2 June 1997

Mr. Allan J. Darling
Secretary General
Canadian Radio-television and
Telecommunications Commission
Ottawa, Ontario
K1A 0N2

Dear Mr. Darling:

Subject: Application to Review and Vary Telecom Order CRTC 97-114, Telus Communications Inc. Tariff Notice No. 874 - Single Line Centrex

Pursuant to Part VII of the CRTC *Telecommunications Rules of Procedures*, attached are the Reply comments of AT&T Canada Long Distance Services Company, requesting that the Commission review and rescind Telecom Order CRTC 97-114 which permits Telus Communications Inc. to provision Centrex Network Access on a single line basis.

A copy of these Reply comments has been served on the Respondents.

Yours truly,

Mark Wallace

cc: Telus Communications Inc.
Stentor

**BEFORE THE CANADIAN RADIO-TELEVISION AND TELECOMMUNICATIONS COMMISSION**

**BETWEEN:**

**AT&T CANADA LONG DISTANCE SERVICES COMPANY (AT&T CANADA LDS)**

**- Applicant**

**AND**

**TELUS COMMUNICATIONS INC. (TCI), STENTOR RESOURCE CENTRE INC. (STENTOR)**

**-Respondents**

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**Reply Comments**

AT&T Canada LDS is in receipt of comments from Stentor Resource Centre Inc.(Stentor) and Telus Communications Inc. (TCI) dated 20 May 1997. AT&T Canada LDS notes that Stentor's comments do not address AT&T Canada LDS' grounds for a review and vary under Section 62 of the Telecommunications Act (the Application) but rather are a recital of the Commission's past practices. AT&T Canada LDS considers that the failure of Stentor to adequately consider the grounds of the Application render their comments to be irrelevant to this proceeding. In light of this, AT&T Canada LDS Reply comments will focus on the comments submitted by TCI.

Telus Contention : Error of Law

> AT&T claims that the error in law committed by the Commission is the approval of introduction of new Utility segment service without considering the cross-effects in the Phase II study filed in support of TCI's TN 874.
>
> In TCI's submission, there is no reason to suspect that the inclusion of cross-effects in the study filed in support of Tariff Notice 874 would have a material negative effect on Utility revenues and, therefore, even if the proposed tariff changes could be considered a new service, there would be no need to include cross-effects in the study. Further, as noted above, to the extent that there

> might be any cross-effects, however minimal, TCI would expect them to be positive.[1]

AT&T Canada LDS Reply

AT&T Canada LDS TCI submits that TCI's comments do not address the grounds for AT&T Canada LDS' application, namely the fact that the cross-effects supporting the Phase II study were neither filed by TCI nor considered by the Commission when the revision was approved in Telecom Order CRTC 97-114. In Telecom Decision CRTC 94-19, Review of Regulatory Framework (Decision 94-19), the Commission noted that Phase II studies are typically performed in order to evaluate a decision to introduce a new service or make substantial changes to an existing service. TCI has not argued that the changes proposed in TN 874 were not substantial. AT&T Canada LDS submits that cross-effects may be excluded where such effects are not expected to be material to the study but this determination should be made after a study is actually performed. TCI asserts in its submission that the cross-effects are minimal. This has not been substantiated, however, by any material evidence. AT&T Canada LDS notes that single line Centrex is essentially an equivalent service to business exchange service, as recognized by the Commission in paragraph 256 of Telecom Decision CRTC 97-8, Local Competition (Decision 97-8). AT&T Canada LDS further notes that in it's single line Centrex service, MT&T gave consideration to the rate relationships between the two services. It would seem unusual that TCI can assert that there is none or only minimal cross-effects associated with the service.

Telus Contention : Substantial Doubt as to Correctness of Decision

Utility Segment Shortfall and Toll Contribution

> TCI does not agree with AT&T that offering Centrex service on a single line basis will have any material impact on Utility Segment revenues and, therefore, it cannot be expected to have any measurable effect on toll service contribution rates.
>
> Pursuant to Decision 97-9, beginning in 1998, the toll contribution rate will be frozen at 2 cents per minute per end (subject to TCI's shareholder entitlement adjustment and adjustments for the expansion of the base of contribution paying minutes). The only way a measurable increase in the 1997 toll service contribution rate, above what it might be without the availability of single line Centrex , could arise would be if there was a mass migration from existing basic business service to single line Centrex in the first year it is available (1997).
>
> Further, AT&T neglects to point out that TCI shares its interest in ensuring that toll contribution rates are not increased since any increase would have to be paid by TCI's toll services (which are not rate of return regulated).

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[1] **Telus Comments filed May 20 1997, pages 2-3**

AT&T Canada LDS Reply

AT&T Canada LDS submits that TCI's assertion that any material impact on the Utility shortfall should only be assessed in 1997 because it is the last year that toll contribution rates will be established using the existing Utility segment shortfall is seriously flawed. AT&T Canada LDS notes that TCI's 1997 toll contribution rate is currently at a rate well above the 2 cent per minute per end threshold thus any service offering that would act to increase the toll contribution rate would maintain it at a level higher than otherwise necessary. AT&T Canada LDS submits that since contribution rates will be established as part of the going in rates for price caps and then frozen for a period of four years, it is crucial that the Commission closely examine any service offering that would act to either increase the Utility segment shortfall or maintain it at an artificially high level. AT&T Canada LDS notes that TCI acknowledges in its comments that a mass migration from existing basic business service to single line Centrex could materially affect toll contribution rates. AT&T Canada LDS further notes that given the price savings that a business customer could realize from migrating from single line business to Single line Centrex, a large migration of customers is not an unrealistic expectation.

AT&T Canada LDS notes that TCI's assertion that it shares AT&T Canada LDS' interests in ensuring that toll contribution rates are not increased since any increase would have to be paid by TCI's toll services is flawed. AT&T Canada LDS submits that, due to their vertically integrated nature, TCI's contribution payments are only imputed within the company and are not an out of pocket expense as is the case for AT&T Canada LDS. Furthermore, AT&T Canada LDS notes that TCI's contribution payments can be recovered from inert DDD toll customers.[2]

Conclusion

In conclusion, AT&T Canada LDS submits that only through a public proceeding can the Commission effectively consider the appropriateness of, and the conditions by which the telephone companies may introduce Centrex Network Access on a single line basis. As stated in AT&T Canada LDS' application, the expansion of contract based Centrex service raises issues affecting both existing toll service providers and potential local competitors. AT&T Canada LDS submits that a public proceeding will provide the Commission with a more complete record upon which to base decisions regarding issues affecting local competition and toll contribution.

All of which is respectfully submitted this 2nd day of June, 1997.

[2] **Telus Comments filed May 20,1997, pages 3-4.**