



Telecom Regulatory Policy CRTC 2009-788

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Ottawa, 17 December 2009

Regulatory framework for the small incumbent local exchange carriers

File numbers: 8663-C12-200907058 and 8663-C12-200910829

Introduction

1. There are currently 36 small incumbent local exchange carriers (ILECs) in Canada. These companies operate in certain areas of Ontario, Quebec, and British Columbia. The small ILECs are listed in the Appendix to this decision.
2. The rates that a small ILEC can charge its residential and business customers for various telecommunications services are currently governed by a price cap regime. Price cap regulation generally includes upward pricing constraints for these services and other rules that govern the associated rates.
3. The Commission set out the current regulatory framework for the small ILECs in Telecom Decision 2006-14. Among other things, that decision specified calculations for local subsidies and toll interconnection revenues until the end of 2009. This regime came into effect in 2006 and is set to expire on 31 December 2009.
4. The Commission received an application, dated 15 July 2009, by the Canadian Independent Telephone Company Joint Task Force (CITC Joint Task Force) on behalf of the small ILECs, with the exception of NorthernTel, Limited Partnership (NorthernTel) and KMTS. The application included a proposal regarding the regulatory framework for the small ILECs that would take effect on 1 January 2010. Attached to the CITC Joint Task Force's application was a letter from Bell Aliant Regional Communications, Limited Partnership and Bell Canada supporting the adoption of the CITC Joint Task Force's proposed regulatory framework. In a letter dated 22 July 2009, NorthernTel and KMTS confirmed that they also supported the CITC Joint Task Force's proposal.
5. On 30 July 2009, the Commission issued Telecom Notice of Consultation 2009-464, which invited parties to comment on the CITC Joint Task Force's proposal. The Commission received submissions and/or data from Bragg Communications Inc., operating as EastLink (EastLink), MTS Allstream Inc. (MTS Allstream), Rogers Communications Inc. (RCI), and TELUS Communications Company (TCC). The public record of this proceeding, which closed on 21 September 2009, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file numbers provided above.

The CITC Joint Task Force proposal

6. In its application, the CITC Joint Task Force proposed, among other things, that
 - the current basket structure be maintained, but with changes to pricing constraints for certain services and to the manner in which rates are determined for services;
 - rates for both residential and business primary exchange services (PES) be permitted to increase in a manner consistent with previous Commission decisions applicable to the large ILECs;
 - a small ILEC funding pool be established with three compensation elements: a local contribution subsidy, a portion of revenue currently derived from direct connection services, and a portion of revenue currently derived from toll trunk interconnection services;
 - the funding pool be administered on the same basis as the National Contribution Fund; and
 - the length of the new regime be four years.
7. In its proposal, the CITC Joint Task Force submitted that the viability of the small ILECs continues to be in the public interest and that they must be able to respond effectively to competitors entering their territories. It also submitted that local competition, when combined with the unique characteristics of the small ILECs, poses major challenges to these companies. The CITC Joint Task Force added that the small ILECs' limited economies of scale and scope mean that financial predictability over the next regulatory framework is critical. It also stressed that the local contribution subsidy regime is a key revenue stream for the small ILECs.
8. TCC supported some elements of the proposal that allow greater pricing flexibility for the small ILECs in order for them to meet local competition. TCC also supported the idea that the flexibility to raise local residential and business rates would reduce reliance upon the National Contribution Fund.
9. TCC, MTS Allstream, EastLink, and RCI raised concerns about the proposed modifications to the local contribution subsidy regime. In particular, they opposed the CITC Joint Task Force's proposal that large competitors be ineligible for the local subsidies in the small ILECs' territories.
10. TCC and MTS Allstream also expressed concern about the proposal to apply only 75 percent of the potential residential PES rate increases towards the reduction of contribution subsidy payments.

11. MTS Allstream submitted that the proposed introduction of a new toll service subsidy requirement to cover direct connection service and toll trunk rate reduction should be denied because Bell Canada would be, by far, the biggest beneficiary of these proposed rate reductions, and all other telecommunications service providers would be burdened with the cost of the proposed toll service subsidy.

Commission's analysis and determinations

12. The Commission notes the CITC Joint Task Force's submission that local competition, when combined with the unique characteristics of the small ILECs, poses major challenges to these companies. The Commission considers that local competition is a relevant factor in the determination of an appropriate regulatory framework for the small ILECs. The Commission considers that the existing regulatory framework for local competition in small ILEC territories may no longer be appropriate and, accordingly, concludes that the small ILEC local competition framework should be reviewed.
13. With respect to the local service subsidy regime, the Commission considers that it is an important matter for consideration in the development of the next small ILEC regulatory framework. The Commission notes that in the Telecom Notice of Consultation 2009-575 proceeding, it received comments regarding the identification, scope, and prioritization of issues associated with the local service subsidy regime, the obligation to serve, and the basic service objective.
14. The Commission considers that the matters regarding to the local service subsidy, the obligation to serve, and the basic service objective are interrelated. The Commission further considers that any changes to the local service subsidy regime could affect local competition in the small ILECs' territories. Therefore, the Commission concludes that a review of the regulatory framework for local competition in small ILEC territories should be combined with any review of the local service subsidy regime, the obligation to serve, and the basic service objective.
15. In January 2010, the Commission will initiate a proceeding to review matters related to the obligation to serve, the basic service objective, and the local service subsidy regime, as well as the implementation of local competition in the small ILECs' territories.
16. In light of the above, the Commission considers that it would not be appropriate at this time to develop a new regulatory framework for the small ILECs for the next four years. Rather, the Commission considers that the existing regulatory framework for the small ILECs should be extended.
17. Accordingly, the Commission extends, except as modified below, the current small ILEC regulatory framework until the outcome of the proceeding discussed in paragraph 15 above and the subsequent review of the small ILECs regulatory framework.

18. The Commission considers that pricing flexibility for annual changes to business PES rates, as proposed by the CITC Joint Task Force, would be consistent with the pricing flexibility currently in place for the large ILECs and would not affect subsidy calculations. The Commission notes that there were no objections from the parties to this part of the CITC Joint Task Force's proposal.
19. Accordingly, the Commission determines that the small ILECs may propose increases for monthly rates for business PES by up to \$5 in any one year, until a rate of \$45.45 is reached. After reaching the \$45.45 rate, the small ILECs may propose increases to the monthly rate up to the previous year's rate of inflation.

Secretary General

Related documents

- *Call for comments – Identification, scope, and prioritization of issues regarding obligation to serve, basic service objective, and local service subsidy regime*, Telecom Notice of Consultation CRTC 2009-575, 11 September 2009
- *Call for comments – Regulatory framework for the small incumbent local exchange carriers*, Telecom Notice of Consultation CRTC 2009-464, 30 July 2009, as amended by Telecom Notice of Consultation CRTC 2009-464-1, 5 August 2009, and Telecom Notice of Consultation CRTC 2009-464-2, 8 September 2009
- *Revised regulatory framework for the small incumbent local exchange carriers*, Telecom Decision CRTC 2006-14, 29 March 2006

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

Small incumbent local exchange carriers by province

British Columbia

City West Telephone Corporation

Ontario

Amtelecom Limited Partnership
Brooke Telecom Co-operative Ltd.
Bruce Telecom
Cochrane Telecom Services
Dryden Municipal Telephone System
Execulink Telecom Inc.
Gosfield North Communications Co-operative Limited
Hay Communications Co-operative Limited
Huron Telecommunications Co-operative Limited
KMTS
Lansdowne Rural Telephone Co. Ltd.
Mornington Communications Co-operative Limited
Nexicom Telecommunications Inc.
Nexicom Telephones Inc.
North Frontenac Telephone Corporation Ltd.
NorthernTel, Limited Partnership
NRTC Communications
Ontera
People's Tel Limited Partnership
Quadro Communications Co-operative Inc.
Roxborough Telephone Company Limited
TBayTel
Tuckersmith Communications Co-operative Limited
Wightman Telecom Ltd.
WTC Communications

Quebec

CoopTel
La Cie de Téléphone de Courcelles Inc.
La Compagnie de Téléphone de Lambton Inc.
La Compagnie de Téléphone de St-Victor
La Compagnie de Téléphone Upton Inc.
La Compagnie de Téléphone de Warwick
Le Téléphone de St-Éphrem inc.
Sogetel inc.
Téléphone Guèvremont inc.
Téléphone Milot inc.