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

Dear Ms. Rhéaume:

Subject: Telecom Public Notice CRTC 2006-1, Review of regulatory framework for Northwestel Inc.

TELUS received several responses to undertakings and several responses to interrogatories from Northwestel on 20, 21 and 24 July, after its written Final Argument was completed.

Among the documents received on 20/21 July was the response to an undertaking made by Northwestel on Day One of the hearing at Transcript volume 1, pages 247 to 248, line 1535. Northwestel was asked by Commission staff to provide an analysis of the impact of reducing its rate-restructuring proposal from \$24.7 million to \$12.5 million.

TELUS voiced concern at the hearing about the possibility that additional information would be put on the record after Final Arguments were delivered. While TELUS did not object to this occurring, TELUS did reserve its right to make any supplementary submissions that might be required as a result of the filing of such additional material.

In its response to this particular undertaking, Northwestel proposes to achieve the assumed reduction in revenue requirement by eliminating the proposed reductions in the following rates:

- Public Cellular Network Access
- Digital Private Lines Rates
- Digital Private Line CVPP Discounts

and by increasing Business Primary Exchange Service rates by \$1/mo.

Northwestel also proposes to alter the structure and level of its proposed Switch Connect Rate. The company said the following:

“Switch-Connect Rate

Move to a cost based Direct Connect (DC) rate of approximately \$0.006 /min to the class 4/5 switches (Whitehorse, Yellowknife, and Fort Nelson) and a cost based Access Tandem (AT) rate of approximately \$0.08/min in the communities served by toll-connect facilities (further traffic analysis would be required to more accurately determine final DC and AT rates). This would yield approximately (#) considering settlement, equal access and Toll Free (raise the proposed rate to pass the imputation test) revenue impacts. The amount is less than the proposed toll-connect subsidy amount due to the fact that Northwestel would propose its margins on toll services be reduced rather than changing the proposed toll services rates.”

Attachment 1 to the response to this undertaking indicates that the company “[a]ssumed 2007 demand will decrease as the likelihood of bypass is greater” in evaluating the revenue impact of this proposal.

TELUS makes the following submissions with respect to this response to undertaking:

1. TELUS supports the elimination of the proposed reductions in Public Cellular Network Access Digital Private Lines Rates and Digital Private Line CVPP Discounts for the reasons already given in section 2.2.4.3 of our Final Argument, and in particular paras. 69-71.
2. TELUS supports the increase in Business Primary Exchange Services Rates for the reasons already given in 2.2.4.1 of our Final Argument.
3. TELUS supports a move to a de-averaged structure for Switch Connect rates and to price what Northwestel describes as Direct Connect (DC) and Access Tandem (AT) service on a basis that tracks the associated costs. But TELUS opposes the specific rates which the company indicates “is less than the proposed toll-connect subsidy amount.”

As noted in para. 50 of TELUS’ Final Argument, the purpose of the proposed Toll Connect Subsidy is to fund the elimination (or, under the scenario assumed in the response to undertaking, a reduction) in the CAT rate and a reduction in the Transport rate to “limit bypass incentives and arbitrage opportunities”¹ - i.e., to forestall competitive threats.

As TELUS indicated in para. 40, the terms of reference under which the NCF was created are defined in Section 46.5(1) of the Telecommunications Act, which provides as follows:

¹ NWTel Evidence, para. 220.

The Commission may require any telecommunications service provider to contribute, subject to any conditions that the Commission may set, to a fund to support continuing access by Canadians to basic telecommunication services.

In TELUS' respectful submission, any use of funds drawn from the NCF to underwrite the provision of Toll Connect facilities (i.e., DC or AT facilities) would be inconsistent with these terms of reference and would place an unfair burden on customers in other parts of Canada who contribute to the NCF.

Moreover, as TELUS stated in para. 51, since the proposal involves the sacrifice of significant revenues currently derived from commercial sources, it is incompatible with Decision 2000-746, in which the Commission said that it "agrees with the objective of maximizing all revenue sources before depending on supplemental funding." The Toll Connect Subsidy proposal is also inconsistent with Decision 99-16, in which the Commission said that:

To be eligible for any supplementary funding, Northwestel will have to demonstrate that it cannot meet the basic service objective using the traditional funding mechanism relied upon by companies in Southern Canada.²

Finally, TELUS questions the assumption made by Northwestel in this scenario that adoption of a fully cost based rate would encourage "greater bypass" than its original proposal, and the adjustment it has therefore made to its revenue forecast. As TELUS has shown in section 2.2.1 of its Final Argument, Northwestel has exaggerated the competitive threat it faces." Although there is evidence of retail competition from card offerings and resellers, it is apparent that these services run over Northwestel facilities and that there is no realistic prospect that another supplier of facilities will emerge. In those circumstances, it makes no sense for Northwestel to set wholesale rates such as the Switch Connect rate below cost. Indeed, lowering wholesale prices may very well stimulate competitive reductions in retail rates, undermining Northwestel's objective of protecting its revenue base. Northwestel should ensure that it structures the wholesale rates charged for use of the facilities between its class 4 and class 5 switches in a manner that allows it to recover its costs of those facilities.

Yours truly,

{Original signed by Willie Grieve}

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² Para. 69.