



Telecom Decision CRTC 2005-68

Ottawa, 10 November 2005

Final 2005 revenue-percent charge and related matters

Reference: 8695-C12-200503260 and 8695-C12-200503640

*In this Decision, the Commission **approves on a final basis**, effective 1 January 2005, a 2005 contribution collection revenue-percent charge of 1.03 percent and the 2005 subsidy per residential network access service (NAS) for the territories of the large incumbent local exchange carriers (ILECs), TELUS Communications (Québec) Inc.¹ (TCI Québec) and Société en commandite Télébec (Télébec).*

*The Commission **approves on an interim basis**, effective 1 January 2006, a 2006 contribution collection revenue-percent charge of 1.03 percent, the subsidy per residential NAS for the territories of the large ILECs, TCI Québec and Télébec, subsidy amounts for the small ILECs 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. This calculation is based upon residential network access service (NAS) in high-cost serving areas (HCSAs) in the territories of the large incumbent local exchange carriers (ILECs), TELUS Communications (Québec) Inc.² (TCI Québec) and Société en commandite Télébec (Télébec). The carriers referred to as large ILECs are Aliant Telecom Inc. (Aliant Telecom), Bell Canada, MTS Allstream Inc. (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 and retail paging revenues. The revenue-percent charge is calculated using the ratio of the national subsidy requirement to the total estimated 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.

² See footnote 1.

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 and estimated HCSA subsidy requirements for the territories of the large ILECs, TCI Québec and Télébec. 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, 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 2004 revenue-percent charge and related matters*, Telecom Decision CRTC 2004-81, 9 December 2004, the Commission set, on an interim basis for 2005, a revenue-percent charge of 1.1 percent and the subsidy per residential NAS for each HCSA band in the territories of the large ILECs.
6. In *Implementation of competition in the local exchange and local payphone markets in the territories of Société en commandite Télébec and the former TELUS Communications (Québec) Inc.*, Telecom Decision CRTC 2005-4, 31 January 2005, the Commission established the PES costs and approved the interim 2005 subsidy per residential NAS for each HCSA band in TCI Québec and Télébec territories.
7. The Commission has received the information necessary to determine the estimated national subsidy requirement for 2005, the final revenue-percent charge for 2005, and the interim revenue-percent charge for 2006.

CPCC/CFA administrative and operational costs

8. On 5 May 2005, the CPCC advised the Commission that the CPCC and CFA administrative and operational costs would be approximately \$0.917 million for 2005.
9. The Commission notes that the 2005 CPCC/CFA administrative and operational costs are slightly less than they were in 2004. The Commission considers the estimate to be reasonable and notes that it will review the CPCC/CFA administrative and operational costs for 2006 during the finalization of the 2006 revenue-percent charge.

Supplemental funding for Northwestel

10. 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.

11. In *Northwestel Inc. – Supplemental funding requirements for 2004 and 2005*, Telecom Decision CRTC 2005-54, 15 September 2005, the Commission approved final 2005 supplemental funding of \$9.1 million for Northwestel and directed Northwestel to file its proposed 2006 supplemental funding requirement by 17 October 2005.
12. The Commission considers that \$9.1 million continues to be an appropriate amount for the interim supplemental funding for Northwestel until a final determination has been made with respect to Northwestel's 2006 supplemental funding requirement.
13. In light of the above, the Commission **approves on an interim basis** the continued use of \$9.1 million as the annual supplemental funding for Northwestel for 2006 until a final determination has been made with respect to Northwestel's 2006 supplemental funding requirement, and directs the CFA to remit, on an interim basis, effective 1 January 2006, monthly subsidy payments to Northwestel equivalent to one-twelfth of the annual supplemental funding.

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 a total subsidy amount of \$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 amount by \$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 amount by \$0.513 million for 2005.
17. As a result of the determinations in the above review and vary decisions, the Commission notes that the total subsidy amount for the small ILECs increased to \$26.412 million for 2005.
18. In *Review of regulatory framework for the small incumbent local exchange carriers*, Telecom Public Notice CRTC 2005-10, 19 August 2005 (Public Notice 2005-10), the Commission initiated a proceeding to, among other things, develop a new subsidy process for the small ILECs.

19. The Commission is of the opinion that the small ILECs should continue to receive interim subsidy until the new subsidy process has been established.
20. Therefore, the Commission directs the CFA to distribute, on an interim basis, effective 1 January 2006, monthly subsidy amounts to the small ILECs equal to one-twelfth of the subsidy amounts identified in the attached Appendix, until the new subsidy process has been determined pursuant to Public Notice 2005-10.

Subsidy requirements for the territories of the large ILECs, TCI Québec and Télébec

21. 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 service improvement plan (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.
22. 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 TCI Québec and Télébec that included subsidy per residential NAS calculations similar to those established for the large ILECs.
23. On 22 March and 12 April 2005, respectively, the Commission received HCSA band subsidy calculations from MTS Allstream, in confidence and on the public record.
24. The Commission notes that the MTS Allstream Band F PES cost information included in its HCSA band subsidy calculations was approved by the Commission in *MTS Allstream's application to review and vary certain decisions relating to its Band F subsidy*, Telecom Decision CRTC 2005-52, 9 September 2005 (Decision 2005-52). Therefore, no adjustment to the MTS Allstream Band F subsidy calculation is required.
25. On 31 March 2005, the Commission received HCSA band subsidy calculations from Aliant Telecom, Bell Canada, SaskTel, TCI (including TCI Québec) and Télébec.
26. The Commission notes that, in Decision 2002-43, it directed that SIP costs for HCSAs were to be added to the costs that flow into the subsidy calculations.
27. In *Follow-up to Decision 2004-77 - Société en commandite Télébec's service improvement plan - Toll-free Internet access*, Telecom Decision CRTC 2005-66, 9 November 2005, the Commission approved SIP funding of \$0.03 per residential NAS for Band E and \$0.24 per residential NAS for Band G, effective 1 January 2005. The Commission has adjusted Télébec's subsidy calculations to include the approved SIP funding in accordance with Decision 2002-43.
28. The Commission has reviewed the subsidy calculations submitted by the large ILECs, TCI Québec and Télébec and, with the inclusion of the Télébec SIP adjustment, finds them to be in accordance with the directives set out in Decisions 2002-34 and 2002-43.

29. In light of the above, the Commission finds that, based upon the 2004 year-end NAS per HCSA band, the 2005 total subsidy requirement for the large ILECs, TCI Québec and Télébec is approximately \$212.0 million.
30. The Commission is of the view that if the final 2005 revenue-percent charge is different than the interim 2005 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, TCI Québec and Télébec should be adjusted accordingly.

Final 2005 and interim 2006 revenue-percent charge

31. Based upon the determinations set out above, the Commission finds that the estimated 2005 national subsidy requirement is \$248.4 million, and is comprised of the following:

	\$ million
CPCC/CFA administrative and operational costs	0.9
Northwestel	9.1
Small ILECs	26.4
Large ILECs, TCI Québec and Télébec territories	212.0
Total	248.4

32. 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.
33. The Commission notes that, after processing the December 2004 data-month, there was a surplus of approximately \$14.2 million in the National Contribution Fund (NCF) and that, pursuant to Decision 2005-52, MTS Allstream received additional subsidy in the amount of approximately \$5.9 million related to 2003 and 2004. The Commission also notes that, by letter dated 12 September 2005, the CPCC requested that a surplus of \$5 million be maintained in the NCF to ensure that there are adequate funds available for future payments.
34. Taking into account the 2004 surplus of \$14.2 million, the MTS Allstream payment of \$5.9 million and the CPCC requested surplus of \$5 million, the estimated total amount to be collected during 2005 is reduced to \$245.1 million.
35. The Commission notes that, based upon the 2004 contribution-eligible revenues and the growth in contribution-eligible revenues between 2003 and 2004, the estimated contribution-eligible revenues for 2005 is approximately \$23.8 billion.
36. Based on the Commission's consideration of the information provided, the Commission finds that a final 2005 revenue-percent charge of 1.03 percent would be appropriate. The Commission also finds that an interim 2006 revenue-percent charge of 1.03 percent, effective 1 January 2006, would also be appropriate.
37. Therefore, the Commission **approves** a final 2005 revenue-percent charge of 1.03 percent, effective 1 January 2005, and an interim 2006 revenue-percent charge of 1.03 percent, effective 1 January 2006.

38. Having approved a final 2005 revenue-percent charge of 1.03 percent, the Commission has adjusted the 2005 subsidy per residential NAS for each HCSA band in the territories of the large ILECs, TCI Québec and Télébec to account for the cost recovery of the final revenue-percent charge of 1.03 percent, rather than the interim revenue-percent charge of 1.1 percent. The 2005 subsidy per residential NAS for each HCSA band in the territories of the large ILECs, TCI Québec, and Télébec are set out in the tables below.

Territory	Final 2005 monthly subsidy per residential NAS by HCSA band		
	E (\$)	F (\$)	G (\$)
Aliant Telecom			
- New Brunswick	6.03	0.00	n/a
- Newfoundland	6.64	7.52	12.48
- Nova Scotia	1.34	0.18	n/a
- Prince Edward Island	5.39	6.75	n/a
Bell Canada	5.48	3.14	23.64
MTS Allstream	21.65	15.90	67.05
SaskTel	22.91	15.55	33.48
TCI			
- Alberta	6.16	2.12	6.92
- British Columbia	26.26	13.90	23.30

39. The Commission **approves on a final basis**, effective 1 January 2005, and **on an interim basis**, effective 1 January 2006, the monthly subsidy per residential NAS for each HCSA band for the territories of the large ILECs as shown in the above table.
40. 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 2005. The Commission also directs the CFA to distribute the monthly subsidy per residential NAS, on an interim basis, effective 1 January 2006.

Territory	Final 2005 monthly subsidy per residential NAS by HCSA band		
	E (\$)	F (\$)	G (\$)
TCI Québec			
- 1 January to 31 July	15.56	3.86	49.06
- 1 August to 31 December	15.45	3.78	48.87
Télébec			
- 1 January to 31 July	18.27	6.52	16.90
- 1 August to 31 December	18.14	6.41	16.78

41. The Commission **approves on a final basis**, effective 1 January and 1 August 2005, respectively, the monthly subsidy per residential NAS for each HCSA band for TCI Québec and Télébec as shown in the above table for the periods 1 January to 31 July and 1 August to 31 December. The Commission also **approves on an interim basis**, effective 1 January 2006, the monthly subsidy per residential NAS for each HCSA band for TCI Québec and Télébec as shown in the above table for 1 August to 31 December.
42. 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 2005. The Commission also directs the CFA to distribute the monthly subsidy per residential NAS, on an interim basis, effective 1 January 2006.
43. As noted above, the CPCC has requested that a surplus of \$5 million be maintained in the NCF to ensure that there are adequate funds available for future payments. The Commission considers this request reasonable.
44. The Commission is of the opinion that any surplus in excess of \$5 million in the NCF after processing the December 2005 data-month should be returned to the required contributors, as a one-time adjustment, based upon their respective total reported 2005 contribution-eligible revenues.
45. The Commission directs the CFA to return any surplus in the NCF in excess of \$5 million after processing the December 2005 data-month to the required contributors, as a one-time adjustment, based upon their respective total reported 2005 contribution-eligible revenues.

Secretary General

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APPENDIX**Subsidy amounts for the small ILECs**

	Subsidy amount (\$000)
British Columbia	
CityWest Telephone Corporation	0.0
Ontario	
Amtelecom Inc.	2,667.9
Brooke Telecom Co-operative Ltd.	307.6
Bruce Telecom	786.2
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
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
TBayTel	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