



Telecom Decision CRTC 2004-81

Ottawa, 9 December 2004

Final 2004 revenue-percent charge and related matters

Reference: 8638-C12-45/00, 8695-T69-200402537, 8695-T78-200402818 and
8695-C12-200402826

*In this Decision, the Commission **approves on a final basis**, effective 1 January 2004, a 2004 contribution collection revenue-percent charge of 1.1 percent and the 2004 subsidy per residential network access service (NAS) for the territories of the large incumbent local exchange carriers (ILECs). The Commission also **approves on an interim basis**, effective 1 January 2004, revised 2004 subsidy requirements for Société en commandite Télébec (Télébec) and TELUS Communications (Québec) Inc.¹ (TCQ).*

*The Commission **approves on an interim basis**, effective 1 January 2005, a 2005 contribution collection revenue-percent charge of 1.1 percent, the subsidy per residential NAS for the territories of the large ILECs, 2005 subsidy requirements for TCQ and Télébec and continued supplemental funding for Northwestel Inc.*

Background

1. In *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000 (Decision 2000-745), the Commission introduced a national revenue-based contribution collection mechanism (the contribution regime) and a methodology for the calculation of the subsidy requirements, based upon residential network access service (NAS) in high-cost serving areas (HCSAs), in the territories of the large incumbent local exchange carriers (ILECs). The carriers referred to as large ILECs are Aliant Telecom Inc. (Aliant Telecom), Bell Canada, MTS Communications Inc. (now known as MTS Allstream Inc. (hereafter referred to as MTS Allstream), Saskatchewan Telecommunications (SaskTel) and TELUS Communications Inc. (TCI).
2. Under the contribution regime, telecommunication service providers (TSPs) with annual Canadian telecommunications service revenues equal to or greater than \$10 million are required to contribute towards the subsidization of residential local service in HCSAs. This contribution is collected through a revenue-based mechanism where a revenue-percent charge is applied against a TSP's contribution-eligible revenues. Contribution-eligible revenues are calculated based upon a TSP's Canadian telecommunications service revenues less certain specific deductions including retail Internet revenue, retail paging revenue and terminal equipment revenue. The revenue-percent charge is calculated using the ratio of the national subsidy requirement to the total reported contribution-eligible revenues of all TSPs who are required to contribute.

¹ Effective 1 July 2004, TELUS Communications Inc. assumed all rights, entitlements, liabilities and obligations relating to the provision of telecommunications services in the territories previously serviced by TELUS Communications (Québec) Inc.

3. The national subsidy requirement is comprised of Canadian Portable Contribution Consortium Inc. (CPCC) and Central Fund Administrator (CFA) administrative and operational costs, supplemental funding for Northwestel Inc. (Northwestel), subsidies for the small ILECs, subsidy requirements for Société en commandite Télébec (Télébec) and TELUS Communications (Québec) Inc. (TCQ) and estimated subsidy requirements for the territories of the large ILECs. The carriers referred to as small ILECs are listed in the attached Appendix.
4. In *Restructured bands, revised loop rates and related issues*, Decision CRTC 2001-238, 27 April 2001, as amended by Decision CRTC 2001-238-1 dated 28 May 2001 and Decision CRTC 2001-238-2 dated 7 August 2001 (Decision 2001-238), the Commission established the costing rules to be used for the determination of the subsidy per residential NAS for the territories of the large ILECs. This included the adoption of a uniform approach to identifying HCSAs and a consistent set of costing methodologies by which the large ILECs were to determine their base average primary exchange service (PES) costs. The base average PES costs excluded adjustments for inflation, an annual productivity offset and the cost recovery of the revenue-percent charge established in Decision 2000-745.
5. In *Final 2003 revenue-percent charge and related matters*, Telecom Decision CRTC 2003-84, 19 December 2003 (Decision 2003-84), the Commission set, on an interim basis for 2004, a revenue-percent charge of 1.1 percent, subsidy requirements for TCQ and Télébec and the subsidy per residential NAS for each band in the territories of the large ILECs.
6. The Commission has received the information necessary to determine the estimated national subsidy requirement for 2004, the final revenue-percent charge for 2004 and the interim revenue-percent charge for 2005.

CPCC/CFA administrative and operational costs

7. On 28 April 2004, the CPCC advised the Commission that the CPCC and CFA administrative and operational costs would be approximately \$1.0 million for 2004.
8. The Commission notes that the 2004 CPCC/CFA administrative and operational costs are the same as 2003. The Commission considers the estimate to be reasonable and notes that it will review the CPCC/CFA administrative and operational costs for 2005 during the finalization of the 2005 revenue-percent charge.

Supplemental funding for Northwestel

9. In Decision 2000-745, the Commission determined that any supplemental funding for Northwestel would be added, as a separate amount, to the national subsidy requirement.
10. In *Northwestel Inc. – Supplemental funding requirement for 2003*, Telecom Decision CRTC 2004-64, 30 September 2004, as amended by Telecom Decision CRTC 2004-64-1 dated 18 October 2004 (Decision 2004-64-1), the Commission approved final 2003 and interim 2004 supplemental funding of \$9.6 million for Northwestel.

11. On 23 November 2004, the Commission issued *Northwestel Inc. – Annual review of supplemental funding for 2004 and 2005*, Telecom Public Notice CRTC 2004-6 (Public Notice 2004-6) to, among other things, assess the level of supplemental funding for Northwestel for 2004 and 2005.
12. The Commission considers that \$9.6 million continues to be an appropriate amount for the interim supplemental funding for Northwestel until a final determination has been made in the proceeding initiated by Public Notice 2004-6.
13. In light of the above, the Commission **approves on an interim basis** the continued use of \$9.6 million as the annual supplemental funding for Northwestel for 2004 and 2005 until a final determination has been made with respect to Public Notice 2004-6 and directs the CFA to remit, on an interim basis, effective 1 January 2005, monthly subsidy payments to Northwestel equivalent to one-twelfth of the annual supplemental funding, excluding any repayment adjustments.

Subsidies for the small ILECs

14. In *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001 (Decision 2001-756), the Commission established a new regulatory framework for the small ILECs and specific annual subsidy amounts that each small ILEC would receive for each of the years 2002 through 2005. In that Decision, the Commission approved total subsidy amounts of \$27.882 million for 2004 and \$25.842 million for 2005 for the small ILECs.
15. In *Ontario Telecommunications Association – Review and vary regarding the regulatory framework decision and the national subsidy requirement order*, Telecom Decision CRTC 2002-49, 16 August 2002 (Decision 2002-49), the Commission approved an application to review and vary Decision 2001-756 to increase the annual subsidy amounts for Nexicom Telecommunications Inc., Nexicom Telephones Inc. and North Renfrew Telephone Company Limited, as the three companies had inadvertently provided incorrect information during the proceeding that led to Decision 2001-756. The impact of Decision 2002-49 was to increase the small ILECs' total subsidy amounts by \$0.042 million for 2004 and \$0.057 million for 2005.
16. In *Thunder Bay Telephone – Application to review and vary certain aspects of Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001, Telecom Decision CRTC 2002-70, 7 November 2002 (Decision 2002-70), the Commission approved an application to review and vary Decision 2001-756 granting high-cost status for four wire centres for Thunder Bay Telephone that had been denied in Decision 2001-756. The impact of Decision 2002-70 was to increase the small ILECs' total subsidy amounts by \$0.513 million in each of 2004 and 2005.

17. In *O.N.Telcom – Application to review and vary Decision 2001-583 and Decision 2001-756*, Telecom Decision CRTC 2003-21, 4 April 2003 (Decision 2003-21), the Commission approved an application to review and vary Decision 2001-756 to increase the annual subsidy amounts provided to O.N.Telcom², by calculating its annual subsidy amounts using a higher estimated 2002 contribution requirement than had been used in Decision 2001-756. The impact of Decision 2003-21 was to increase the small ILECs' total subsidy amounts by \$0.081 million for 2004, with no change for 2005.
18. As a result of the determinations in the above review and vary decisions, the Commission notes that the total subsidy amounts for the small ILECs have increased to \$28.518 million for 2004 and \$26.412 million for 2005.
19. In view of the decrease in total subsidy amounts from 2004 to 2005, the Commission directs the CFA to distribute, effective 1 January 2005, monthly subsidy amounts to the small ILECs equal to one-twelfth of the approved 2005 subsidy amounts identified in the attached Appendix.

Subsidy requirements for TCQ and Télébec

20. On 14 June 2001, the Commission issued *Implementation of competition in the local exchange and local payphone markets in the territories of Télébec and TELUS (Québec)*, Public Notice CRTC 2001-69 (Public Notice 2001-69) to, among other things, establish the appropriate band structure and related PES costs for TCQ and Télébec. The Commission has not yet made a determination in this proceeding.
21. In *Implementation of price regulation for Télébec and TELUS Québec*, Telecom Decision CRTC 2002-43, 31 July 2002 (Decision 2002-43), the Commission established a new regulatory framework for TCQ and Télébec and determined that Télébec was entitled to a transition subsidy because of the magnitude of the shortfall between its going-in revenue requirement and the contribution it would receive from the central fund.
22. In Decision 2002-43, the Commission directed TCQ and Télébec to use the proxy national average Phase II PES costs in each of their high-cost bands eligible for subsidy. The Commission also directed TCQ and Télébec to apply the same PES cost adjustments (inflation and a productivity offset (collectively referred to as (I-X)) and the cost recovery of the revenue-percent charge) as those of the large ILECs. In the case of Télébec, its inflation and productivity offset adjustments were to be applied to its transition subsidy until the transition subsidy reached zero and the productivity offset applicable to the transition subsidy was set at 4.7 percent.
23. By letter dated 25 March 2004, TCQ filed a proposed 2004 subsidy requirement of \$11.039 million based upon the band structure established in Decision 2001-238 and the proxy national average Phase II costs, after adjusting for inflation and productivity.

² Now Ontera, as per Telecom Order CRTC 2004-291, 27 August 2004.

24. The Commission has reviewed the subsidy calculation submitted by TCQ and finds it to be in accordance with the directives in Decision 2002-43.
25. In *TELUS Communications Inc. – Follow-up to Decision 2002-43 – Service improvement plan*, Telecom Decision CRTC 2004-78, 18 November 2004, the Commission approved interim service improvement plan (SIP) funding of \$0.087 million for TCQ, effective 1 January 2004.
26. By letter dated 31 March 2004, Télébec filed proposed 2004 subsidy requirements of (a) \$21.975 million, based upon its band and PES cost proposal filed pursuant to Public Notice 2001-69, including SIP funding of \$1.248 million and no transition subsidy, and (b) \$8.137 million based upon the Decision 2001-238 band structure and the national average Phase II costs, including SIP funding of \$0.803 million and a transition subsidy of \$0.770 million.
27. The Commission notes that Télébec adjusted for the cost recovery of the revenue-percent charge; however Télébec did not reduce its average monthly rates by 4.5 percent before the calculation of the revenue-percent charge cost adjustment, as directed in Decision 2002-43. The Commission has, therefore, adjusted Télébec's subsidy calculation to reduce its average monthly rates by 4.5 percent.
28. In *Société en commandite Télébec – Follow-up to Decision 2002-43 – Service improvement plan*, Telecom Decision CRTC 2004-77, 18 November 2004, the Commission approved initial interim annual SIP funding of \$0.627 million for Télébec, effective 1 January 2003, and additional interim SIP funding of \$0.200 million, effective 1 January 2005.
29. The Commission notes that, based upon the Decision 2001-238 band structure, the revenue-percent charge cost adjustment and the approved interim SIP funding, Télébec's 2004 subsidy requirement is \$7.950 million, which includes a transition subsidy of \$0.799 million and interim SIP funding of \$0.627 million.
30. The Commission is of the view that the 2004 subsidy requirements for TCQ and Télébec should only be made interim at this time, pending a Commission determination pursuant to Public Notice 2001-69. The Commission is also of the view that, if the final 2004 revenue-percent charge is different than the interim 2004 revenue-percent charge, then TCQ's and Télébec's cost recovery of the revenue-percent charge in their subsidy requirement calculations should be adjusted accordingly.

Subsidy requirements for the territories of the large ILECs

31. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission directed the large ILECs to adjust the PES cost component of their subsidy per residential NAS calculations to account for inflation, a productivity offset of 3.5 percent, any estimated SIP costs and the cost recovery of the revenue-percent charge. The Commission also directed the large ILECs to file revised subsidy per residential NAS calculations by 31 March of each year.

32. By 31 March 2004, the Commission had received estimated subsidy per residential NAS calculations from Aliant Telecom, Bell Canada, MTS Allstream, SaskTel and TCI. By letters dated 26 July and 24 September 2004, TCI revised its subsidy calculations to take into account revisions to its HCSA SIP costs.
33. The Commission has reviewed the subsidy per residential NAS calculations submitted by Aliant Telecom, Bell Canada and TCI and finds them in accordance with the directives in Decision 2002-34.
34. The Commission notes that, in its subsidy calculations, MTS Allstream included Band F subsidy per residential NAS cost information based upon its application to review and vary Decisions 2003-70 and 2003-84 (R&V application).
35. MTS Allstream submitted that, in its opinion, the costs in its R&V application are the correct costs to be used for subsidy calculation purposes. MTS Allstream also submitted that not using these costs would understate its subsidy in Band F and have a significant impact on MTS Allstream's ability to service high-cost areas. MTS Allstream noted that no party contested the evidence filed in its R&V application.
36. The Commission notes that, with respect to subsidy calculations, it has been its practice to use approved contribution information for subsequent subsidy calculations. The Commission also notes that if, and when, it approves a change (such as in the case of a R&V application), the company would receive a funding adjustment, such that the company receives the full amount of subsidy it is entitled to. The Commission is of the opinion that to do otherwise would mean a company would receive subsidy based upon information that had not yet been approved by the Commission.
37. Therefore, the Commission considers that the 2004 MTS Allstream Band F subsidy per residential NAS cost information starting point should be the cost information approved for 2003. The Commission notes that any additional subsidy that may result from the MTS Allstream R&V application will be dealt with when the MTS Allstream R&V application is disposed of, as a funding adjustment. The Commission has adjusted MTS Allstream's Band F subsidy calculation to use the 2003 cost information, rather than the MTS Allstream R&V application cost information.
38. The Commission notes that, in its subsidy calculations, SaskTel included an exogenous adjustment of \$0.91 per NAS in each HCSA band to allow it to recover part of the estimated shortfall in its deferral account.
39. The Commission also notes that, in Decision 2002-34, it separated HCSAs and non-HCSAs.
 - HCSAs (Bands E, F and G) would be provided funding from the National Contribution Fund to subsidize residential service in these bands. The Commission determined that an annual (I-X) adjustment would be applied each year with a resulting decrease or increase in funding depending on whether inflation was below or above 3.5 percent.

- Non-HCSAs (Bands A, B, C and D) would not be provided funding from the National Contribution Fund. The Commission determined that the annual (I-X) adjustment and/or an exogenous adjustment would result in money flowing into or out of a company's non-HCSA related deferral account. The Commission also determined that money would be removed from the non-HCSA related deferral account to offset reductions in competitor services rates.
40. In the case of SaskTel, the company estimated that its non-HCSA related deferral account would not have sufficient funds to offset the reductions in competitor service rates. Therefore, SaskTel requested that it be allowed to recover a portion of its estimated non-HCSA related deferral account shortfall from the National Contribution Fund.
 41. The Commission notes that section 46.5(1) of the *Telecommunications Act* states that "[t]he 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 telecommunications services".
 42. The Commission is of the opinion that funding competitor service rate reductions does not support the purpose of the fund, which is to provide Canadians with continuing access to basic telecommunications services.
 43. The Commission notes that Decision 2002-34 outlines the subsidy calculations to be performed annually by the major ILECs and that exogenous factors are not part of the calculations. While it could be argued that SIP funding is an exogenous factor, SIP funding and how it should be handled in subsidy calculations is specifically set out in Decision 2002-34.
 44. The Commission also notes that if it were to allow SaskTel to recover part of its non-HCSA related deferral account shortfall from the National Contribution Fund, then it could be argued that a proportionate share of other major ILECs' non-HCSA related deferral account surpluses should be assigned to the National Contribution Fund, as to do otherwise would be inconsistent.
 45. Finally, the Commission notes that the exact amount of the SaskTel non-HCSA related deferral account shortfall is not known at this time because the level of the competitor service rate decreases is not known. The Commission also notes that if a portion of SaskTel's non-HCSA related deferral account shortfall comes from the National Contribution Fund, then competitors would be funding their own competitor service rate decreases to the extent that the competitors are required contributors to the National Contribution Fund.
 46. Based upon the above, the Commission **denies** SaskTel's request for an exogenous adjustment to recover a possible non-HCSA related deferral account shortfall. With the exclusion of the exogenous adjustment, the Commission finds the subsidy calculations submitted by SaskTel to be in accordance with Decision 2002-34.

47. The Commission is of the view that if the final 2004 revenue-percent charge is different than the interim 2004 revenue-percent charge, then the cost recovery of the revenue-percent charge in the subsidy per residential NAS calculations for the territories of the large ILECs should be adjusted accordingly.
48. In light of the above, the Commission finds that, based upon the 2003 year-end NAS per band, the 2004 total subsidy requirement for the large ILECs is approximately \$182.5 million.

Final 2004 and interim 2005 revenue-percent charge

49. Based upon the determinations set out above, the Commission finds that the estimated 2004 national subsidy requirement is \$240.6 million, and is comprised of the following:

	\$ million
CPCC/CFA administrative and operational costs	1.0
Northwestel	9.6
Small ILECs	28.5
TCQ and Télébec territories	19.0
Large ILEC territories	182.5
Total	240.6

50. In Decision 2000-745, the Commission established a true-up mechanism, whereby any over- or under-collection in a given year would be carried forward to the following year.
51. The Commission notes that, at the end of 2003, there was a surplus of \$15.2 million in the contribution fund and that Northwestel must repay the \$3.8 million difference between its interim 2003 supplemental funding and the final 2003 supplemental funding approved by the Commission in Decision 2004-64-1.
52. The Commission, finds that a final 2004 revenue-percent charge of 1.1 percent would be appropriate. The Commission also finds that an interim 2005 revenue-percent charge of 1.1 percent, effective 1 January 2005, would also be appropriate. This rate will ensure stability of the contribution fund.
53. The Commission **approves** a final 2004 revenue-percent charge of 1.1 percent, effective 1 January 2004, and an interim 2005 revenue-percent charge of 1.1 percent, effective 1 January 2005.
54. Having approved a final 2004 revenue-percent charge of 1.1 percent, the Commission has determined that the 2004 subsidy requirement for TCQ is \$11.135 million, including SIP funding of \$0.087 million, and for Télébec is \$7.950 million, including SIP funding of \$0.627 million and a transition subsidy of \$0.799 million.

55. The Commission **approves on an interim basis**, effective 1 January 2004, revised 2004 subsidy requirements of \$11.135 million for TCQ and \$7.950 million for Télébec.
56. The Commission directs the CFA to adjust the distribution of monthly subsidy to equal one-twelfth of the revised interim 2004 subsidy requirements, effective 1 January 2004.
57. The Commission notes that the 2004 subsidy requirements for TCQ and Télébec include annual price cap adjustments effective 1 August 2004 and that these price cap adjustments carry forward into 2005. The Commission finds that the estimated 2005 subsidy requirements are \$11.104 million for TCQ, including SIP funding of \$0.087 million, and \$7.382 million for Télébec, including SIP funding of \$0.827 million.
58. The Commission **approves on an interim basis**, effective 1 January 2005, 2005 subsidy requirements of \$11.104 million for TCQ and \$7.382 million for Télébec.
59. The Commission directs the CFA to distribute, each month, one-twelfth of the interim 2005 subsidy requirements, effective 1 January 2005.
60. Having approved a final 2004 revenue-percent charge of 1.1 percent, the Commission has determined the 2004 subsidy per residential NAS for each HCSA band in the territories of the large ILECs as set out in the table below.

Territory	Final monthly subsidy per residential NAS by band		
	E (\$)	F (\$)	G (\$)
Aliant Telecom			
– Island Tel	5.51	6.86	n/a
– MTT	1.45	0.27	n/a
– NBTel	6.12	0.00	n/a
– NewTel	6.75	7.63	12.58
Bell Canada	5.70	3.38	23.79
MTS Allstream	21.77	6.07	67.31
SaskTel	23.01	15.65	33.65
TCI			
– Alberta	6.08	1.99	7.26
– British Columbia	26.31	14.05	22.86

61. The Commission **approves on a final basis**, effective 1 January 2004, and **on an interim basis**, effective 1 January 2005, the monthly subsidy per residential NAS for each band for the territories of the large ILECs as shown in the above table.
62. The Commission directs the CFA to adjust the distribution of monthly subsidy per residential NAS, to reflect the final subsidy per residential NAS, effective 1 January 2004. The Commission also directs the CFA to distribute the monthly subsidy per residential NAS, on an interim basis, effective 1 January 2005.

Secretary General

This document is available in alternate format upon request and may also be examined at the following Internet site: <http://www.crtc.gc.ca>

APPENDIX

2005 Subsidy amounts for the small ILECs

	2005 Subsidy amount (\$000)
British Columbia	
Prince Rupert City Telephones	0.0
Ontario	
Amtelecom Inc.	2,667.9
Brooke Telecom Co-operative Ltd.	307.6
Bruce Municipal Telephone System	786.2
Cochrane Public Utilities Commission (now Cochrane Telecom Services)	180.6
Dryden Municipal Telephone System	90.4
Execulink Telecom Inc.	836.6
Gosfield North Communications Co-operative Limited	334.9
Hay Communications Co-operative Limited	859.2
Huron Telecommunications Co-operative Limited	644.7
Kenora Municipal Telephone System	105.8
Lansdowne Rural Telephone Co. Ltd.	374.5
Mornington Communications Co-operative Limited	349.8
Nexicom Telecommunications Inc.	371.0
Nexicom Telephones Inc.	273.9
North Frontenac Telephone Corporation Ltd.	396.1
North Renfrew Telephone Company Limited	344.0
NorthernTel, Limited Partnership	4,882.8
O.N.Telcom (now Ontera)	631.4
People's Telephone Company of Forest Inc.	810.1
Quadro Communications Co-operative Inc.	690.1
Roxborough Telephone Company Limited	96.6
Thunder Bay Telephone	1,125.9
Tuckersmith Communications Co-operative Limited	517.8
Westport Telephone Company Limited	396.4
Wightman Telecom Ltd.	1,022.3
Quebec	
CoopTel	762.8
La Cie de Téléphone de Courcelles Inc.	85.3
Téléphone Guèvremont inc.	983.0
La Corporation de Téléphone de La Baie	101.4
La Compagnie de Téléphone de Lambton Inc.	231.1
Téléphone Milot inc.	902.5
Compagnie de téléphone Nantes inc.	46.9
Sogetel inc.	2,453.4
Le Téléphone St-Éphrem inc.	194.7
Le Téléphone de St-Liboire de Bagot Inc.	255.9
La Compagnie de Téléphone de St-Victor	220.5
La Compagnie de Téléphone Upton Inc.	329.4
La Compagnie de Téléphone de Warwick	748.0
Total	26,411.5

