



FOR/ Teresa Griffin-Muir
Vice President, Regulatory Affairs
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MTS Allstream Inc.

8 August 2006

By Epass

Ms. Diane Rhéaume
Secretary General
Canadian Radio-television and
Telecommunications Commission
Ottawa, Ontario
K1A 0N2

Dear Ms. Rhéaume:

Subject: Telecom Public Notice CRTC 2006-5, Review of price cap framework

In accordance with paragraph 34 of Telecom Public Notice 2006-5, MTS Allstream Inc. (MTS Allstream) submits the following interrogatories:

- Attachment 1: Bell Aliant, Bell Canada, SaskTel (Bell et al.)
- Attachment 2: The Consumer Groups
- Attachment 3: TELUS Communications Company (TELUS)

Yours truly,

Angela Donnelly

Attachments

c.c.: Interested Parties to Public Notice 2006-5

Telecom Public Notice CRTC 2006-5
Interrogatories addressed to Bell Aliant, Bell Canada, SaskTel (Bell et al.)

Bell et al.(MTS Allstream)8Aug06-1 PN 2006-5

At paragraph 32 of its Submission, Bell et al. states that: "In summary, the telecommunications landscape is highly competitive and has undergone a transformation in recent years". Provide the following information separately for Bell Canada, Aliant and SaskTel:

- a) Each Company's estimates of its residential wireline local exchange service market share, measured in terms of network access lines, for the years, 2002, 2003, 2004, 2005, and mid-year 2006 (or if not yet available, 1Q06). In Bell Canada's and Aliant's cases, also provide a breakdown of the market share estimates by province within each Company's respective operating territory (as configured prior to the recently completed Bell Aliant restructuring).
- b) Each Company's estimates of its business wireline local exchange service market share, measured in terms of network access lines or equivalents, for the years, 2002, 2003, 2004, 2005, and mid-year 2006 (or if not yet available 1Q06). In Bell Canada's and Aliant's case; also provide a breakdown of the market share estimates by province within each Company's respective operating territory (as configured prior to the recently completed Bell Aliant restructuring).

Provide details of all calculations as may be required.

Bell et al.(MTS Allstream)8Aug06-2 PN 2006-5

Separately for Bell Canada, Aliant and SaskTel, provide a list and brief description of all (i) residential, (ii) business, (iii) other capped service and (iv) uncapped service pricing changes implemented over the course of the current price cap period (i.e., covering the period June 2002 to date).

Bell et al.(MTS Allstream)8Aug06-3 PN 2006-5

In Appendix 2 of its Submission, Bell et al. provides a list of services which are classified as "discretionary" services. For each Company-specific list of all such services,

- a) Provide a brief description of each service on the list which is currently classified as either an "other capped" or "uncapped" service,
- b) Provide a brief explanation as why each such service (identified in part a) should be considered "discretionary" and/or should be considered as being subject to some degree of market discipline, and
- c) Provide the definition and associated list of "discretionary" services filed by Bell Canada and Télébec in the context of the local forbearance proceeding (i.e.,

Appendix C of its 22 June 2005 local forbearance submission) and provide the rationale for the definition and list of "discretionary" services used in this proceeding relative to the local forbearance proceeding.

Bell et al.(MTS Allstream)8Aug06-4 PN 2006-5

Under Bell et al.'s proposal, "connectivity" services would be subject to a price cap constraint whereby the average price of all such services within a specific basket would be capped at current price levels or, in effect, be subject to a basket constraint of zero.

- a) Explain whether Bell et al. price caps proposal is based on the assumption that $X = I$ (i.e., wherever a basket-specific price cap applies). If not, why not? If so, explain the basis for proposing that $X = I$ is appropriate productivity offset for the next price cap period. Also, indicate whether there is any threshold inflation level at which the X-factor should be capped.
- b) According to Appendix 4 of Bell et al.'s submission, five connectivity service baskets are identified. Explain whether the proposed zero price cap constraint would apply to each of the connectivity baskets separately (with the exception of payphone services for which Bell et al. have proposed different price cap). If not, why not?

Bell et al.(MTS Allstream)8Aug06-5 PN 2006-5

Assuming there are services with Commission approved rate ranges (as in the case of Bell Digital Voice service) rather than specific rate levels within a price capped service basket, explain how any such services would be treated for the purpose of calculating the actual price index (API) for the basket in question. In particular, if Bell et al. proposes that approved rate range limits rather than actual price levels be used to calculate the API, provide the associated rationale and justification.

Bell et al.(MTS Allstream)8Aug06-6 PN 2006-5

Under Bell et al.'s proposed test for uncapping specific connectivity services, Bell et al. proposes that the Commission take into account whether an alternative supplier (whether facilities-based or not) offers an equivalent service within a defined geographic area and, where this is found to be the case, the connectivity service would be uncapped in the area in question.

- a) Under this proposal, Bell et al. appears to base the choice of individual routes or exchange pairs as the relevant geographic area in the case of IXPL services based on the relevant geographic market established in Telecom Order 99-434 (i.e., relating to the forbearance framework for IXPL services). However, the choice of the local exchange as the relevant geographic area in the case of residence and business local PSTN services is not consistent with Decision 2006-15 (local forbearance framework) where the relevant geographic market comprises groups of exchanges or defined local forbearance regions. Explain the rationale for the discrepancy.

- b) Under Bell et al.'s service uncapping test proposal, an alternative supplier need only "offer" the service in question within a defined geographic area for the service. Does this imply that the alternative supplier needs to have actual customers in the defined geographic area or is the intent to provide or "offer" service sufficient, to pass the proposed test? If so, provide the rationale.
- c) Explain how the presence of a non-facilities-based VoIP service provider such as Vonage would be treated under the proposed test in the case of residence and business local PSTN services? How would it be determined which exchanges Vonage was offering local PSTN services?
- d) Separately for Bell Canada, Aliant and SaskTel, provide an estimate of the percentage of residence local PSTN, business local PSTN, local PL and IXPL service revenues, individually, that would likely satisfy Bell et al.'s connectivity service uncapping test based on Bell et al.'s current knowledge of competitors in the local market (as for instance identified in Appendix 1 of Bell et al.'s submission).
- e) Under TELUS' service uncapping test proposal (e.g., paragraph 44 of its submission), TELUS proposes that residential local services be uncapped on an exchange-by-exchange basis whenever: (i) a facilities-based competitive local exchange carrier ("CLEC") provides residential local exchange service in the exchange and (ii) a wireless alternative for primary exchange service is present. Provide Bell et al.'s views on TELUS' service uncapping test, specifically the requirement that a facilities-based entrant and wireless alternative be present before a service is uncapped.

Bell et al.(MTS Allstream)8Aug06-7 PN 2006-5

At paragraph 71 of its submission, Bell et al. proposes that business connectivity services that are below cost not be subject to a price cap on rate increase and that any proposed price increases for such services not affect the services associated basket-specific actual price index. At paragraph 123, Bell et al. appears to expand to this provision to any service that is priced below cost and also suggest that rates should cover not just incremental cost but also a contribution to fixed and common costs (and that in this latter respect a mark-up of 25% has traditionally been deemed appropriate).

- a) Explain at what level of disaggregation this pricing requirement would be applied under Bell et al.'s proposal -- e.g., in the case of business connectivity services would the level of disaggregation be the exchange, the rate band or other geographic area.
- b) Separately for Bell Canada, Aliant and SaskTel provide a table in the format below that identifies all services (in addition to single line business PES), if any, for which this proposed provision would apply:

Service	Tariff Item No.	Rate Band	Geographic Area (as per a)

- c) Explain whether all rate increases for price capped services, where existing rates are less than incremental cost plus 25%, would be exempted from price cap index constraints, regardless of the service basket the service(s) where assigned to.

Bell et al.(MTS Allstream)8Aug06-8 PN 2006-5

At paragraph 72 of Appendix 1, Bell et al. states that: "To a large degree wireline competitors in business markets use their own network facilities to provide telecommunications services. Where wireline competitors have gaps in their network reach they may use other carriers' facilities at Commission-approved rates, but the larger volume of services required by business customers as well as the greater degree of geographic clustering often make it financially attractive for suppliers to extend their existing network to reach new customer locations."

Provide Bell et al.'s estimate, separately for Bell Canada, Aliant and SaskTel of the number of competitor-supplied local exchange service lines which are provided to business customers which are provisioned on a owned versus leased or resold basis.

Bell et al.(MTS Allstream)8Aug06-9 PN 2006-5

At paragraph 75 of Appendix 1, Bell et al. states that: "In 2005, Bell Canada generated \$910 million in revenues in Alberta and British Columbia..."

- a) Indicate whether Bell Canada's above-noted revenues in Alberta and British Columbia include wireless.
- b) Provide the percentage of the Bell Canada's \$910 million in revenues generated in Alberta and British Columbia which would collectively fall in the service categories covered by Bell et al.'s price caps proposal.

Telecom Public Notice CRTC 2006-5
Interrogatories addressed to The Consumer Groups

The Consumer Groups(MTS Allstream)8Aug06-1 PN 2006-5

At paragraph 20 of his evidence, Mr. Raycroft notes that: "The cost characteristics of many components of telecommunications plant, including the local loop, would result in declining prices for PES if the market were competitive."

Identify which specific telecom plant inputs are being referred to in this statement and explain whether there are other inputs required in the provision of PES that could have the opposite effect on prices for PES.

The Consumer Groups(MTS Allstream)8Aug06-2 PN 2006-5

At paragraph 46 of his evidence (reference also Table 1 on page 23 of 69), Mr. Raycroft compares the growth rates of the Canadian GDP-PI with capital equipment and electrical and communications equipment PPIs for the last several years.

- a) Provide an explanation of the general relationship between the Canadian capital equipment and electrical and communications equipment PPIs and Canadian ILEC input inflation.
- b) Explain whether a period of more than 5 years would generally be more appropriate in terms of determining the extent to which, if any, an input price differential exists for a firm or industry relative to economy-wide inflation.

The Consumer Groups(MTS Allstream)8Aug06-3 PN 2006-5

In his evidence, Mr Raycroft describes an input price analysis he conducted for the U.S. telecommunications industry. In the analysis, the growth rates of the U.S. RBOC-specific Telecom Plant Input Price Index and U.S. GDP-PI are compared for the purpose of estimating an input price differential for the 10-year period 1995 to 2004. Explain why other telecom industry input prices (such as labour, materials and other inputs) were not included in the analysis. As well, explain what impact their inclusion would likely have on the estimated input price differential.

The Consumer Groups(MTS Allstream)8Aug06-4 PN 2006-5

At paragraph 22 of his evidence, Mr. Raycroft notes that: "Economies of scope arise when a multi-product firm's average total costs decline as the number of different products and/or services produced by the firm increases."

- a) Identify all necessary and sufficient conditions that must be satisfied for economies of scope to arise when a multi-product firm adds an additional product or service.

- b) In the case of a two-product firm characterized by economies of scale and scope, briefly explain the relationship between product-specific economies of scale, economies of scope and overall economies of scale. Specifically, how are the effects of product-specific economies of scale and economies of scope on the firm's average total costs distinguished?

The Consumer Groups(MTS Allstream)8Aug06-5 PN 2006-5

At paragraph 23 of his evidence, Mr. Raycroft notes that: "...total factor productivity is evaluated by examining the relationship of a firm or industry's use of inputs to its production of outputs. When economies of scope expand, firms are able to produce more outputs without a proportional increase of inputs. Thus, the outcome of expanding scope economies is an increase in the firm's productivity."

Explain whether the existence of product-specific economies of scale or, more generally, overall economies of scale would have a similar effect on a firm's total factor productivity and also explain how one would distinguish the effects of scale versus scope economies on total factor productivity growth.

The Consumer Groups(MTS Allstream)8Aug06-6 PN 2006-5

At paragraph 24 of his evidence, Mr. Raycroft claims that: "...the addition of wireless calling has expanded the scale and scope economies associated with local transport facilities, which also allows the costs to be recovered over a larger set of services, at lower unit costs—again reflecting an increase in productivity."

Explain in detail the mechanism through which the addition of wireless calling has increased Canadian ILEC total factor productivity, separating the effects of scale and scope economies. In addition, explain whether the effect of the introduction on wireless calling on a firm's annual average total factor productivity growth is a short term (i.e., no more than several years) or long term phenomenon.

The Consumer Groups(MTS Allstream)8Aug06-7 PN 2006-5

At paragraph 63 of his evidence, Mr. Raycroft claims that: "New market entrants (CLECs) have targeted certain segments of the local exchange market, especially the large and medium size business sector and the high-end of the residential market. As a result, some benefits of productivity gains in the local exchange industry are being shared through market entry."

Explain what is meant by this statement in terms of the total factor productivity gains achieved by the ILECs versus the new market entrants.

The Consumer Groups(MTS Allstream)8Aug06-8 PN 2006-5

At paragraph 81 of his evidence, Mr. Raycroft provides an example of a firm which provides voice and DSL services jointly. Identify and explain the conditions under which the product-specific productivity growth rates for each of the two services would be equal over time and, therefore, equal to the firm's total factor productivity growth rate.

The Consumer Groups(MTS Allstream)8Aug06-9 PN 2006-5

At paragraph 82 of his evidence, Mr. Raycroft states that: "In competitive markets the distribution of productivity gains which result from expanding economies of scope are determined by market forces."

In the case of a two-product firm operating in competitive markets for each of the two products, explain how total factor productivity gains arising from (i) economies of scale and (ii) economies of scope associated with the two products would be distributed in a competitive market. Identify all assumptions used in the explanation.

The Consumer Groups(MTS Allstream)8Aug06-10 PN 2006-5

In Table 6 of his evidence (page 49 of 69), Mr. Raycroft presents the results of his estimates of the impact of DSL on total factor productivity (TFP) growth among a group of 14 U.S. subsidiaries of AT&T and Verizon over the period 2000 to 2003.

- a) Clarify whether the estimated "overall weighted average" TFP growth impact of 0.58% is an average annual impact or the total impact covering the 4-year period under consideration.
- b) Provide the average annual growth rates for the total access lines and total DSL lines for each of the 14 companies used in the analysis and for the 14 companies in aggregate.
- c) Explain whether the estimated overall weighted impact of 0.58% is solely attributable to economies of scope and/or whether other factors such as scale economies, technological change or other sources of efficiency improvements may explain in whole or part the estimated differential.

The Consumer Groups(MTS Allstream)8Aug06-11 PN 2006-5

In his proposed calculation of the X-factor for the next price cap period (i.e., at Table 8, page 53 of 69), Mr. Raycroft uses a TFP growth rate of 4.2% as a starting point. The 4.2% figure is drawn from the Decision 97-9 (paragraph 65) and is based on historical annual average Canadian telecom industry TFP growth rate covering the period 1988 to 1995 and is also consistent with Bell Canada's historical annual average TFP growth rate for the 34-year period, 1962 to 1995.

Explain whether the effects of economies of scope, to the extent they existed, would have been captured, in whole or part - in the long term historical TFP growth data relied on by the Commission in Decision 97-9.

The Consumer Groups(MTS Allstream)8Aug06-12 PN 2006-5

At paragraphs 103 to 105 of his evidence, Mr. Raycroft discusses the need for what he refers to as a "hold harmless" provision whereby price changes under the price cap plan for a period of five years following forbearance, should be no higher than if forbearance had not been granted. According to Mr. Raycroft, this can be achieved by using the pre-forbearance levels of demand when calculating the actual price index (API). He notes that, in effect, PES would remain within the existing price cap framework following a forbearance grant.

Explain whether this proposed "hold harmless" provision should apply to all retail price capped services such as optional local services, business single and multi-line services along with other services in the existing other capped services basket which may be eligible for forbearance during the course of the next price cap period.

The Consumer Groups(MTS Allstream)8Aug06-13 PN 2006-5

Provide a summary of all retail service price cap baskets and sub-baskets under Mr. Raycroft's proposal, including all associated overall basket constraints and individual rate element constraints.

The Consumer Groups(MTS Allstream)8Aug06-14 PN 2006-5

Provide an electronic copy of the "work papers" referenced in Mr. Raycroft's submission (e.g., in footnote 32 on page 32 of 69 and elsewhere).

Telecom Public Notice 2006-5
Interrogatories addressed to TELUS Communications Company (TELUS)

TELUS(MTS Allstream)8Aug06-1 PN 2006-5

At paragraph 3 of its Submission, TELUS states that: "Much has happened in local telecommunications markets since the Commission's second price cap proceeding was held in 2001, culminating in Decision 2002-34. Competition has increased significantly for business and residential telecommunications services across Canada."

Provide the following information separately for TELUS' incumbent operating territories in BC, Alberta and Québec:

- a) TELUS' estimates of its residential wireline local exchange service market share, measured in terms of network access lines, for the years, 2002, 2003, 2004, 2005, and mid-year 2006 (or if not yet available, 1Q06).
- b) TELUS' estimates of its business wireline local exchange service market share, measured in terms of network access lines or equivalents for the years, 2002, 2003, 2004, 2005, and mid-year 2006 (or if not yet available, 1Q06).

Provide details of all calculations as may be required.

TELUS(MTS Allstream)8Aug06-2 PN 2006-5

At paragraph 26 of its submission, TELUS suggests that "few, if any, foresaw that ... text messaging would increasingly provide a substitute for voice telephony." Provide any evidence, including estimates of market share loss, TELUS may have on the extent to which text messaging has displaced wireless and wireline voice telephony, separately.

TELUS(MTS Allstream)8Aug06-3 PN 2006-5

Provide a list and brief description of all (i) residential, (ii) business, (iii) other capped service and (iv) uncapped service pricing changes implemented by TELUS over the course of the current price capped period (June 2002 to date, including price changes in TELUS' western and Québec incumbent operating territories).

TELUS(MTS Allstream)8Aug06-4 PN 2006-5

At paragraph 41 of its submission, TELUS proposes that the Residential Services Basket be capped so that the prices for the services in this basket are not allowed to increase, on average, during the duration of the next price cap regime. As well, TELUS notes at paragraph 117 of its submission that other price cap regimes, such as the sixth price cap regime recently adopted in the U.K., have tended to set X equal to inflation.

Explain the basis for TELUS' assumption that $X = I$ is appropriate in the case of residence local services for the next price cap period and, moreover, explain whether there is any specific inflation threshold level at which the X-factor should be capped (especially in view of the open ended term of the next price cap period under TELUS' proposal).

TELUS(MTS Allstream)8Aug06-5 PN 2006-5

Assuming there are services with Commission approved rate ranges (as in the case of Bell Digital Voice service) rather than specific rate levels within a price capped service basket, provide TELUS' views as to how any such services should be treated for the purpose of calculating the actual price index (API) for the basket in question. In particular, if TELUS proposes that rate range limits rather than actual price levels be used to calculate the API, provide the associated rationale and justification.

TELUS(MTS Allstream)8Aug06-6 PN 2006-5

As outlined in paragraph 44 of its submission, TELUS' proposed "Competitive Presence Test" would be satisfied in the case of residential services on an exchange-by-exchange basis whenever: (i) a facilities-based competitive local exchange carrier ("CLEC") provides residential local exchange service in the exchange and (ii) a wireless alternative for primary exchange service is present.

- a) In view of the fact that the local forbearance framework is based on local forbearance regions rather than local exchanges, explain why TELUS' Competitive Presence Test is not based on a similar foundation.
- b) Explain all reporting requirements, including filing frequency that would be required to implement the proposed test.
- c) For the first condition to be met, must the CLEC be actually serving one or more residential customer or simply "offering" service to residential customers?
- d) Explain why TELUS did not consider the presence of a non-facilities-based wireline service provider, in an exchange, to be sufficient to satisfy the proposed test.
- e) Explain what type of wireless service is contemplated under the second part of the test? Would, for instance, the presence of TELUS Mobility within a specific exchange be sufficient to satisfy this proposed condition?
- f) Provide the percentage of exchanges in TELUS' BC, Alberta and Québec incumbent operating territories, separately, in which TELUS Mobility provides wireless services.
- g) Based on currently available information on facilities-based CLECs operating in TELUS' incumbent operating territory and the availability of wireless services, provide TELUS' estimate of the share of its residence local service revenues that would be currently become uncapped under its proposal in total and by provincial operating territory (i.e., BC, TELUS and Québec).

TELUS(MTS Allstream)8Aug06-7 PN 2006-5

As outlined in paragraph 47 of its submission, TELUS indicates that: "as an additional consumer safeguard, TELUS proposes that residential customers in exchanges that pass the competitive presence test who do not have access to a competitive alternative (wireline or wireless) can request and obtain service at the same price as local exchange service in the nearest exchange that does not pass the competitive presence test. This safeguard is designed to protect users in otherwise competitive exchanges that live in pockets that competitors do not serve."

- a) Explain how this safeguard would work, assuming the Commission (i) accepts and (ii) rejects 'TELUS' proposal to lift the current prohibition on de-averaging.
- b) How does TELUS propose to inform customers in the above-noted situation that they may be eligible for lower rates in nearby exchanges?

TELUS(MTS Allstream)8Aug06-8 PN 2006-5

Under TELUS' proposal, the existing business and other capped services would be added to the existing uncapped services category. At paragraph 54, TELUS seems to suggest that uncapping these services is warranted as a result of intensifying competitive conditions for these services. Later, at paragraph 71, TELUS suggests that competition for business local exchange services is present in all exchanges.

- a) Explain why TELUS does not consider that a "Competitive Presence Test" or a form similar to that proposed for residence local services is appropriate in the case of business local services and other capped services?
- b) Explain whether TELUS has conducted a competitive presence test for business and other capped services by exchange (or other geographic area) in formulating its proposal. If not, why not? If so, provide the results.
- c) Explain what protection from unwarranted price increases business customers would have under TELUS' proposal in those exchanges where no competitive alternatives exist?

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