

UTILITIES CONSUMERS' GROUP

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BY FAX

April 10, 2006

Northwestel Inc.

P.O. Box 2727

Whitehorse, Yukon Y1A 4A2

Attention: Scott Roberts, Regulatory Affairs

Dear Mr. Roberts:

Re: Telecom Public Notice CRTC 2006-1

Pursuant to the above PN, the Utilities Consumers' Group (UCG) submits the following interrogatories (IR's) concerning Northwestel Inc.- Review of Regulatory Framework .

Sincerely yours,



Roger Rondeau

C.c. CRTC, Secretary General
PIAC, Michael Janigan

GENERAL CONCERNS

Page 1

- UCG 1-1) Request: Northwestel is requested to provide:
- i. draft financial statements for 2005
- UCG 1-2) Reference: Northwestel estimated costs for this regulatory review
- Preamble: UCG would like to determine how Northwestel estimates the distribution of this money.
- Request: Northwestel is requested to provide:
- i. estimated costs for this review;
 - ii. a forecasted breakdown and distribution of all such costs; and
 - iii. explanation on how these costs are rolled into company expense.
- UCG 1-3) Reference: Cost Pressure Moderations
- Preamble: UCG would like to better understand what Northwestel has done to improve efficiencies, therefore lowering costs.
- Request: Northwestel is requested to provide:
- i. a description of the successes and the efforts Northwestel has made to limit the Company's costs in 2006; and
 - ii. a description of the the efforts Northwestel has planned to limit the Company's costs for 2007.

NORTHWESTEL EVIDENCE

- UCG 1-4) Reference: Telecommunications Act, Section 7 (a) and (b); Northwestel Evidence, p.2 #5, bullet 2
- Preamble: On one hand, Northwestel proposes "residents in the North should pay reasonably comparable prices to those elsewhere in Canada to facilitate what is enshrined in Statute"; while on the other hand the Company is asking for an increase of \$2 per residential-line service and \$5 per business-line service raising their basic customer cost well above southern jurisdictions.
- Request: Please give your rationale for this contradiction.

- UCG 1-5) Reference: Northwestel Evidence, p.7 #6 last bullet
- Preamble: Northwestel describes risk of market disruptions, i.e. government funded programs for competing broadband networks.
- Request: Northwestel is requested to provide:
- i. a description of each of these programs implemented by the Yukon government;
 - ii. whether Northwestel has taken advantage of these programs, themselves and to what extent; and
 - iii. the effects of either of the two scenarios above on bringing competition to the Yukon.
- UCG 1-6) Reference: Northwestel Evidence, p.9 #19
- Preamble: Rate restructuring Northwestel is proposing to introduce new residential calling plans that will afford residential customers greater flexibility.
- Request: Northwestel is requested to provide:
- i. Explanation of these plans; and
 - ii. Since Northwestel is proposing increasing the basic residential package by \$2 per service line, is Northwestel proposing reducing the basic LD package from \$25? If not, why not?
- UCG 1-7) Reference: Northwestel Evidence, p. 69, #255 and p.71 Chart showing Rate Comparisons.
- Preamble: Northwestel proposes to raise residential network access by 7% or \$2.00 per line. Yukoners now pay:
- | | |
|---|----------------|
| Basic access = | 29.33 |
| 911 service = | 0.32 |
| Extended local= | <u>0.48</u> |
| Sub-total | <u>30.13</u> |
| Proposed increase | <u>+2.00</u> |
| NORTHWESTEL RESIDENTIAL LINE SERVICE | \$32.13 |
- The average residential access rate from chart is \$23.17.
- Request: Northwestel is requested to provide:

i. Rationale of why proposing a \$2 increase amassing approximately \$9.00 above the average cost for residential access in other telco jurisdictions; and

ii. Reasons why this proposal is being made when it goes against the principles set out in the Telecommunications Act.

iii. A chart showing the yearly changes in Northwestel residential and business local access rates since 1992.

UCG 1-8) Reference: Northwestel Evidence, p.7 #10.

Preamble: Rate restructuring due to embedded internal cross-subsidies.

Request: Northwestel is requested to provide:

i. an explanation all the cross-subsidies; and

ii. how each cross-subsidy affects this Northwestel proposal.

UCG 1-9) Reference: Northwestel Evidence, p.36-37 #s112-121.

Preamble: Productivity

Request: Northwestel is requested to provide:

i. an explanation on how Northwestel proposes to become more efficient and maximize productivity when they are proposing a zero productivity factor in this application; and

ii. an explanation on how Northwestel proposes to become more efficient and maximize productivity when they are proposing a \$36 million subsidy.

UCG 1-10) Reference: Northwestel Evidence, p. 66 # 236 and Appendix V

Preamble: Rate restructuring; Company new LD plans

Request: Northwestel is requested to provide:

i. an explanation of how consumers can make a decision on the total Northwestel proposal weighing the proposed increase in basic residential or business line access with an LD package when the value of these new proposed LD packages are not outlined;

ii. if Northwestel is proposing a lower basic LD Package from the present \$25 cost for up to 900 minutes for nighttime, weekend and holiday calling? If not, why not? and

iii. a chart comparing Northwestel LD Packages and costs with other telco jurisdictions (i.e. similar to Local Residential Access Comparison Chart p. 71 Evidence).

- UCG 1-11) Reference: Northwestel Evidence, Appendix VI, p.1.
 Preamble: 2007 Financial Forecast
 Request: Northwestel is requested to provide:
- i. reasons why operating revenues proposed to drop by some \$22 million in 2007;
 - ii. reasons why operating expenses proposed to increase by \$1 million in 2007; and
 - iii. reasons why there should be no test for ROE to remain at 10.5%.
- UCG 1-12) Reference: Northwestel Evidence, Section 5 & Appendix IV, p.1&2
 Preamble: Subsidy Mechanism
 UCG understands the various components to Northwestel proposal for increased subsidy, i.e. primary exchange, toll connecting trunks and SIP. However, we do not understand the reasoning for such a radical change/increase in subsidy.
 Request: Northwestel is requested to provide:
- i. simple consideration for why subsidy is proposed to increase from \$9.8 million for 2006 rate-base subsidy to \$38.6 million for 2007 cost-base subsidy .
- UCG 1-13) Reference: Northwestel Evidence, Paragraphs 293-303 and Appendix X.
 Preamble: Depreciation
 Request: Northwestel is requested to provide:
- i. an outline of the proposed changes in depreciation principles from last process;

ii. a detailed explanatory schedule showing how Northwestel's depreciation expenses have been adjusted due to the proposed depreciation study; and

iii. a detailed explanatory schedule showing how proposed depreciation changes affects balance sheet (i.e. revenues, expenses and net income).

NORTHWESTEL RESPONSE TO CRTC RELATED

UCG 1-14) Reference: NWTel(CRTC)30Jan06-108, p.1

Preamble: Northwestel states: " the rationale for moving to price regulation includes both administrative efficiency and providing economic incentives to carriers to maximize productivity."

Request: Northwestel is requested to provide:

i. how this will come into effect when Northwestel is proposing a negative productive factor; and

ii. how the above will roll-out when the Company is on a subsidy regime.

UCG 1-15) Reference: NWTel(CRTC)30Jan06-201, p.5

Preamble: Northwestel states: " An initiative from the Yukon Territorial Government will also result in cellular service offered to 17 additional communities in the Yukon (excluding Whitehorse) in 2006 and 2007."

Request: Northwestel is requested to provide:

i. if the above program was tendered;

ii. who received the tender contract; and

iii. how this will benefit or adversely affect Northwestel.

- UCG 1-16) Reference: NWTel(CRTC)30Jan06-303, p.2
- Preamble: Northwestel states: " it would be neither be appropriate nor productive to split the Company's rate base between utility and competitive segments."
- Request: Northwestel is requested to provide:
- i. rationale for the above statement.
- UCG 1-17) Reference: NWTel(CRTC)30Jan06-305-307
- Preamble: Northwestel provides chart and reasoning for various loans and interest expenses. They also provide a rationale as to why these long term debts should not be refinanced at a lower rate.
- Request: Northwestel is requested to provide:
- i. which of these long term debts are to mother corporations, Bell Canada or BCE Inc.;
 - ii. which of these long term debts referred to in NWTel(CRTC)30Jan06-307 belong to mother corporations; and
 - iii. why the one debt for \$6 million which is redeemable has not been refinanced long ago?
- UCG 1-18) Reference: NWTel(CRTC)30Jan06-308
- Preamble: CAT Rate
- Request: Northwestel is requested to provide:
- i. the pros and cons for increasing the CAT rate; and
 - ii. the pros and cons for decreasing the CAT rate.
- UCG 1-19) Reference: NWTel(CRTC)30Jan06-402, Attachment 1
- Preamble: Proposed Tariff Rate Increases with percentage of increase.
- Request: Northwestel is requested to provide:
- i. whether they have notified all Northwestel customers of their proposed changes (i.e. increase in basic access rates; and

page 7

ii. how they expect two-party, multi-party and ruraltel customers to be able to budget such increases (from 14.8%-27.4% for residential and from 32.4% to 57.2% for business); and

iii. are not the above type access substandard, therefore should be offered at a much cheaper and affordable rate?

UCG 1-20) Reference: NWTel(CRTC)30Jan06-406

Preamble: Northwestel rationale for increasing local access rates: "the proposed rates are in line with the higher cost of providing other goods and services in the North. This is also the first increase to local access the company has proposed since January 1, 2001." I

Request: Northwestel is requested to provide:

i. reasons why Northwestel has already forgotten about the 10 years of rebalancing raising local rates 350%.

ii. the CPI for the Yukon for each year since 2001;

iii. the number of Yukon families on set incomes (i.e. minimum wage schedules, social security, employment insurance, or old age security);

iv. the average income of these set income families; and

v. whether Northwestel believes the Yukon statistics for average wage is skewed due to a very small population base being averaged with the much higher wage level of government (federal, territorial, municipal and First Nations) employees and large private enterprises as Northwestel employees.

UCG 1-21) Reference: Northwestel Deferral Accounts 2006; Proposed 2007

Preamble: UCG would like to better understand the effects for deferrals of different accounts.

Request: Northwestel is requested to provide:

i. any changes in deferral accounting procedures for each of these years; and

ii. an explanation of how deferral of certain accounts affect ROE for any given year.