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2005 06 27

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

Dear Ms. Rhéaume:

RE: Telecom Public Notice CRTC 2004-1, Review and Disposition of deferral accounts for the second price cap period, 24 March 2004

1. Pursuant to the procedures established in Telecom Public Notice CRTC 2004-1, Review and Disposition of deferral accounts for the second price cap period, 2004 03 24, as amended ("PN 2004-1"), Aliant Telecom Inc. ("Aliant" or "the Company") submits its reply comments with respect to comments made by parties regarding Aliant's proposals to clear the amounts in its deferral account. Aliant's comments are submitted as the Attachment.
2. Failure on the part of Aliant to address any specific proposal, comment or argument made on the record of the proceeding of PN 2004-1, which are not in the interests of Aliant, should not be interpreted as agreement, acceptance or concurrence by Aliant, where such interpretation would be inconsistent with the interests of Aliant.
3. Any questions may be directed to Wendy Ellis at 506-694-2466.

Sincerely,

A handwritten signature in cursive script that reads "Wendy Ellis".

for: David Hennessey
Manager – Regulatory Matters

Attachment

cc: Parties to PN 2004-1

Introduction

1. According to the procedures established by the Commission, Aliant submits the following reply comments in response to certain matters brought forward by parties to PN 2004-1. Failure on the part of Aliant to address any specific proposal, comment or argument made on the record of the proceeding of PN 2004-1, which are not in the interests of Aliant, should not be interpreted as agreement, acceptance or concurrence by Aliant, where such interpretation would be inconsistent with the interests of Aliant.
2. Aliant has received specific comments on its proposals, dated 2005 06 10, from the following parties: the Canadian Cable Telecommunications Association ("CCTA"), Bragg Communications Inc. ("EastLink"), the Public Interest Advocacy Centre ("PIAC"), Saskatchewan Telecommunications ("SaskTel"), and Xit telecom Inc. ("Xit").
3. As submitted in Aliant's Comments of 2005 06 10, there are two principles that should guide the Commission in assessing the merits of the various proposals for use of deferral account funds for any given project.
 - a. Does the proposal contribute to the stated objectives of the Commission for the second price cap period; and further, does the proposal contribute to the overall statutory goals outlined in the Act?
 - b. Does the proposal reflect the unique realities of the serving territory to which it applies, and the needs of residential customers in that region?
4. In developing its proposals, Aliant used these principles, as well as the stated objectives of the Commission for the second price cap period as directed in PN 2004-1, to evaluate various options for use of funds within the Company's deferral account. The Company also assessed initiatives already approved by the Commission when developing its proposals, with the aim to ensuring that the interests of all stakeholders are balanced overall with respect to the benefits accrued from the deferral account.

Other Parties' Comments on Aliant's Proposals of 2005 01 28

5. In those submissions that did not support Aliant's proposals, Aliant notes that objections to these proposals largely centre on the concept of "competitive neutrality" as opposed to the balancing of stakeholder interests, with the assertion that Aliant's proposals are not competitively neutral, and therefore do not qualify under the Commission's guidelines as draw downs to Aliant's deferral account. Aliant further notes that PIAC objects to funding of any initiative that is not a rebate to non-HCSA customers.

Rate Rebates versus Rate Reductions

6. Aliant outlined the difficulty of rate rebates in its response to interrogatory Aliant(CRTC)11Mar05-3 PN2004-1. Despite these difficulties, PIAC continues to insist that rebates are the only solution to clearing the deferral accounts. Aliant submits that a permanent rate reduction is far preferable to a one-time credit. A rate reduction provides a simple-to-administer, fair, easily understood and on-going benefit to customers; better reflects market conditions in Atlantic Canada; and provides the benefits of the competitive market to customers. Further, while the Commission did

note that the deferral accounts could be cleared by a rebate program, the Commission clearly identified that there are several acceptable uses of the fund, including draw downs due to rate reductions attributable to competitive market pressures.

7. PIAC's proposal to clear the deferral accounts by a rebate to non-HCSA customers only does not further the Commission's objective to provide affordable telecommunications service to all customers, rural and urban. Aliant submits that the proposals it has placed on the record of this proceeding provide widespread benefits across the entire customer base, and better reflect the Commission's objectives for the second price cap period than would a rebate program as outlined by PIAC.

Competitive Neutrality versus Balancing the Interests of All Stakeholders

8. With respect to other objections, notably from the CCTA, Xit, and EastLink, that Aliant's proposals are not "competitively neutral", Aliant submits that the assertion is at its outset founded on incorrect assumptions, and that adherence to this contrived principle of "competitive neutrality" will ensure little if any benefits from Aliant's deferral account will flow to residential customers.
9. Nowhere in PN 2004-1 does the Commission state that any proposal to be funded from the ILEC deferral accounts must by its very nature be "competitively neutral". In point of fact, as the Commission made explicit reference in Decision 2002-34 to the possibility of drawing down the deferral account whenever it approves rate reductions due to competitive pressures, it is abundantly clear that "competitive neutrality" is not a criterion to be used in evaluating any proposal to clear the deferral accounts.
10. What is clear is that the Commission made allowance for the fact that the price cap mechanisms, including the deferral accounts, would have to reflect the market realities of ILECs in competitive markets. Hence, when prices are reduced due to competitive pressures, this reality must be reflected by an adjustment to that ILEC's deferral account. Otherwise, those ILECs who are competing in vigorous competitive markets would be treated in the same manner as those operating under emerging competitive conditions. Clearly, if the Commission's goal is to have viable competition, then when that reality emerges, as it has in Atlantic Canada, then the Commission must acknowledge that reality by approving Aliant's draw down for rate reductions due to competitive pressure.
11. Contrary to Xit's statement in paragraph 13 of its comments of 2005 06 10, the situation in Atlantic Canada is not "marginal". Aliant has placed considerable evidence on the public record, on the scale and speed of the evolution of the competitive market in Atlantic Canada, in the course of this proceeding, as well as on the record of Telecom Public Notice CRTC 2005-2, *Forbearance from regulation of local exchange services*. Contrary to Xit's implication in paragraph 13, the Commission cannot ignore what is happening in the telecommunications market in Atlantic Canada, because it is precisely those conditions that the Commission wants to see grow and spread across the country; that is, the growth of viable and vigorous competition in the local telecommunications market.

12. Furthermore, Aliant's proposal clearly addresses the Commission's vision for the deferral account. In paragraph 412 of Decision 2002-34, the Commission makes it clear that whenever the Commission approves rate reductions for residential local services proposed by an ILEC in response to competitive pressure, that an adjustment; that is, a draw down, to that ILEC's deferral account would be made.
13. Even though the Commission did not make "competitive neutrality" a requirement for deferral account funding, one of the objectives of the second price cap regime is to balance the interests of the various stakeholders: competitors, customers and the ILEC. Aliant proposed initiatives that balance those interests, and in some instances, would actually provide benefits to competitors and to customers of competitors. For example, Aliant's proposals to fund E9-1-1 expansion and MRS upgrades will provide wide-ranging benefits to all subscribers, regardless of their supplier.
14. Aliant's proposals address the issue of the "balance of interests" by correcting the current imbalance in benefits accrued from initiatives funded from Aliant's deferral account, which to date have accrued almost exclusively to the competitors. Aliant submits, as it has in its Comments of 2005 06 10, that competitors have already benefited, in Aliant's operating area alone, from a reduction in their costs for Competitor I and CDN Services by at least \$14.6M by the end of the current price cap period. Aliant also notes that, aside from the limited benefits associated with ILEC Service Improvement Plans, there has been no specific initiative approved that would provide an explicit benefit to residential customers. Residential customers are indeed important stakeholders in the Atlantic Canadian telecommunications industry, and specific proposals that provide a benefit to residential customers are wholly consistent with the Commission's objectives and their obligations under the Act.
15. Customers have seen very little in the way of concrete benefits from initiatives funded from Aliant's deferral account. The Company submits it is time to truly balance the interests of stakeholders, and accrue some of those benefits to residential customers, contrary to the proposals of various competitors that are already enjoying the benefits of various initiatives funded by Aliant's deferral account. Aliant's proposals, as outlined in its submission of 2005 01 28, address those inequities.

Exogenous Treatment

16. Several parties seem to be under the mistaken impression that only initiatives or events that qualify as exogenous adjustments under the current price cap regime are acceptable as proposals to clear funds from the deferral accounts. Given the Commission's own clear guidelines, this is an incorrect assumption.
17. The Commission did not specify, anywhere in Decision 2002-34, that the only use of the deferral account was to be a mechanism to deal with regulatory adjustments; that is, exogenous events. It is abundantly clear that one of the uses of the deferral account would be to deal with exogenous adjustments; it is not the only use of the deferral account. The Commission clearly and explicitly states that the deferral account should be adjusted whenever an ILEC reduces local residential prices in response to

competitive pressures, and that other proposals that benefit residential customers in other ways would also be considered acceptable uses of the funds in the deferral accounts. To suggest that draw downs from the deferral account only qualify if they are exogenous factors is clearly false.

Meeting the Objectives for the Second Price Cap Period

18. In CCTA's Comments of 2005 06 10, CCTA makes the erroneous contention, without any substantiating evidence, that Aliant's proposals "do not meet important objectives established by the Commission." Clearly, this is not the case. Aliant considers the Commission's objectives for the second price cap regime as the start point for any of its proposals, and has put forward proposals for use of the funds within Aliant's deferral account that contributes to each of the Commission's objectives for the second price cap period, as well as giving due consideration to the Commission's obligations under the *Telecommunications Act* (the "Act").
19. To clarify, the objectives for the second price cap period as set out in paragraph 99 of Decision 2002-34 are:
 - To render reliable and affordable services of high quality, accessible to both urban and rural customers;
 - To balance the interests of the three main stakeholders in telecommunications markets, i.e., customers, competitors and incumbent telephone companies;
 - To foster facilities based competition in Canadian telecommunications markets;
 - To provide incumbents with incentives to increase efficiencies and to be more innovative; and
 - To adopt regulatory approaches that impose the minimum regulatory burden compatible with the achievement of the previous four objectives.
20. Aliant submits that its proposals, as outlined in its submission of 2005 01 28, reflect and contribute to the Commission's objectives noted above.
21. Aliant's proposals to expand and enhance E9-1-1 services across the Atlantic Region, funded by the deferral account as opposed to other, more traditional methods, as well as the enhancement to MRS, are proposals that provide benefits to all stakeholders, most especially customers. Neither proposal confers any undue advantage on Aliant in the competitive market, due to the nature of these services. In fact, Aliant's proposals to expand E9-1-1 coverage, enhance MRS, and to recover certain other events do not in any way prejudice any other carrier in Atlantic Canada.

Conclusion

22. Contrary to the expressed opinions of some parties in this proceeding, Aliant's proposals balance the interest of all stakeholders and do not unilaterally favour one of the stakeholders, such as the competitors. It is also clear that a "one-size-fits-all" approach to clearing the ILEC deferral accounts is not the best solution for customers. Regional differences in markets, in customers needs, and in underlying social and economic conditions necessitate that the Commission clear each ILEC's deferral account in a manner that best suits that particular region. To do otherwise would be a disservice to customers. Competitors have already reaped considerable financial

benefits from initiatives funded from Aliant's deferral account. The Company submits that it is now time to balance the interests of competitors and customers. Aliant's proposals address the current imbalance, and provide tangible benefits to customers. Additionally, Aliant's proposals reflect and contribute to the objectives of the Commission for the second price cap period in concrete, measurable ways.

23. Aliant understands that some stakeholders may not necessarily favour initiatives that reflect the vibrant competitive market in Atlantic Canada. Nonetheless, the Commission has clearly stated that proposals like Aliant's; that is, to reduce residential rates in response to competitive pressure, are certainly acceptable uses of the deferral account. Aliant submits that the CCTA and EastLink's objections have less to do with the Commission's objectives for the price cap period, and more to do with their own interests. Competitors, as shown above, have already reaped significant benefits from initiatives funded from Aliant's deferral account. Aliant submits that its proposal to fund competitive price reductions is not only acceptable, consistent and desirable within the context of the price cap regime, but also ensures that residential customers achieve a benefit from the deferral account. Furthermore, Aliant's other proposals confer no competitive advantage to Aliant, and provide tangible benefits to the widest possible constituency of customers in Atlantic Canada.