. Accordingly, the Commission finds that these costs qualify for exogenous treatment.

14. The Commission considers that, consistent with Decision 2005-23, it is appropriate for Télébec to use its deferral account to fund the TTY upgrades.

The Phase II cost studies

15. In support of its proposal, Télébec submitted a Phase II cost study reflecting the costs associated with upgrading its pay telephones with TTY units, pursuant to the TTY upgrade program detailed in Decision 2004-47. The company included the installed TTY equipment costs for the upgrades and the associated operating expenses, including service provisioning and maintenance expenses, in the cost study.

16. Télébec estimated that the Phase II costs for the TTY upgrade program would be $1.3 million. The company submitted that the Phase II costs should be adjusted upward by a factor of 25 percent in order to take fixed and common costs into account. The company noted that this is the same factor used by the Commission in *Review of price floor safeguards for retail tariffed services and related issues*, Telecom Decision CRTC 2005-27, 29 April 2005 (Decision 2005-27). Télébec submitted that the resulting exogenous factor would therefore be $1.6 million.

Commission's analysis and determinations

17. In Decision 2005-23, the Commission found it appropriate for Bell Canada, MTS Allstream, and TCI to recover only the costs specific to upgrading pay telephones with TTY units from their respective deferral accounts. The Commission considers that the determinations in Decision 2005-23 should also apply to Télébec with regard to determining the upgrade costs that the company will be permitted to draw down from its deferral account. Accordingly, the Commission considers that Télébec's TTY upgrade costs should consist of the equipment costs for the TTY units, the associated installation costs, and the associated one-time order fulfilment process costs. Further, the ongoing operating expenses that Télébec included in its cost study have been omitted.

Upgrade costs

18. The Commission notes that Télébec's TTY upgrade costs reflect the forecasted TTY demand estimates stemming from the requirements of Decision 2004-47. The Commission is of the view that the TTY demand estimates proposed by the company meet the requirements of Decision 2004-47.

19. The Commission notes that Télébec's TTY cost study relied on a 10-year study period, which is consistent with the determinations in Decision 2005-23.

20. The Commission notes that Télébec's proposed equipment costs and installation costs are consistent with those approved in Decision 2005-23 for the other ILECs. The Commission therefore considers that Télébec's proposed costs are acceptable.

21. In Decision 2005-23, the Commission found it appropriate to include in each ILEC's annual draw down amounts, the costs associated with the order fulfillment process based on Bell Canada's expense estimate. The Commission notes that Télébec did not include one-time expenses related to the issuance of service orders or the dispatch of technicians to equip existing payphones with TTY units. Consistent with the approach used in Decision 2005-23, the Commission considers it appropriate to include in Télébec's annual draw down an amount per TTY unit for the order fulfilment process, based on Bell Canada's per unit cost estimate.

22. The Commission notes that Télébec submitted that the Phase II costs associated with the TTY program would be $1.3 million and that this amount should be adjusted upward by a factor of 25 percent in order to account for fixed and common costs.

23. The Commission notes that Télébec makes reference to the determinations in Decision 2005-27 with respect to the imputation test for retail tariff services and the requirement to apply a 25 percent mark-up to the Phase II costs of certain components of a service. The Commission notes that TTY upgrades are not considered to be retail tariff services. The Commission does not consider it appropriate to apply a 25 percent mark-up to these costs since this is a cost recovery exercise. Accordingly, in determining the appropriate costs to be recovered for this program, the Commission has removed the 25 percent mark-up that Télébec included in its TTY upgrade program costs.

24. As a result of the adjustments noted above, the Commission's finds that Télébec's costs associated with upgrading pay telephones with TTY units on a present worth basis are $0.8 million.

Annual draw down amounts to Télébec's deferral account

25. In light of the above, the Commission **approves** for Télébec an annual draw down amount of $160,000, for a period of seven years, for the purpose of recovering the costs associated with upgrading pay telephones with TTY units.

Secretary General