
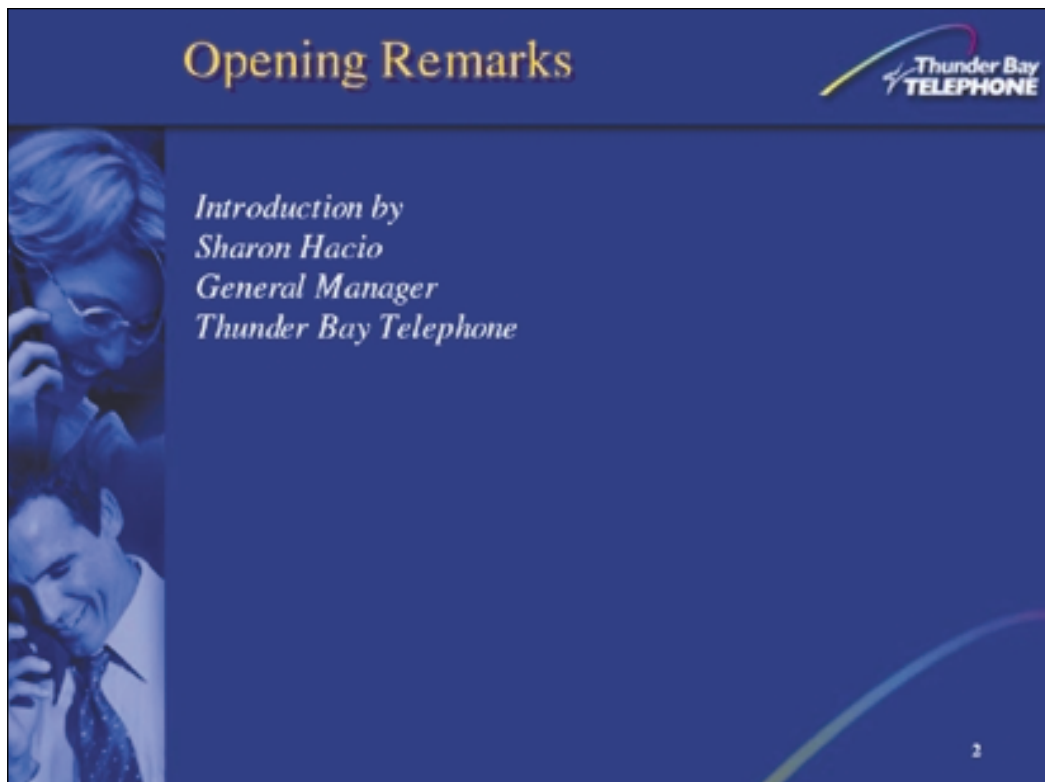
A vertical strip on the left side of the slide showing three people in business attire talking on mobile phones. The image is tinted blue.

Canadian Alliance of Publicly Owned  
Telecommunications Systems  
(CAPTS) Presentation to the CRTC

*(Thunder Bay, Dryden, Kenora)*  
*Public Notice*  
*2001-61*


The logo for Thunder Bay Telephone, identical to the one in the top right corner, located in the bottom right corner of the slide.

A presentation slide with a dark blue background. At the top left, the text "Opening Remarks" is written in a gold, serif font. In the top right corner, there is a small version of the Thunder Bay Telephone logo. On the left side, there is a vertical strip of three images showing people talking on mobile phones. To the right of this strip, the text "Introduction by Sharon Hacio General Manager Thunder Bay Telephone" is written in a white, italicized serif font. In the bottom right corner, there is a small white number "1".


Opening Remarks

*Introduction by  
Sharon Hacio  
General Manager  
Thunder Bay Telephone*

1




## Background




*Thunder Bay Telephone*

- ☞ Founded in 1902.*
- ☞ The largest independent telephone company in Canada.*
- ☞ Provides a full range of local telecommunications services within the City of Thunder Bay, and to 21 rural municipalities.*
- ☞ Services cover an area of 1,340 square miles and 90,000 access lines.*
- ☞ Local network interfaces with Bell and AT&T Canada inter-city networks to extend service beyond Thunder Bay.*

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## Background



Kenora Municipal Telephone System

- Ø Founded in 1892.
- Ø Owned and operated by the Corporation of the City of Kenora.
- Ø Provides a complete range of voice and data services to businesses and residents through more than 10,000 access lines.
- Ø Free calling available to surrounding area:  
Keewatin, Jaffrey Melick, McKenzie Portage, Clearwater Bay, Grassy Narrows, Sioux Narrows, Minaki and Redditt.

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## Background



### Dryden Municipal Telephone System

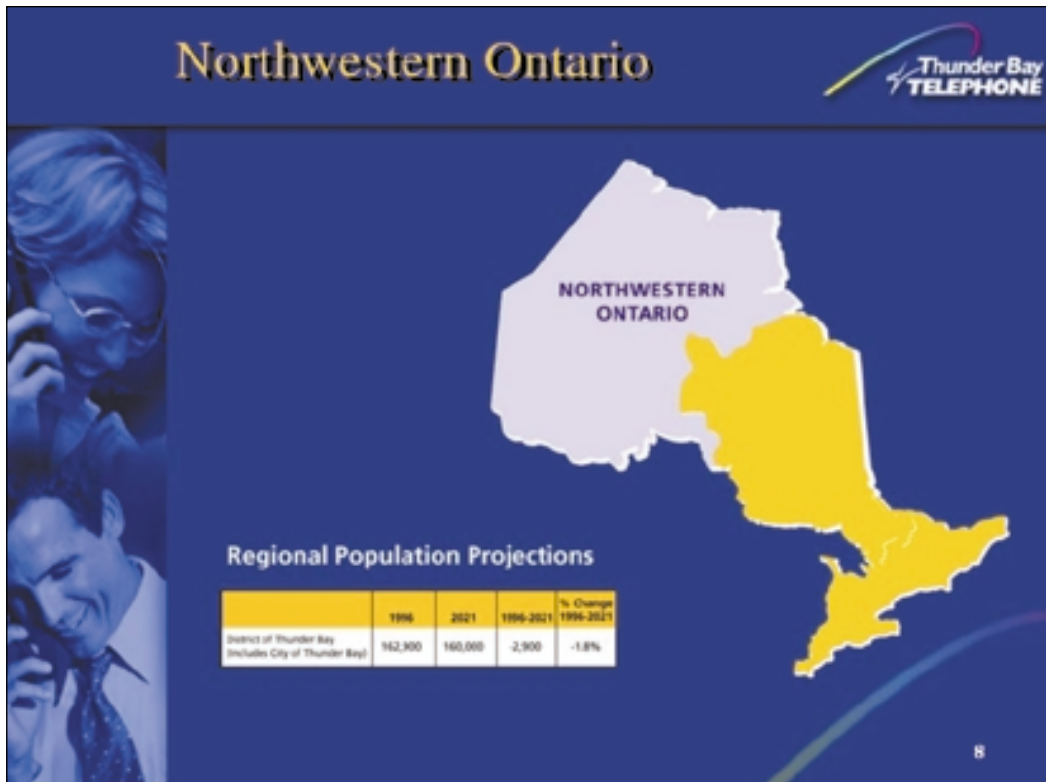
- Ø Owned and operated by the Corporation of the City of Dryden.
- Ø Service established in early 1900s.
- Ø 6,500 lines are connected to the DMS-100 Digital Switch, which was installed in 1983.
- Ø Extended area service to Oxdrift, Wabigoon, Sioux Lookout, Ignace, Hudson, Vermilion Bay and Perrault.
- Ø Strong community involvement: supplies services to the Dryden Hospital, Government Building, school boards and Weyerhaeuser Pulp and Paper.



**Speakers Notes:**

*Providing local services to wide-reaching, large geographic areas with low population densities is generally more costly than providing the same service within urban areas.*







### Proximity to Other Markets



*Thunder Bay is 680 km from Winnipeg, 750 km from Sault St. Marie, 1500 km from Toronto, 306 km from Duluth and 563 km from Minneapolis.*

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The slide features a map of the Great Lakes region and surrounding areas. The map shows the Great Lakes (Superior, Michigan, Huron, Erie, and Ontario) and the surrounding landmasses of Canada and the United States. Key cities and locations are marked with yellow dots and labeled: Winnipeg, Kenora, Dryden, Thunder Bay, Sault Ste. Marie, Duluth, Minneapolis, Toronto, and Chicago. The map also shows major highways and state/provincial boundaries. The text below the map provides specific distances from Thunder Bay to these locations.

### Service Areas



The map displays service areas in Ontario, Canada, and Michigan, USA. Key locations marked include Kenora, Dryden, and Thunder Bay. The Thunder Bay area is highlighted in yellow. The map also shows major roads and geographical features like Lake Superior and Lake Huron. The word 'MINNESOTA' is visible at the bottom of the map area.



A vertical strip on the left side of the slide shows three people using mobile phones. The top person is a woman with glasses, the middle is a man in a suit, and the bottom is a woman. They are all smiling and appear to be in conversation.

10

A presentation slide with a dark blue background. On the left, there is a vertical strip of two images: a woman with glasses talking on a mobile phone, and a man in a suit also talking on a mobile phone. The title "Our Goals" is in a gold serif font at the top left. The Thunder Bay Telephone logo is in the top right. Two paragraphs of italicized white text describe the company's goals. A small white number "11" is in the bottom right corner.



## Our Goals

*To ensure that the CAPTS customers continue to have access to reliable and affordable services in concert with the implementation of the new national HCSA subsidy plan and the elimination of contribution revenues.*

*To assist the Commission in the development of an appropriate price regulation regime, which will provide the CAPTS members with the incentives to be more efficient and innovative with the opportunity to earn a fair return and, at the same time, reduce the regulatory burden.*

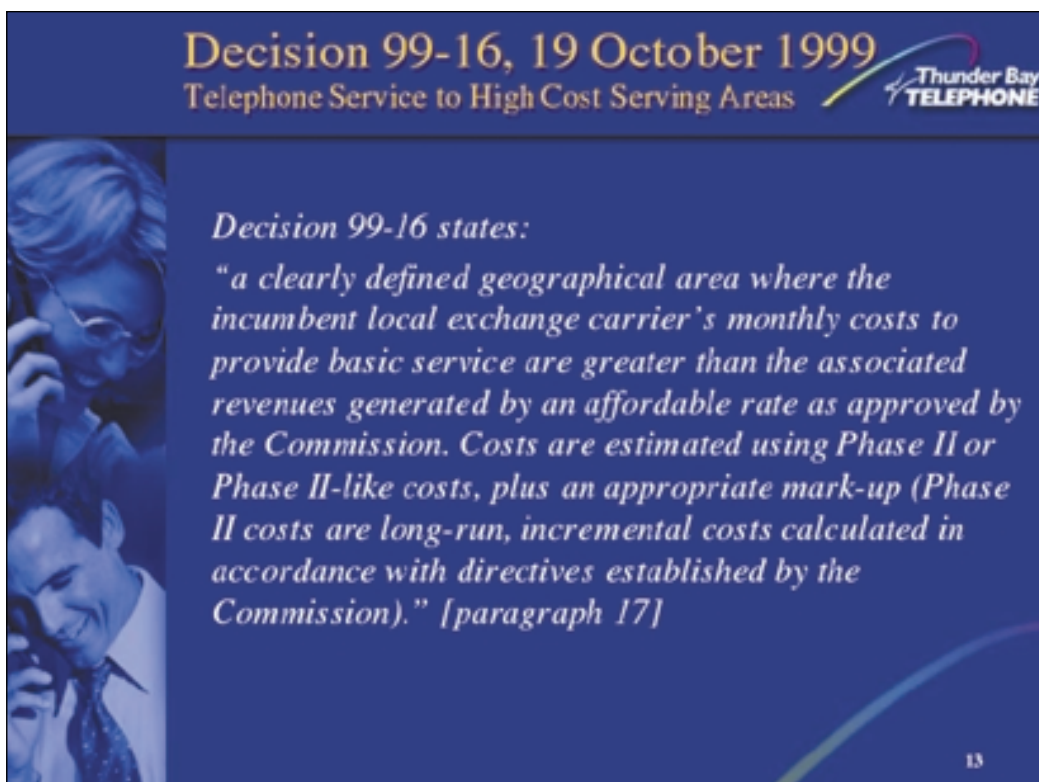
11


## High Cost Subsidy Plan



- ☞ The subsidy requirement and the new regulatory regime are closely related.*
- ☞ The use of proxy costs based upon national averages developed from ex-Stentor companies may not be appropriate.*
- ☞ Commission-defined HCSA bands may not adequately capture the HCSA characteristics of CAPTS members' operating areas.*
- ☞ Proxies based upon ex-Stentor companies may underestimate the level of costs in CAPTS members' operating territories.*

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A slide titled "Decision 99-16, 19 October 1999 Telephone Service to High Cost Serving Areas" with the Thunder Bay Telephone logo. The slide contains a quote from the decision and a small image of two men talking on mobile phones. The number 13 is in the bottom right corner.

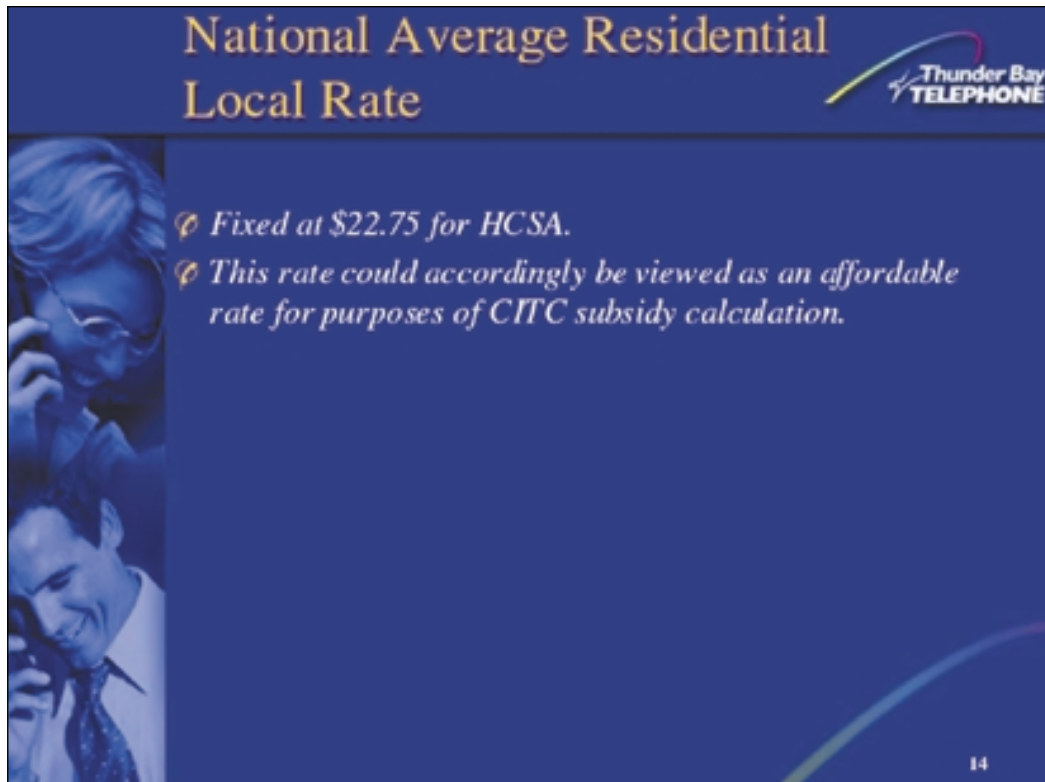
**Decision 99-16, 19 October 1999**  
Telephone Service to High Cost Serving Areas 

*Decision 99-16 states:*  
*"a clearly defined geographical area where the incumbent local exchange carrier's monthly costs to provide basic service are greater than the associated revenues generated by an affordable rate as approved by the Commission. Costs are estimated using Phase II or Phase II-like costs, plus an appropriate mark-up (Phase II costs are long-run, incremental costs calculated in accordance with directives established by the Commission)." [paragraph 17]*

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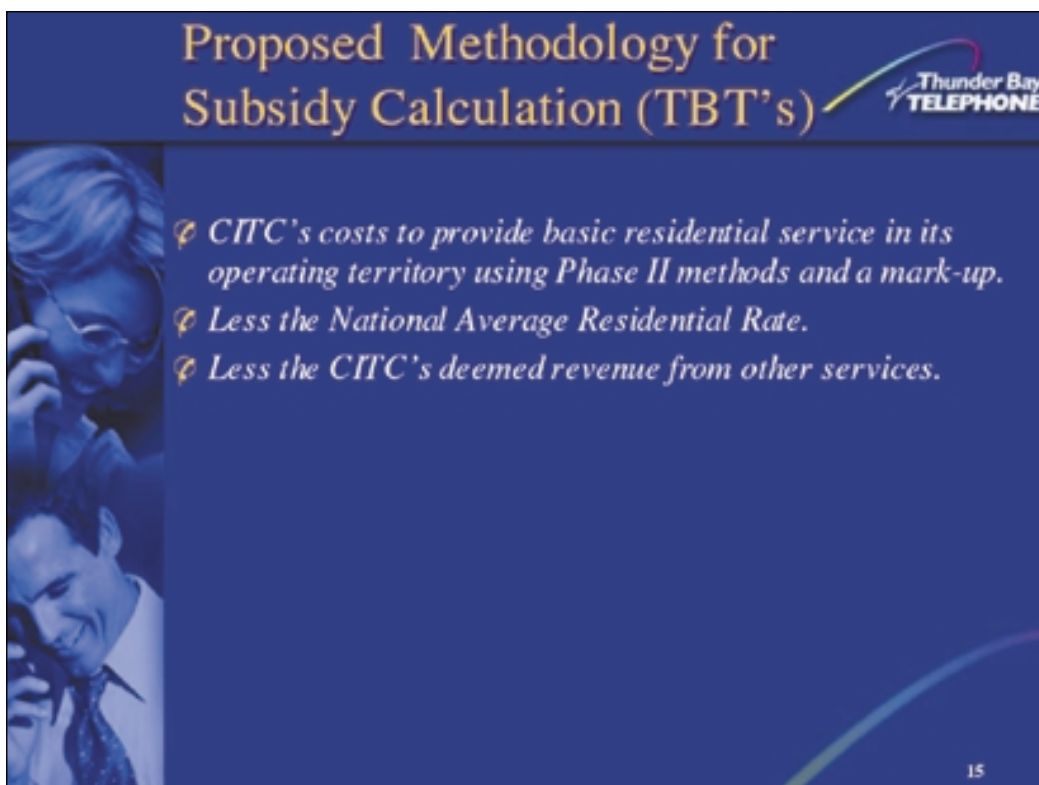
**Speakers Notes:**

*Consistent with the above definition of an HCSA, TBT operates in a clearly defined geographical area encompassing the City of Thunder Bay and surrounding areas. TBT is currently in the process of calculating it's costs to provide basic residential service in its operating area using Phase II like costs and an appropriate mark-up. Accordingly, once these costs are calculated an HCSA subsidy determination could then rely on whether the calculated costs are greater than an affordable rate as approved by the Commission.*

The slide content is presented on a dark blue background. On the left side, there is a vertical strip of two images: the top one shows a woman with glasses talking on a mobile phone, and the bottom one shows a man in a suit and tie also talking on a mobile phone. The title "National Average Residential Local Rate" is written in a gold-colored serif font at the top left. The Thunder Bay Telephone logo is in the top right corner. Two bullet points, each starting with a gold-colored circle containing a white telephone handset icon, are listed in the center. The number "14" is in the bottom right corner.

## National Average Residential Local Rate

- ☉ *Fixed at \$22.75 for HCSA.*
- ☉ *This rate could accordingly be viewed as an affordable rate for purposes of CITC subsidy calculation.*

A presentation slide with a dark blue background. The title "Proposed Methodology for Subsidy Calculation (TBT's)" is in a gold-colored serif font. The Thunder Bay Telephone logo is in the top right corner. On the left, there is a vertical strip of images showing two people talking on mobile phones. The main content consists of three bullet points in a light blue serif font, each preceded by a circular icon containing a telephone handset. A small number "15" is in the bottom right corner.

Proposed Methodology for Subsidy Calculation (TBT's)

- *CITC's costs to provide basic residential service in its operating territory using Phase II methods and a mark-up.*
- *Less the National Average Residential Rate.*
- *Less the CITC's deemed revenue from other services.*

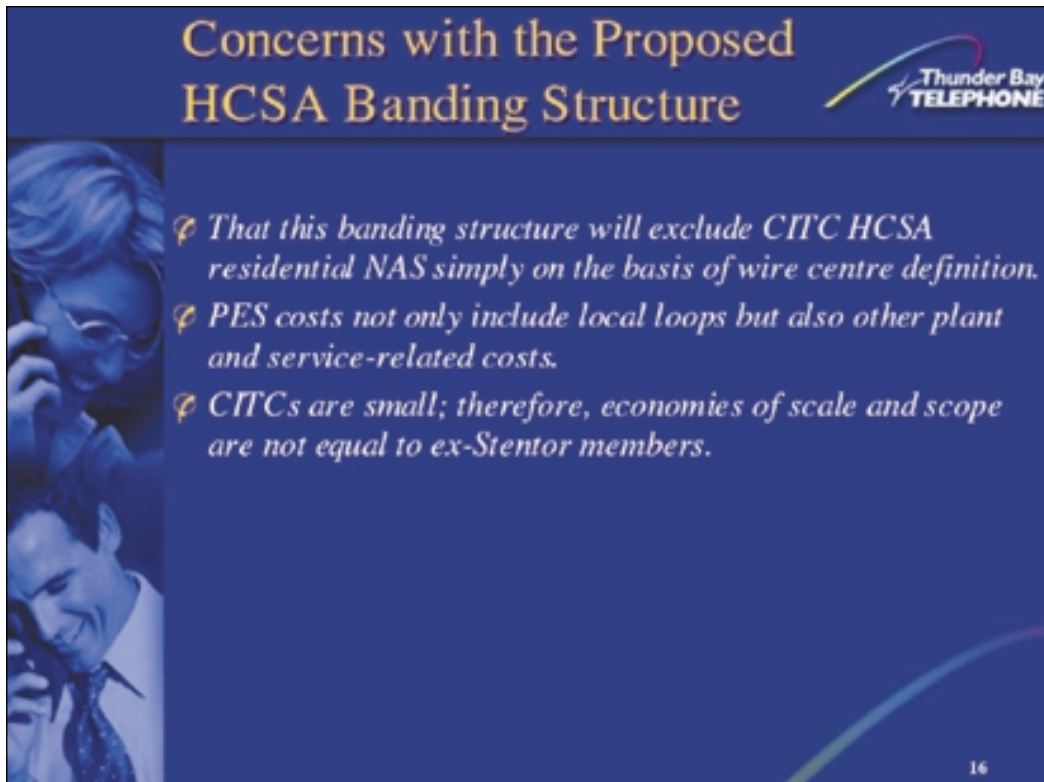
15

### Speakers Notes:


*Compare CITC's average PES residential costs to the ex-Stentor national weighted average residential price to determine the extent to which a subsidy is needed..*

- *avoids definitional distortions related to wire centre sizes and architectures*
- *provides an incentive to move local rates closer to the national weighted average*
- *recognizes the relatively higher cost to provide service in a small CITC*
- *provides basis to move to price regulation*






**Concerns with the Proposed HCSA Banding Structure**



*☞ That this banding structure will exclude CITC HCSA residential NAS simply on the basis of wire centre definition.*

*☞ PES costs not only include local loops but also other plant and service-related costs.*

*☞ CITCs are small; therefore, economies of scale and scope are not equal to ex-Stentor members.*

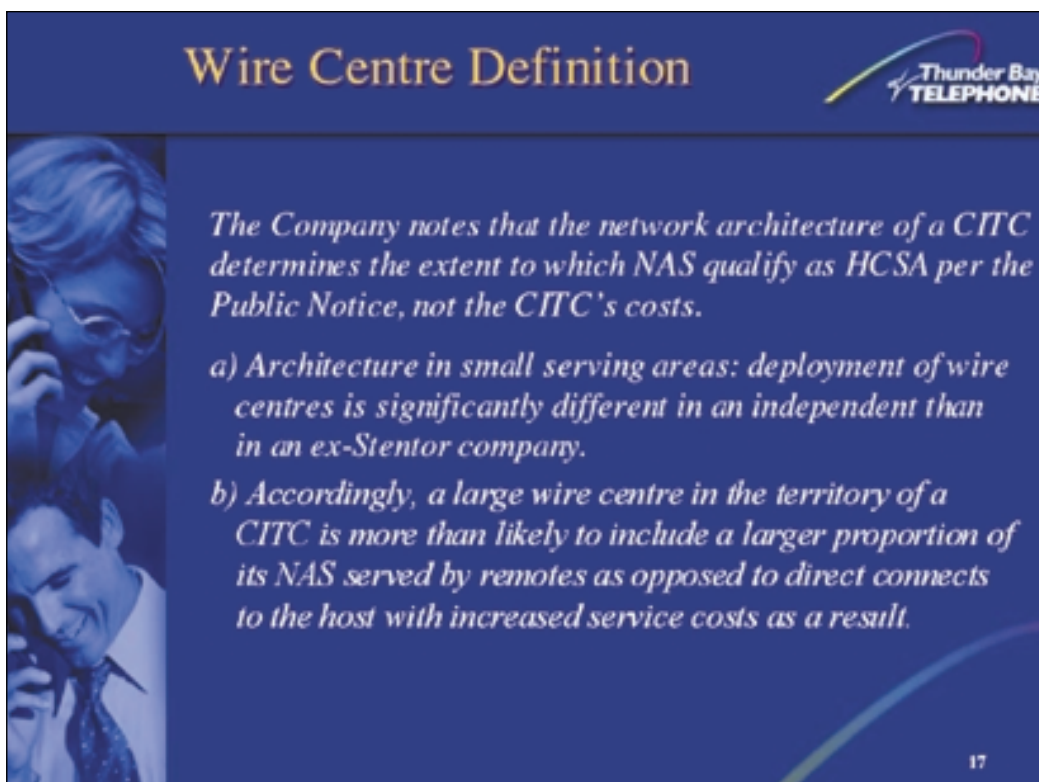


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**Speakers Notes:**

- *material costs (volume discounts), equipment, vehicles*
- *plant operations would be higher in CITC's based upon reduced scale of operations*
- *remoteness, low exchange density and long loops*



A presentation slide with a dark blue background. The title "Wire Centre Definition" is in a gold-colored serif font at the top left. The Thunder Bay Telephone logo is in the top right. On the left side, there is a vertical strip of two images: a woman with glasses talking on a mobile phone and a man in a suit talking on a mobile phone. The main text is in a white serif font, including a paragraph and two bulleted points. A small number "17" is in the bottom right corner.

## Wire Centre Definition

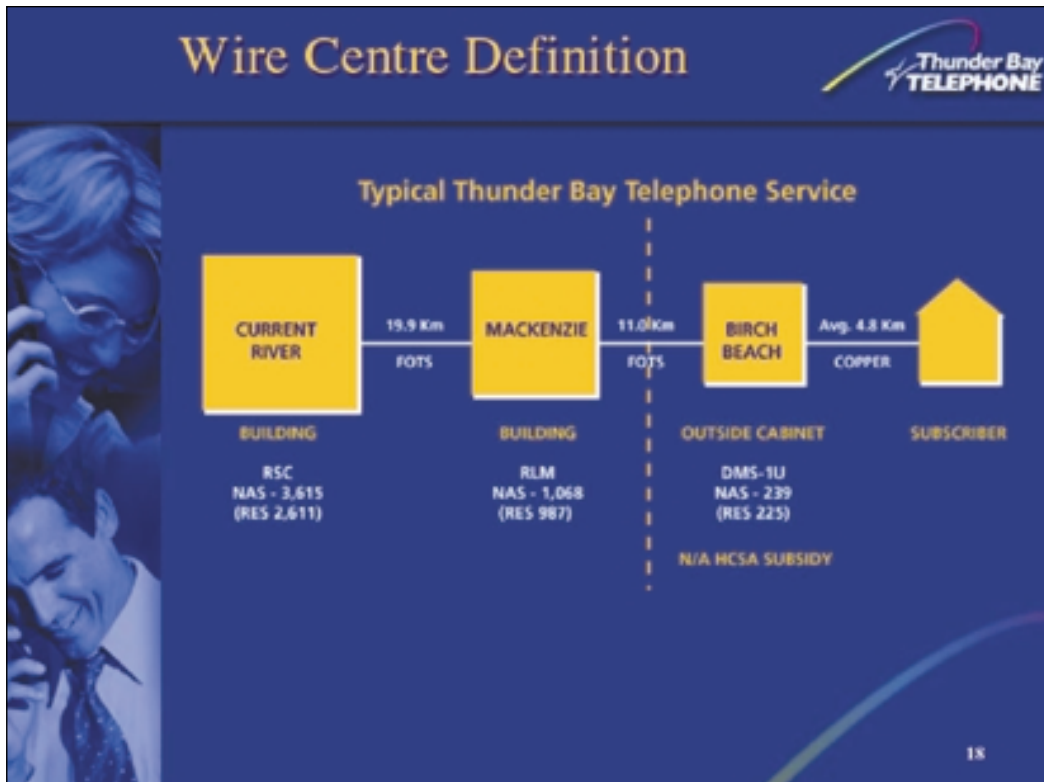
*The Company notes that the network architecture of a CITC determines the extent to which NAS qualify as HCSA per the Public Notice, not the CITC's costs.*

- a) Architecture in small serving areas: deployment of wire centres is significantly different in an independent than in an ex-Stentor company.*
- b) Accordingly, a large wire centre in the territory of a CITC is more than likely to include a larger proportion of its NAS served by remotes as opposed to direct connects to the host with increased service costs as a result.*

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### Speakers Notes:

*The fact that a wire centre with greater than 8,000 NAS is considered non high cost in the operating territory of an ex-Stentor company does not necessarily track with the situation of a greater than 8,000 wire centre in the operating area of a CITC.*



## National Average Phase II cost including 15% mark-up



*On the matter of the 15% mark up to be applied to the Phase II costs, CAPTS notes that the 15% was explained in Decision 2000-745 to recover fixed common costs and not intended to recover differences between Phase III embedded costs and Phase II current costs.*

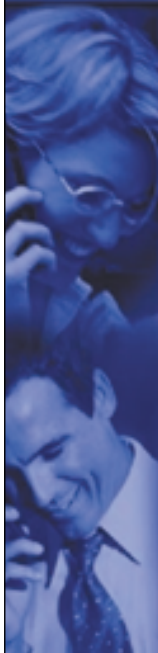
*CAPTS also notes that in that Decision the Commission explained that a limited amount of quantitative evidence was provided to support an appropriate mark-up.*

## National Average Phase II cost including 15% mark-up



*CAPTS agrees that the level of mark up should not be set to recover differences between Phase III and Phase II costs. Accordingly, CAPTS does not object to the defined 15 % mark-up subject to the Company being able to confirm that its fixed costs as a percentage of its Phase II costs fall within this percent range.*

## Deemed Revenue from Other Services

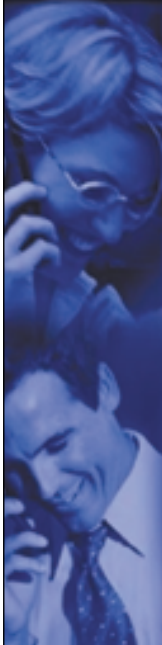


*On the matter of whether any downward adjustments to the monthly \$5 implicit contribution amount per residential NAS generated by other local services is appropriate, CAPTS notes that the monthly amount generated by other local services in its operating territory is significantly below the \$5 implicit contribution amount. Considering a move of local rates towards the national average (\$22.75) may negatively affect the penetration level of these other services.*

*Accordingly, CAPTS proposes that the contribution amount be initially set at a CITC's actual amount in the first year with an incremental phase-in of \$0.50 per year per residence NAS over a 3 year period or the period in which the approved threshold is reached.*

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## Subsidy Requirement – HCSA Business NAS



*On the matter of subsidized HCSA business NAS, CAPTS is of the view that such a subsidy is not appropriate or required if the residential subsidy is calculated as proposed.*

## Transition Period



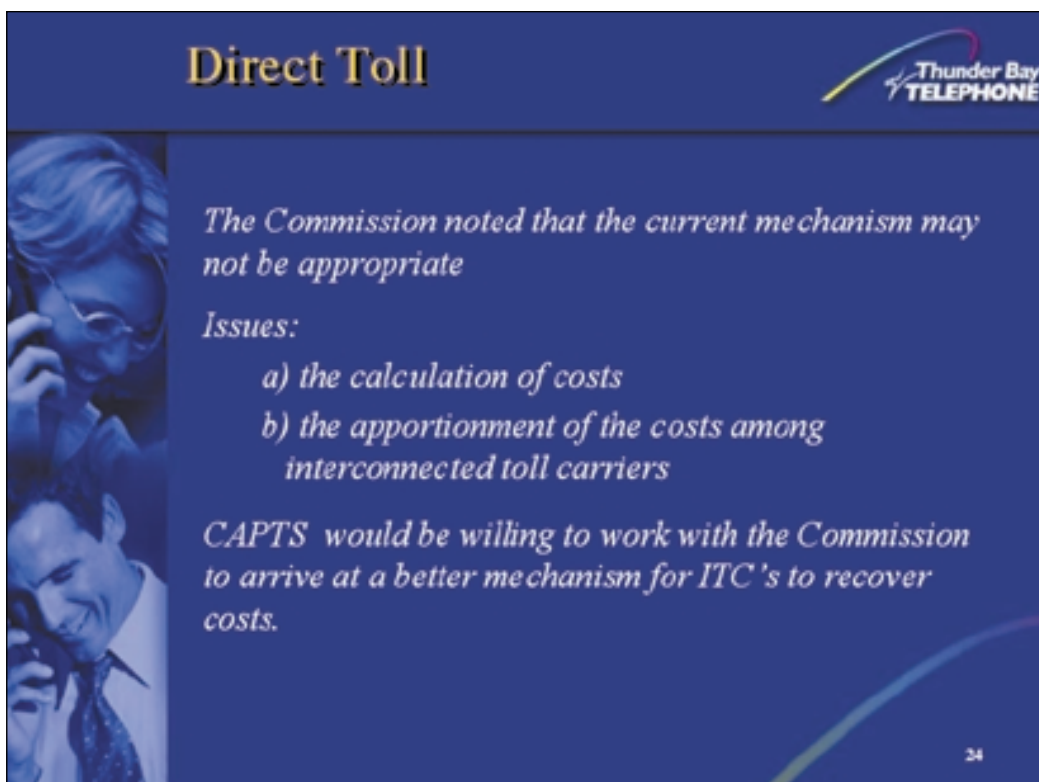
*On the issue of the requirement for a transition period, CAPTS notes that to the extent that company-specific Phase II costs plus an appropriate mark-up are used, such shortfalls would by definition be related to the difference between Phase III and Phase II costs.*

*Further noting that the former Phase III costs have been capped by the Commission, CAPTS would, therefore, suggest that the calculated shortfall would be minimized under the proposed approach.*

*CAPTS notes, however, that a transition period may be required for a number of reasons and accordingly supports a transition approach.*

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A presentation slide titled "Direct Toll" with a blue background. On the left, there is a vertical strip of images showing two men in business attire talking on mobile phones. The main text is in white and yellow. The Thunder Bay Telephone logo is in the top right corner. A small number "24" is in the bottom right corner.

## Direct Toll

*The Commission noted that the current mechanism may not be appropriate*

*Issues:*

- a) the calculation of costs*
- b) the apportionment of the costs among interconnected toll carriers*

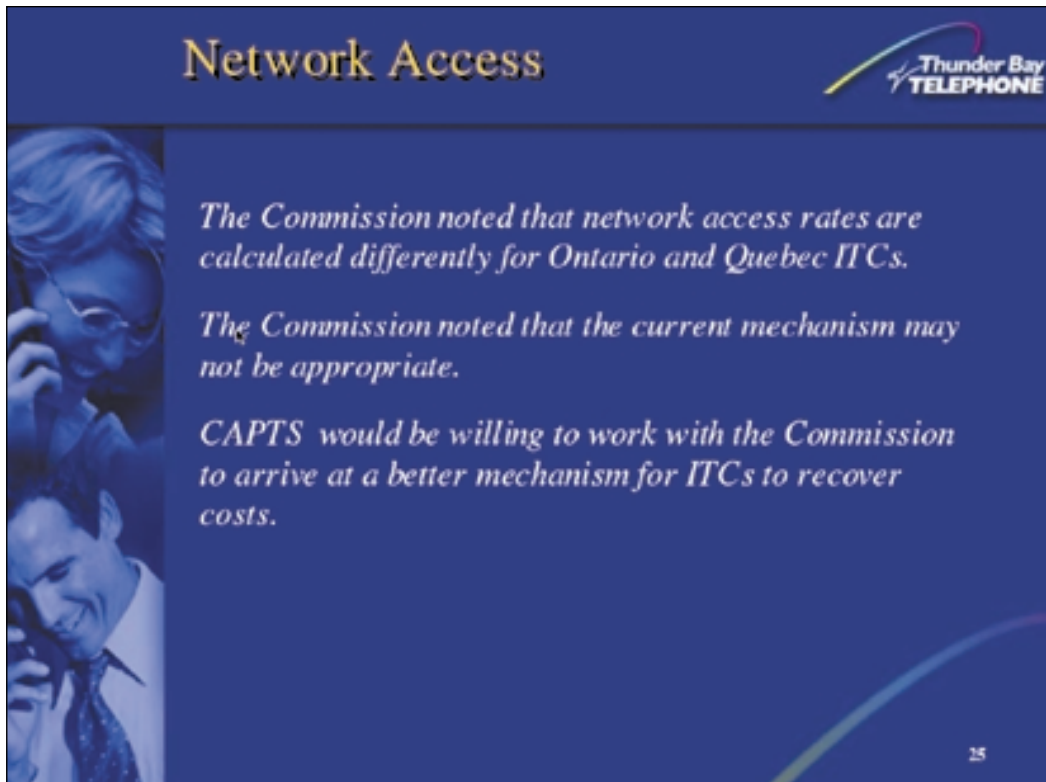
*CAPTS would be willing to work with the Commission to arrive at a better mechanism for ITC's to recover costs.*

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### Speakers Notes:

*With respect to the apportionment of the costs among interconnected carriers CAPTS does not at this time see a better causal relationship between the costs borne by the Company in providing the service and the service provided to a long distance service provider than originating and terminating minutes*



A presentation slide with a dark blue background. On the left, there is a vertical strip of three images showing people talking on mobile phones. The main text is in a light blue, serif font. The title "Network Access" is at the top left. The Thunder Bay Telephone logo is at the top right. The text discusses network access rates for Ontario and Quebec ITCs, notes that the current mechanism may not be appropriate, and states that CAPTS is willing to work with the Commission to find a better mechanism for ITCs to recover costs. A small number "25" is in the bottom right corner.

## Network Access



*The Commission noted that network access rates are calculated differently for Ontario and Quebec ITCs.*

*The Commission noted that the current mechanism may not be appropriate.*

*CAPTS would be willing to work with the Commission to arrive at a better mechanism for ITCs to recover costs.*

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Closing Remarks



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