# Telecom Order CRTC 2005-75

Ottawa, 23 February 2005

## TELUS Communications Inc.

Reference: TELUS Communications Inc. TN 147 and
TELUS Communications (B.C.) Inc. TN 4215

### Construction charges tariff

**The application**

1. The Commission received an application by TELUS Communications Inc. (TCI), dated 4 August 2004, proposing to amend the following General Tariff items in order to grandfather its construction subsidy programs, namely Individual Line Service (ILS) and Rural Individual Line Charge (RILC) in Alberta and the Service Extension Program (SEP) in British Columbia (B.C.):

- the former TCI General Tariff item 202, Individual Line Service;
- the former TELUS Communications (B.C.) Inc. (TCBC) General Tariff item 98, Construction Charges – Public Property; and
- TCI General Tariff item 204, Service Improvement Plan (SIP) for Unserved Premises.

2. TCI also proposed to amalgamate the following General Tariff items into new TCI General Tariff item 406, Construction Charges:

- the former TCI General Tariff item 460, Construction Charges;
- the former TCBC General Tariff item 95, Construction Charges – General;
- parts of the former TCBC General Tariff item 97, Construction Charges – Customer's Premises; and
- parts of the former TCBC General Tariff item 98, Construction Charges – Public Property.

3. TCI submitted that its proposal to amalgamate its construction charges tariffs would establish, to the extent possible and practical at this time, a common Construction Charges tariff for TCI's operating territories of Alberta and B.C. TCI noted that the amalgamated tariff would maintain the existing differences in public property and private property allowances between the two provinces.

4. TCI stated that the proposed amalgamated tariff would apply in all cases where TCI provided facilities for residential and business customers, with the exception of unserved residential premises in TCI's operating territories of Alberta and B.C. who would qualify for service pursuant to the SIP.

5. TCI proposed to assign the amalgamated Construction Charges tariff to the Other Capped Services basket, which TCI stated would be consistent with the Commission's current classification for these services. TCI submitted that it had not proposed any changes to the existing tariff rates, therefore, there would be no impact on its price indices.

6. The Commission received no comments with respect to this application.

***TCI's proposal to grandfather Individual Line Service, Rural Individual Line Charge, and the Service Extension Program***

7. TCI proposed to grandfather its existing construction subsidy programs, namely ILS and RILC in Alberta and the SEP in B.C. TCI proposed to apply the SIP tariff to new requests for residential service as applicable in B.C., and beyond the Base Rate Area and also within or beyond the Operating Exchange Boundary in Alberta.

8. TCI submitted that grandfathering its existing construction subsidy programs would have little or no impact on residential customers, because the SIP applies equally to residential customers in Alberta and B.C. and serves the same objective of providing exchange service to as many residential customers as possible. TCI noted that its proposal would have a greater impact on business customers who would no longer be subsidized.

*i) Individual Line Service and Rural Individual Line Charge in Alberta*

9. TCI explained that from 1986 to 1990 it received grants from the Government of Alberta under the ILS program in order to convert all multi-party lines in its operating territory to individual lines. TCI noted that each customer had the choice of paying either a one-time conversion charge of $560 or $5 per month for 20 years.[1] TCI submitted that, until June 1991, the provincial government helped to off-set this expense by providing customers with a rebate of $110 per individual line. TCI noted that the average cost of provisioning service to a new ILS customer greatly exceeded $560.

10. TCI, in light of the above, proposed to grandfather the ILS and RILC charges at existing ILS and RILC customer locations. TCI specifically proposed that:

- customers that moved into an existing ILS location where the $560 conversion charge had not been paid in full would be responsible for paying the remaining balance;

- requests for additional lines at locations with ILS would also be charged the $560 conversion charge, which customers would be required to pay up front and in full;

- requests for additional lines at premises with RILC service would be assessed a RILC charge, which customers would be required to pay up front and in full;

[1] TCI noted that, effective 1 February 1993, the amortization period for new customers paying the $560 charge was reduced from 20 years to 3 years, with an associated payment of $18 per month. TCI noted that the change in amortization period was approved by the Commission in Telecom Order CRTC 1993-1088.

- the $18 per month for three years financing plan would be grandfathered for customers currently using this payment option.

11. TCI submitted that there would be no financial impact on residential customers as a result of grandfathering ILS and RILC. TCI submitted that, under the current ILS tariff, the cost of service to a residential customer is expected to always exceed $1,000, due to the ILS charge of $560 and the average private property charge of $500 or more. In TCI's view, such customers would be better off under the SIP tariff at a customer charge of $1,000, assuming a capital cost limit of $25,000.

*ii) Service Extension Program in B.C.*

12. TCI indicated that the current SEP provided service to residential and business customers' principal premises beyond existing exchange facilities or Exchange Area Radiotelephone Service coverage areas in B.C., pursuant to a formula which included rebates to original customers. TCI explained that within a three-year period, as service was provided to additional principal premises, original customers were rebated. TCI proposed to grandfather existing SEP locations, which would permit residential and business customers at those locations to continue to receive the SEP rebate under the subsidy program until the expiry of the rebate period.

13. TCI submitted that it expected the impact of grandfathering SEP to be minimal on B.C. residential customers. TCI noted that any residential customer whose service request required less than $7,000 in construction costs would pay less than $1,000 under the SEP tariff, and therefore would be better off under the SEP tariff than the SIP tariff. TCI stated that it had processed 34 residential customer requests for SEP to date in 2004, of which only nine were less than $7,000.

14. TCI stated that there would be no impact on business customers as a result of grandfathering SEP, because there were virtually no customers outside the current allowances requesting service.

***TCI's proposal to amalgamate Construction Charges tariffs***

15. TCI proposed to amalgamate its Alberta and B.C. Construction Charges tariffs to clarify various terms and conditions, align certain terms and conditions, and eliminate obsolete provisions.

16. TCI noted that the company currently assumed 100 percent of the public property costs for new construction to provide service for each central office line or trunk inside the Base Rate Area in Alberta. TCI noted that this would remain unchanged under its proposed tariff. TCI proposed, however, that for new construction to provide service for each central office line or trunk outside the Base Rate Area in Alberta, the customer would be assessed 100 percent of the public property costs incurred by TCI.

17. TCI stated that, as a result of its proposal to grandfather ILS and RILC, business customers at new locations who would have previously been eligible for ILS or RILC would be charged full construction costs. TCI submitted that the majority of business customer requests for service beyond the Operating Exchange Boundary were data applications, which were not eligible for

RILC and were assessed full construction charges under the current tariffs. TCI submitted, therefore, that there would be minimal financial impact on customers as a result of grandfathering this program for new service requests outside the Operating Exchange Boundary.

18. TCI proposed that customers in B.C. would be assessed 100 percent of the costs in excess of the initial $2,000 for the provision of each central office line or trunk, except for residential customers who would be eligible for service under the SIP tariff.

***TCI's proposal to withdraw financial payment options***

19. TCI proposed to withdraw the financial payment options currently available to Alberta and B.C. customers requesting extension of service. TCI was of the view that the impact to customers would be negligible, since those who qualified for the SIP would have access to TCI's Installment Payment Plan. TCI noted that customers could also make payment arrangements through financial institutions that usually offered more attractive interest rates and terms.

**Commission's analysis and determination**

***TCI's proposal to grandfather Individual Line Service, Rural Individual Line Charge, and the Service Extension Program***

20. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission approved the SIP tariffs for the incumbent local exchange carriers for construction charges associated with extending service to residential customers in unserved areas. The SIP tariffs serve to provide customers with telephone service where the maximum average cost per residential premise is $25,000, including a customer capital contribution of $1,000. The Commission determined that during the period of the SIP (i.e. from 2003 to 2006), for localities where outside plant had already been installed before the commencement of the SIP, each new customer who requested service in that locality was to have a choice between the lesser of a contribution cost calculated pursuant to the current subsidy program tariff (i.e. ILS, RILC or SEP), or $1,000, assuming a capital cost limit of $25,000.

21. In *Follow-up to price cap Decision 2002-34: TELUS' revised service improvement plan*, Telecom Decision CRTC 2003-64, 25 September 2003 (Decision 2003-64), the Commission approved amendments to TCI's SIP. These amendments addressed specific cost inclusions in TCI's SIP in relation to unserved communities in B.C. and unserved individuals in Alberta and B.C., which included unserved premises that had not previously subscribed to TCI's SEP. The Commission noted that TCI would be fully compensated for the costs associated with the capital expenditures in question, either through its total subsidy requirement for its high-cost serving areas (HCSAs) or its deferral account for non-HCSAs.

22. Consistent with its previous determinations, in Decision 2003-64 the Commission found that during the period of the SIP, for localities where outside plant had already been installed before the commencement of the SIP, each new residential customer who requested service was to have a choice between the lesser of a contribution cost calculated pursuant to the current tariff, or $1,000, assuming a capital cost limit of $25,000. The Commission stated that this would be consistent with its objective of serving as many premises as possible through the SIP.

23. The Commission notes that TCI identified that a limited number of cases exist where residential customers would be better off under the current subsidy programs rather than under the SIP. The Commission notes that TCI's proposal to grandfather ILS, RILC and the SEP would therefore be contrary to the Commission's determinations in Decisions 2002-34 and 2003-64, as residential customers would no longer have the benefit of the lesser contribution cost over the period of the SIP. The Commission is of the view, therefore, that TCI's proposal to grandfather these subsidy programs for residential customers is not appropriate at the current time.

***TCI's proposal to amalgamate Construction Charges tariffs***

24. In regard to TCI's proposal to amalgamate its Construction Charges tariffs the Commission notes that, except for aligning certain terms and conditions, TCI has not proposed to amalgamate its methodologies used to determine the amount of construction charges applicable to customers in Alberta and B.C. The Commission is of the view that most of the changes proposed by TCI to its methodologies used to determine the construction charges applicable to customers are a result of its proposal to grandfather ILS, RILC and the SEP. The Commission is concerned that, under TCI's proposed tariff, there remain significant differences in the treatment of customers between Alberta and B.C. in determining the construction charges applicable on public and private property.

***TCI's proposal to withdraw financial payment options***

25. With respect to TCI's proposal to withdraw or grandfather various payment plan options available to Alberta and B.C. construction customers, the Commission notes that in *Bell Canada – Construction charges*, Order CRTC 2000-351, 28 April 2000 (Order 2000-351), it considered that it might be a significant disincentive to request a service extension if the customer was required to pay the full cost of the extension in advance or in full when the account was billed. The Commission determined that a reasonable instalment option for service extensions not covered by a SIP would be appropriate.

26. The Commission considers that requiring a customer to pay for service extensions in a lump sum or by securing financing through a financial institution, as proposed by TCI, could be a disincentive to request an extension. The Commission is therefore of the view that circumstances have not changed significantly since the issuance of Order 2000-351 to allow the withdrawal or grandfathering of payment plan options in TCI's tariffs.

27. In light of the above, the Commission **denies** TCI's application.

Secretary General