8 April 2005

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

Dear Ms. Rhéaume:

Denis E. Henry
Vice-President -
Regulatory Law

Subject: Public Notice 2004-1, *Review and disposition of deferral accounts for the second price cap period* - Responses to supplemental interrogatories

1. Pursuant to the amended process in this proceeding set out in the Commission staff's letter of 2 February 2005, Bell Canada (or the Company) is providing its responses to the supplemental interrogatories received from Commission staff on 11 March 2005.

2. In addition, as indicated by the Company in paragraph 8 of Attachment 1 of its submission dated 29 March 2005 filed pursuant to the directives in Telecom Decision CRTC 2005-6, *Competitor Digital Network Services* (Decision 2005-6), the Company is filing updated estimates of its deferral account balances to reflect the estimated deferral account draw down impacts associated with that decision. These estimates are provided in the Company's attached updated response to Bell(CRTC)24Mar04-1 PN 2004-1. In the same response, the Company is also providing an update to the initiatives that it originally proposed in its 19 May 2004 submission for reducing the estimated balance in its deferral account which, with the incorporation of the draw down impact associated with Decision 2005-6, has been reduced relative to the Company's previous estimates.

3. A machine-readable file copy of the responses is provided to the Commission and interested parties via Internet email.

Yours truly,

(Original filed by J. Bodnar for D. Henry)

Attachments

c.c.: Interested Parties to Public Notice 2002-4 and 2004-1

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Q. Certain parties who proposed using deferral account funds to extend broadband penetration in Canada suggested that a program to do so could be modeled upon or operated in conjunction with Industry Canada's Broadband for Rural and Northern Development Pilot Project Program (BRAND) and/or National Satellite Initiative (NSI) programs. For example, Microcell submitted:

> **Microcell proposes that the new broadband subsidy program be modelled upon, and perhaps even operate in conjunction with, the federal government's existing BRAND and NSI programs.**

Comment on an option where the Commission would allocate a portion of each ILEC's deferral account directly to Industry Canada's BRAND and/or NSI programs to expand broadband to unserved areas.

A. As the Company noted in Bell(Consumer Groups)23Jun04-7 PN 2004-1, in principle, funds from the Company's deferral account could be directed to any party that was prepared to construct the necessary facilities and offer broadband services to the portions of Bell Canada's serving area where broadband services are not available and which meet the other predetermined qualification criteria for inclusion in the program. The administration of a program to direct funds to parties for this purpose could involve the Commission or a third party such as Industry Canada's BRAND and/or NSI programs.

However, as the Company noted in Bell(CRTC)23Jun04-1 PN 2004-1 and explained in greater detail in its Comments,[1] the funds in a given ILEC's deferral account should not be directed to projects that benefit subscribers outside of that ILEC's serving territory, and there are certain legal issues associated with creating, in essence, a national deferral account fund. Consequently, in the current case, any funds provided to the BRAND and/or NSI programs from Bell Canada's deferral account would have to be earmarked for the expansion of broadband to unserved areas that met the qualification

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1 Bell Canada's 15 October 2004 Comments filed in the proceeding initiated by Public Notice 2004-1, *Review and disposition of deferral accounts for the second price cap period*, paragraph 72.

criteria within Bell Canada's serving area. Under this condition, the Company would not object to the administration of its proposed broadband expansion program via the BRAND and/or NSI programs.

In determining the amount of the Company's deferral account funds that should be assigned to the BRAND versus the NSI programs, the Commission should ensure that the greatest number of potential subscribers are able to benefit from the expansion of broadband from the deferral account funded program. In this regard, the Company notes that the NSI program was launched as a supplementary program to BRAND. This program is intended to fund the rollout of broadband access via satellite to communities in the far and mid-north and in isolated or remote areas of Canada that cannot receive broadband services in any other feasible or economic form.[2] Only a small portion of the Company's serving territory is actually targeted by that program.[3] In contrast, the BRAND program is more pervasive in its geographic coverage and can contemplate the use of technologies other than satellite. As such, this program is capable of delivering broadband services at a lower cost per user. Consequently, in the Company's view, the benefit of broadband expansion from the deferral account funded program in Bell Canada's serving area[4] would be more broad-based if the deferral account funds were allocated predominantly to the BRAND program, rather than to the NSI program.

While the Company would not object to the allocation of a portion of its deferral account to the BRAND and/or NSI programs under the condition identified above, the Company takes no position on the allocation of the deferral accounts associated with the serving territory of other ILECs. However, the Company would point out the following: first, it is not clear that using the deferral account funds generated within a given ILEC's serving area for the expansion of broadband in that ILEC's serving area is the best use of those funds in that ILEC's serving territory. Each ILEC has proposed various uses for the

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2 Canada NewsWire, *Government of Canada launches National Satellite Initiative to provide broadband access to northern and remote communities*, 5 October 2003, <http://www.newswire.ca/releases/October2003/05/c8252.html>.

3 ibid.

4 In terms of the number of potential additional customers that would have access to broadband given the limited amount of funding available.

funds in its deferral account and these proposals should be judged relative to the complete circumstances facing each ILEC. The fact that a broadband expansion program merits support in Bell Canada's serving territory does not mean that the same program should have equal weight in another ILEC's serving territory. Broadband alternatives may be more widely available already in some territories or other proposals may offer greater potential benefits for the costs involved.

Second, the ability to support a broadband expansion program from the deferral account of each ILEC is quite different. It would be pointless to allocate funds from each ILEC's deferral account to such a program unless the amounts available were sufficient to provide a meaningful level of support for such a program within that ILEC's serving area.

Finally, the Company notes that if the Commission opts to allocate a portion of Bell Canada's deferral account to the BRAND and/or NSI programs for the expansion of broadband to certain areas within the Company's operating territory, certain details related to the associated administrative process would still need to be resolved. In view of the time required to resolve these issues and the desirability of making the benefits of broadband services available to unserved areas as early as possible, the Company proposes that, in the interim, the Commission approve the Company's first year rollout plan as filed. In this way, immediate benefits of broadband services to over 70,000 customers would be provided, while at the same time the most effective administrative process through the Industry Canada programs could be explored.

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Q. In its January 28, 2005 submission, Aliant proposed to use a portion of its deferral account balance to fund what it refers to as "Ubiquitous E9-1-1 service to Atlantic Canada". This includes the funding of E-9-1-1 and Phase I wireless E-9-1-1 for Newfoundland and Labrador and Phase II wireless 9-1-1 for Atlantic Canada. For each ILEC:

a) Identify any areas of your operating territory where there are new 9-1-1/E9-1-1 deployments planned.

b) Identify any wireline and/or wireless 9-1-1/E9-1-1 network upgrades required in your operating territory.

c) Comment on using deferral account funds, in addition to amounts collected from 9-1-1/E9-1-1 tariffs, to fund any plans identified in a) and/or b) above. For each item for which funding from the deferral account is proposed, provide a detailed description of the proposal, an estimate of specific amounts and timeframes, and the method of disposing of the amount.

d) Provide an overview of 9-1-1 service in your territory, including the percentage of NAS with a) basic 9-1-1 service, b) E9-1-1 service, and c) wireless E9-1-1 service.

A. a) Bell Canada (or the Company) has worked with municipalities in Ontario and Québec since 1994 to deploy Enhanced 9-1-1 (E9-1-1) service on the Company's 9-1-1 Public Emergency Reporting Service (PERS) platform. By the end of 2004, the deployment was largely complete within the Company's operating territory.

In Québec, 9-1-1 PERS service is available throughout the Company's operating territory and service has been implemented for over 99.9% of customers in the province.

In Ontario, in those areas that remain on older versions of 9-1-1 (Basic), or have no access to 9-1-1, the Company continues to work with the municipality or First

Nations community to deploy 9-1-1 PERS. Some locations in Northern Ontario are served by Local Services Boards (LSBs) due to the absence of a formal municipal government. The Company is working with these LSBs to introduce 9-1-1 service in those communities. The Company also makes its 9-1-1 PERS platform available to Small Incumbent Local Exchange Carriers that have chosen to deploy 9-1-1 service within their serving areas.

The Company plans to implement 9-1-1 PERS in the following portions of its serving territory within the province of Ontario over the remainder of this year and in 2006:

<u>2005</u>

- Red Lake
- Chippewas of the Nawash
- Walpole Island First Nations
- Mohawks of the Akwesasne
- Chippewas of the Thames/Munsee/Delaware
- Serpent River First Nations

<u>2006</u>

- Jaffray-Melick/Kenora[1]
- Britt LSB
- Searchmont LSB
- Upsala LSB
- Supawe LSB
- Gogama LSB

[1] Jaffray-Melick is a Bell Canada exchange serving a community that has been formally amalgamated into the City of Kenora. At present, all of Kenora, including the Jaffray-Melick exchange is served by Basic 9-1-1 service provided by the Kenora Municipal Telephone Company. Bell Canada is working with Kenora Municipal Telephone to migrate those areas to the 9-1-1 PERS platform.

With the completion of this work, 9-1-1 PERS will be implemented for over 99.9% of customers in Bell Canada's entire serving area.

b) The Bell Canada 9-1-1 PERS network is available throughout Bell Canada's serving area and, with the exception of the areas identified in part a) above, is deployed throughout the Company's operating territory for support of all wireline 9-1-1 calls. There is no requirement for any network upgrades to support current wireline technology. The Company is participating in CRTC Interconnection Steering Committee Emergency Service Working Group discussions with respect to the development of technical solutions to meet 9-1-1 service requirements associated with Voice over Internet Protocol services.

The Company's network has been upgraded to support wireless Phase I calling requirements. These upgrades were completed in 2002 following completion of the Phase I technical trial in which all wireless carriers participated.

Phase I wireless entails delivery of the location of the cell site/sector and the wireless caller's call back number to the Public Safety Answering Point (PSAP). The Company has modified its 9-1-1 PERS platform to support wireless Phase I technology; however the availability of Phase I features rests with the wireless carriers which must deploy the necessary modifications within their respective networks. In the event that a wireless carrier has not fully deployed Phase I technology, calls will be delivered to the PSAP via Phase 0 (line side). In such cases, the PSAP will not receive any information about the wireless caller. However, in some instances, the carrier name may be delivered to the PSAP.

Phase II wireless technology has not been deployed in Canada. The Company is planning a limited trial of Phase II wireless technology with the City of Toronto and its emergency agency partners. In addition to the Phase I functionality which provides cell site/sector location identification and the caller's call back number, Phase II would provide caller location coordinates. This trial will support Phase II functionality for those 9-1-1 calls placed from Global Positioning System (GPS) equipped handsets on the Bell Mobility network within the defined geographic trial area. Beyond this limited trial, the Company notes that full deployment of Phase II wireless E9-1-1 cannot be achieved by the Company alone, but rather, would require the involvement of all wireless carriers and municipalities. Unlike wireless Phase I technology which was implemented with minimal cost and technology impact on PSAPs, the Phase II technology required to provide caller location coordinates represents a significant cost to all participants: the wireless carriers, the affected municipality's emergency service answering points, and the Company. Since the Company does not have access to wireless carriers' network details, it is not able to comment on what may be the preferred Phase II technology solution for each carrier's network.

Wireless Phase II deployment would necessitate modifications to the Company's 9-1-1 platform. It would require modifications as well to each wireless carrier's network, and terminal equipment at the PSAP in order to receive and interpret the data transmission identifying the caller's location coordinates. The Company supports, in principle, the additional and important functionality that wireless Phase II makes possible for 9-1-1 calls from wireless subscribers. However, given that wireless carriers' networks vary in how they support location determination technology, and that PSAPs' technical and financial ability to step up to Phase II requirements varies as well, the Company cannot, at this time, provide a detailed forecast of how or when wireless Phase II could be deployed in the Company's serving area.

c) As the Company outlined in Bell(CRTC)23Jun04-1 PN 2004-1, the funds from a given ILEC's deferral account should be used for the benefit of that ILEC's wireline customers, given that the funds were generated by rates paid by that ILEC's wireline customers. Consequently, for Bell Canada, the use of the funds in the Company's deferral account to implement wireless 9-1-1 initiatives is not appropriate.

d) With the exception of the areas identified in part a) above, all subscribers with access to 9-1-1 are served by 9-1-1 PERS which provides caller name, address, and telephone number display, and related E9-1-1 features. The Company's 9-1-1 PERS platform supports Bell Canada subscribers, the subscribers of wireline Competitive Local Exchange Carriers, and wireless subscribers served by wireless service providers (WSPs) operating in Ontario and Québec. At present, over 99.9% of the Company's Network Access Services have access to the 9-1-1 PERS system. Since all WSPs have access to the Company's 9-1-1 PERS platform, these carriers' service coverage is essentially ubiquitous as well.

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Q. The ILECs are directed to file with the Commission, serving a copy on all other parties, by 14 April 2004, their proposed amount in their deferral accounts showing a schedule for the first three years of the price cap period. The schedule should include the source of transfers, draw downs, balance in each year, cumulative balance in each year, calculations and assumptions.

A. As per the Commission's directive at paragraph 581 of Telecom Decision CRTC 2005-6, *Competitor Digital Network Services* (Decision 2005-6 or the Decision), Bell Canada (or the Company) filed its estimates of the deferral account impacts resulting from the determinations set out in that Decision on 29 March 2005.[1] In the same submission, the Company indicated that it would file updated estimates of its deferral account balances in the proceeding initiated by Public Notice 2004-1 (PN 2004-1) on 8 April 2005.[2] In this updated response, the Company is providing these updated estimates, along with its current estimates of the transfers to (referred to as additions) and draw downs from its deferral account for each year over the first three years of the price cap period. As well, the Company is providing an update to the initiatives that it originally proposed in its 19 May 2004 submission for reducing the estimated balance in its deferral account which, with the incorporation of the draw down impact associated with Decision 2005-6, has been reduced relative to the Company's previous estimates.

<u>Summary of Bell Canada's Updated Estimates of its Deferral Account Balance</u>

The Company's updated estimates of its deferral account balances, together with the estimated additions and draw downs from its deferral account, for each of the first three price cap years are provided in Attachment A. These updated deferral account estimates were developed based on the Commission-mandated additions to the

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1 Bell Canada's letter dated 29 March 2005, Re: Follow-up to Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*: Bell Canada's Estimates of the Deferral Account Draw Down Impacts Associated With the Introduction of Competitor Digital Network (CDN) Services.

2 This is the due date for the filing of responses to the supplemental interrogatories the Company received from the Commission in that proceeding.

Company's deferral account and estimates of the allowable draw downs from the account, as set out in Telecom Decision CRTC 2002-34, *Regulatory framework for second price cap period* (Decision 2002-34), Decision 2005-6 and other decisions. Further detail on each of the deferral account additions and draw downs is provided in the same attachment.

The Company's updated estimates of its deferral account balances, including the aggregate of the estimated additions and draw downs, are summarized in Table 1.

Table 1

Bell Canada's Deferral Account - Estimated Schedule of Balances

Update - 8 April 2005

($M)

	Price Cap Year Ending as of:		
	31 May 03	31 May 04	31 May 05
Total Additions (a)	186.2	65.2	5.6
Total Draw Downs (b)	(91.5)	0	(25.6) (Note 1)
Net Additions [(a) - (b)]	94.7	65.2	(20.0)
Balance (Note 2)	94.7	160.0	140.0

Totals do not balance due to rounding.

Note 1: As detailed in Attachment A, the Company's incremental draw down estimate of $25.6M for the third price cap year, ending on 31 May 2005, reflects the incremental revenue impact that qualifies for a draw down from the deferral account as per Decision 2005-6 for the four month period, from 3 February 2005 to 31 May 2005. The remaining incremental revenue impact associated with the same Decision, in the amount of $51.2M for the eight month period from 1 June 2005 to 2 February 2006, will be reflected as an incremental draw down from the deferral account in the fourth price cap year, ending on 31 May 2006.

Note 2: The estimated balance at the end of the third price cap year may be overstated as it excludes the potential outcome of certain proceedings, either currently in progress or soon to be initiated, that could result in further significant draw downs from the deferral account. As well, as indicated in Note 1, the future balance in the Company's deferral account will be further reduced as a result of the already approved draw down associated with Decision 2005-6.

The estimated balance shown in Table 1 at the end of a given price cap year represents the Company's estimate of the annualized value of initiative(s), beginning in the next price cap year, required to clear the deferral account. For example, if the deferral account were to be cleared effective 1 June 2005, then that clearing would be accomplished by implementing initiatives whose annual impact would amount to $140.0M, which is the balance in the account as of 31 May 2005. The Company notes that the additional incremental draw down associated with Decision 2005-6 pertaining to the fourth price cap year, estimated at $51.2M, would further reduce the annual amount to be cleared to $88.8M.[3]

It is also important to note that the estimated deferral account balance at the end of the third price cap year may overstate the actual balance in the Company's deferral account in future years for other reasons as well. First, the balance excludes any deferral account draw downs associated with the implementation of the mandatory program identified in Telecom Decision CRTC 2004-47 *Access to payphone telephone service* (Decision 2004-47) to upgrade payphones with teletypewriter (TTY) units. With respect to the latter initiative, the Company has already filed an application on 17 September 2004 seeking recovery of the associated costs through a draw down from its deferral account. As indicated in that application, the annual amount of the draw down that would be required to recover these costs over a four year period is estimated at $12.4M. The Commission has yet to issue its determination on that application. Second, the balance presented does not take into account any additional deferral account draw downs that could result from upcoming applications associated with the implementation of expanded local calling areas (LCAs) pursuant to the framework established in Telecom Decision CRTC 2002-56, *Framework for the expansion of local calling areas* (Decision 2002-56). The exact amount and timing of such draw downs will depend on the specific expanded LCA applications that will be filed and approved for implementation. However, as outlined in Bell(Consumer Groups)23Jun04-2 PN 2004-1

[3] As discussed in detail in the Company's 29 March 2005 submission regarding the estimated deferral account draw down impact associated with Decision 2005-6, the $51.2M impact represents the estimated incremental revenue impact associated with the expanded scope of the CDN service in Decision 2005-6, for the eight month period from 1 June 2005 to 2 February 2006. As per Decision 2005-6, the Company will receive compensation for this impact through a draw down from its deferral account in the fourth price cap year.

Update, the associated draw down impact, on an annualized basis, could be in the order of $10M. [4]

The initiatives discussed above could result in a potential additional total annualized draw down of $22.4M from the Company's deferral account.

Update of Bell Canada's Proposed Initiatives for Reducing the Balance in its Deferral Account

In its 19 May 2004 submission, the Company proposed the following three initiatives for reducing the estimated balance in its deferral account, which would have accommodated further draw downs from the account that could result from various outstanding items:[5]

1) The expansion of the Company's broadband footprint to areas within its operating territory where no broadband service is offered today by any party and no such service would become available unless the costs of broadband expansion are supported, in part, by funding from the deferral account;

2) Price reductions for certain residential optional local services; and

3) The implementation of the network upgrades required to support the High Probability of Call Completion (HPC) feature in the Company's network. This feature would provide a significant improvement in the network's state of emergency preparedness and to the availability of the network to emergency personnel in the event of a local or general emergency.[6] The Company would only implement this feature in its network if it were able to recover the capital

[4] This estimate represents the potential net incremental operating costs that could be associated with the implementation of expanded LCAs within Bell Canada's operating territory. At paragraphs 43 to 45 of Decision 2002-56, the Commission determined that it would be appropriate to compensate ILECs for any material increase in net incremental operating costs associated with expanded LCAs and that such costs would qualify as exogenous adjustments under the price cap regime. For some ILECs, like Bell Canada, recovery of such costs would be effected through draw downs from their respective deferral accounts.

[5] See also section 5.0 of Bell Canada's 15 October 2004 Comments filed in the PN 2004-1 proceeding.

[6] The feature would allow designated calls on the network to have a higher probability of completion both under normal network loads as well as when the network is busy and experiencing call blocking conditions.

costs associated with the software and hardware upgrades that would be needed to support the feature in the network from its deferral account.

If approved, these initiatives would have resulted in annual draw downs from Bell Canada's deferral account of the following amounts:

Broadband footprint expansion (Note 1)	$30M
Rate reductions for optional local services (Note 2)	$63.1M
HPC network upgrade (Note 1)	$27M

Note 1: These draw downs would occur each year for a period of four years.
Note 2: As noted in Bell(CRTC)23Jun04-8 PN 2004-1, the period over which these rate changes would remain in effect will depend on the determinations that will be made with respect to the future of the deferral account in the next price cap review.

The total annualized draw down impact of these initiatives, estimated at $120M, would have left an estimated balance of about $46M as at 31 May 2005,[7] based on the Company's estimate of its deferral account balance prior to the update of that balance to reflect the draw down impact associated with Decision 2005-6.

However, as is evident from the above, given the additional draw down of $25.6M associated with Decision 2005-6 in the third price cap year, the current estimated balance in the Company’s deferral account at the end of 31 May 2005 has been reduced relative to the estimate presented in the Company’s earlier submissions (from $166.3M[8] to $140M). Further, as indicated above, additional draw downs will occur during the fourth price cap year to reflect the incremental draw down impact of that Decision applicable in that year. As well, further additional draw downs could result from the outcomes of certain outstanding or yet to be initiated proceedings. As a result, the initiatives that the Company has initially proposed in its 19 May 2004 submission and the associated deferral account draw down amounts, totaling $120M per year, can no longer

[7] Calculated by subtracting $120M from $166.3M which reflects the Company's previous estimate of its deferral account balance at the end of 31 May 2005, as provided in Attachment 3 of Bell(CRTC)23Jun04-11 PN 2004-1.
[8] Bell(CRTC)23Jun04-11 PN 2004-1, Attachment 3.

be accommodated from the expected balance in the account. This necessitates changes to the Company's original proposals.

As well, the Company notes that, in its 19 May 2004 submission, it proposed to fund the implementation of the HPC capability in the Company's network from its deferral account, over a four year period. The HPC capability would have provided an improvement in the network's state of emergency preparedness and the availability of the network to emergency personnel in the event of a local or general emergency. The Company also notes that some of the assumptions that were made at the time the Company developed its proposal and the associated cost estimates have changed. More specifically, the Company's original proposal and associated cost estimates assumed the deployment of the HPC capability on circuit switched technologies. However, it is now evident that virtually all carriers are moving from circuit switched networks to next generation Internet Protocol (IP) networks, and the Company as well will be upgrading many parts of its toll network to an IP network.

Currently IP networks do not support HPC capabilities, as currently defined. The Company is currently working with the Government of Canada (GOC) and IP equipment vendors to define HPC-like requirements and specifications for IP networks, and to assess the feasibility of implementing this capability. It is expected that the implementation of HPC capabilities on IP networks would require modifications and, possibly, equipment additions. However, the feasibility of implementing such capabilities and the nature of the specific modifications and other requirements are not known at this time, and will take time to assess with all industry participants. As well, the appropriate administrative processes associated with HPC, and the roles of various parties in this process, would have to be defined. Until these issues are resolved the Company is not able to identify the specific network modifications and other changes that would be required to accommodate HPC capabilities in the IP network. However, once it is determined that HPC implementation is feasible in that network and the optimal solution is known, the Company intends to conduct a revised assessment of the associated network modifications, the timing of implementation, and the costs involved. At that time, the Company will file an updated application with the Commission seeking recovery of the costs associated with the required network upgrades and other modifications from the deferral account, to the extent such funds are available. The Company would note that, without such funding or other source of cost recovery, the Company would not intend to proceed with the network upgrades and other modifications that would be needed to implement the HPC feature.

Given the above, the Company proposes to implement the following initiatives to reduce the estimated balance in its deferral account:

1) the Company's broadband expansion proposal, as outlined in its 19 May 2004 submission, which would result in an annual draw down of $30M from the deferral account over four years; and
2) price reductions for certain residential optional local services.

As well, the Company proposes an annual draw down from its deferral account of $12.4M for a period of four years to recover the costs associated with implementing the TTY-upgrade program mandated in Decision 2004-47, as outlined in its 17 September 2004 submission.

With respect to the proposed residential optional local service price reductions, the Company notes that its original proposal set out in its 19 May 2004 submission would have to be revised to accommodate the balance remaining in its deferral account once the impact of all other initiatives that are determined to qualify for a draw down are taken into account. Once the exact remaining balance is known, and the Commission approves, in principle, a draw down for such rate reductions, the Company would file a specific proposal for price reductions to residential optional local services totaling the amount of the remaining balance at that time, for Commission approval. Based on the Company's current estimate of its deferral account balance as at 31 May 2005, the estimated deferral account draw downs associated with Decision 2005-6 in the fourth price cap year, the Company's proposed broadband expansion initiative and the mandatory TTY-upgrade program, and making allowance for the potential draw down impacts that may arise from expanded LCA applications, the Company would expect that the annualized draw down impact associated with reductions to residential optional local service prices would be in the order of $40M.

Deferral Account - Bell Canada

Estimated Schedule of Balances ($M) - 8 April 2005

		Deferral Account Impacts for the Price Cap Year Ending:		
		31 May 2003	31 May 2004	31 May 2005
1	**TOTAL ADDITIONS TO THE ACCOUNT**	**186.2**	**65.2**	**5.6**
2	"I-X" Constraint on Residence non-HCSA Basket[1]	57.2	58.0	2.5
3	Exogenous Adjustments Associated with Residence non-HCSA[2, 3]	127.9	3.1	0.0
4	Recovered Portion of Start-up Costs Associated with Local Competition and LNP:	17.8	0.0	0.0
5	Reduction in Contribution Revenue-Percent Charge:	85.5	3.1	0.0
6	Reduction in Gross Receipts Tax (GRT):	11.7	0.0	0.0
7	Reduction in TGE Tax:	13.0	0.0	0.0
8	Rebate for party-line rental sets[4]	0.02	(0.02)	0.00
9	Interest on the Deferral Account Balance[5]	1.1	4.2	3.1
10	**TOTAL DRAW DOWNS FROM THE ACCOUNT**	**(91.5)**	**0.0**	**(25.6)**
11	Competitor Services Discounts[6]	(35.1)	0.0	0.0
12	Competitor Digital Network (CDN) Service[7,8]	(52.5)	0.0	(25.6)
13	SIP Expenditures in non-HCSA[9]	(3.8)	0.0	0.0
14	**Net Additions**	**94.7**	**65.2**	**(20.0)**
15	**Balance To Be Cleared**[10]	**94.7**	**160.0**	**140.0**

Note 1 : Paragraphs 402-404 of Decision 2002-34 specify that the constraint of inflation less the 3.5% productivity offset be applied to the residential non-HCSA revenue basket and that the associated revenues should be added to the deferral account.

Note 2 : Paragraphs 678-681 of Decision 2002-34 specify that the impact associated with the time-limited exogenous factors related to the reduction of the contribution revenue-percent charge and the recovered costs associated with local competition and Local Number Portability should be added to the deferral account.

Note 3 : Paragraphs 685-689 of Decision 2002-34 specify that the savings from the reduction of the GRT (Ontario) and TGE (Québec) tax rates should be added to the deferral account.

Note 4 : Paragraph 26 of Decision 2004-8 specified that the balance of refunds owed to customers for party-line rental sets should be added to the deferral account. Since the amount was a one-time refund, and not perpetual, it was reversed in the second price cap year, leaving only the interest accumulated in Year 1.

Note 5 : Paragraph 414 of Decision 2002-34 specifies that the amounts in the deferral account will bear interest at the ILEC's short-term cost of debt, effective 1 June 2002, and modified annually thereafter.

Note 6 : Paragraph 235 of Decision 2002-34 specifies that the revenue loss associated with competitor services pricing adjustments mandated in Decision 2002-34 should be compensated for via a draw down from the deferral account.

Note 7 : Paragraph 235 of Decision 2002-34 specifies that the impact associated with the introduction of CDN Access (CDNA) service should be compensated for as a draw down to the deferral account. The draw down amount in the first price cap year, ending 31 May 2003, reflects the annual revenue loss associated with the CDNA-eligible migrated demand in service on 31 December 2002. This impact was provided in the Company's submission dated 29 March 2005 filed pursuant to the directives in Decision 2005-6.

Note 8 : Paragraph 566 of Decision 2005-6 specifies that the impact associated with the expanded scope of CDN service should be compensated for as a draw down to the deferral account effective the date of the decision, 3 February 2005. Accordingly, the draw down amount in the third price cap year, ending 31 May 2005, reflects the revenue loss for the 4-month period from 3 February 2005 to 31 May 2005. This impact was provided in the Company's submission dated 29 March 2005 filed pursuant to the directives in Decision 2005-6.

Note 9 : Paragraph 934 of Decision 2002-34 specifies that expenditures associated with the implementation of SIP in non-HCSAs should be recovered via drawn down from the deferral account.

Note 10 : These balances represent estimates only, as the Commission has not approved the deferral account draw downs associated with the competitor service discounts and there are still several proceedings currently underway, or soon to be initiated, whose resolution could have a significant impact on the Company's deferral account balance in future years. These proceedings include:

- Decision 2002-56 Framework for the expansion of local calling areas (LCAs)
- Bell's application seeking a draw down from the deferral account to recover the costs associated with the implementation of the mandated TTY-upgrade program identified in Decision 2004-47. If approved, an additional $12.4M will be drawn down annually from the Company's deferral account over a 4 year period.

Bell Canada : Explanation of Deferral Account Calculations

Line 1 : The total annual addition to the deferral account is equal to the sum of lines 2, 3, 8 & 9.

Line 2 : The impact of the application of the I-X constraint to the residential non-HCSA basket each year is calculated by taking the previous year's residence non-HCSA revenue base, adjusted for the effect that the previous year's application of the I-X constraint would have had on revenues, and multiplying it by I less 3.5%.

	Year 1	Year 2	Year 3	
Residence non-HCSA Revenue Base ($M):	2,534.5	2,534.9	2,537.7	
Revenue Adjustment Factor:	1.00000	0.97743	0.95454	{The previous year's factor times (1+(I-X) from the previous year}
Adjusted Revenue Base ($M):	2,534.5	2,477.7	2,422.3	
I:	1.243%	1.158%	3.397%	
X:	3.5%	3.5%	3.5%	
Result ($M):	**57.2**	**58.0**	**2.5**	

Line 3 : The total of impact of the exogenous adjustments associated with the residence non-HCSA basket is equal to the sum of lines 4, 5, 6 & 7.

Line 4 : The impact of the exogenous adjustment reversal for the recovered portion of start-up costs associated with Local Competition and Local Number Portability (LNP) was detailed in Bell Canada's 6 August 2002 submission, revised 9 August 2002. The final amounts were approved in Decision 2002-42.

Line 5 : The calculation of the impact of the exogenous adjustment reversal for the reduction in the contribution revenue-percent charge in the first price cap year was detailed in Bell Canada's 6 August 2002 submission, revised 9 August 2002. The amount for the first price cap year includes the amount determined in Decision 2004-42 for the impact of the reduction in the contribution revenue-percent charge from 4.5% to 1.3%, effective 1 January 2003, and the additional impact of the reduction in the contribution revenue-percent charge from 1.3% to 1.1%, effective 1 January 2003, for the period of 1 January to 31 May 2003, which is the final rate for 2003, as per Decision 2003-84. The amount for the second price cap year reflects the incremental impact resulting from the reduction in the contribution revenue-percent charge from 1.3% to 1.1% for the period of 1 June to 31 December 2003.

Line 6 : Represents the impact of the reduction in the Ontario Gross Receipts Tax (GRT) attributed to the non-HCSA residential local service basket, as per Decision 2003-15-1.

Line 7 : Represents the impact of the reduction in the Québec Telecommunications, Gas and Electricity (TGE) tax rate attributed to the non-HCSA residential local service basket, as per Decision 2003-15-1.

Line 8 : Represents the amount of the remaining refunds owed to customers for overpayment related to party-line terminal sets, as per Decision 2004-8. Since the amount was a one-time refund, and not perpetual, its impact on the deferral account was reversed in the second price cap year, leaving only the interest accumulated in Year 1.

Line 9 : The short-term cost of debt used in the interest calculations, shown below, is based on the average cost of Bell Canada's commercial paper debt maturing in the 1-day to 90-day range as of 1 June 2002, 1 June 2003 and 1 June 2004.

Year 1: 2.3% Year 2: 3.3% Year 3 : 2.1%

Interest is calculated by taking the previous year's cumulative deferral balance (line 15) and adding half the sum of lines 2, 3, 8 & 10. That total is then multiplied by the applicable annual interest rate shown above.

Line 10 : The total annual draw down from the deferral account is equal to the sum of lines 11, 12 & 13.

Line 11 : The estimated draw down associated with the mandated reduction in the mark-up applicable to Category I Competitor services. Represents an update of the impact originally filed by Bell Canada on 1 August 2002. The updated impacts are provided in Attachment 2 of Bell(CRTC)24Mar04-1 PN 2004-1.

Line 12 : The estimated draw down associated with the introduction of CDN service was calculated as per the methodology described in the Company's submission dated 29 March 2005 filed pursuant to the directives in Decision 2005-6.

Line 13 : The draw down associated with SIP expenditures in non-HCSAs is based on the Company's Phase II SIP cost study, filed as part of the Company's 18 September 2002 SIP submission, and represents the Annual Equivalent Cost associated with SIP expenditures in non-HCSAs.

Line 14 : Represents the sum of lines 1 and 10.

Line 15 : Represent estimated balances. See Note 10 on page 1.