



## Telecom Decision CRTC 2015-381

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Ottawa, 20 August 2015

*File number: 8695-031-201503045*

### **O.N. Tel Inc., operating as Ontera – Application to revise local service subsidy payment amounts due to changes in ownership and tax status**

*The Commission **approves** Ontera's application to revise the level of the local service subsidy payments the company receives for the residential local telephone service it provides in its high-cost serving areas, given that the company's tax status has changed from tax-exempt to tax-paying.*

#### **Background**

1. In certain rural and remote areas of Canada, the cost for incumbent local exchange carriers (ILECs) to provide residential local telephone service<sup>1</sup> exceeds the price that customers pay. Because of this, pursuant to subsection 46.5(1) of the *Telecommunications Act*, the Commission requires certain telecommunications service providers to contribute to a fund to support continued access by Canadians to this service.
2. The current local service subsidy regime, along with the associated contribution mechanism and the National Contribution Fund (NCF),<sup>2</sup> was established to subsidize the provision of residential local telephone service in high-cost serving areas (HCSAs).<sup>3</sup> These subsidies are currently provided only to ILECs in regulated HCSAs, since they have the obligation to provide residential local telephone service.<sup>4</sup>
3. Small ILECs<sup>5</sup> are owned by governments or by public or private entities. Public and private small ILECs pay income taxes, while those owned by governments are tax-exempt. In Decision 2001-756, the Commission established, for subsidy purposes, separate residential local telephone service costs for tax-paying and tax-exempt small

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<sup>1</sup> Local telephone service, also called primary exchange service, is a wireline-based telephone service consisting of unlimited local calling within a defined area at a flat monthly rate, as well as access to a long distance network of the customer's choice.

<sup>2</sup> The local service subsidy regime was established in Decision 2000-745. A summary of the current regime can be found in Telecom Circular 2007-15.

<sup>3</sup> An HCSA is a clearly defined geographical area where the ILEC's monthly costs to provide basic service are greater than the associated revenues generated by service rates.

<sup>4</sup> The local service subsidies provided in 2014 totalled approximately \$114 million.

<sup>5</sup> The small ILECs serve approximately 2% of residences in Canada. There are currently 35 small ILECs: one in British Columbia, and the rest in Ontario and Quebec.

ILECs. The costs for tax-paying small ILECs are higher to reflect their income tax expenses and, as a result, their subsidy amounts are higher.

4. O.N. Tel Inc., operating as Ontera (Ontera), is a small ILEC that was owned by the Ontario Northland Transportation Commission (a government-owned organization). On 1 October 2014, Bell Aliant Regional Communications, Limited Partnership (Bell Aliant) assumed full ownership of the shares of Ontera, which will continue to operate as a separate corporation under Bell Aliant. Following this change in ownership, the tax status of Ontera changed from tax-exempt to tax-paying.

## **Application**

5. The Commission received an application from Ontera, dated 30 March 2015, in which the company requested that the Commission approve a revised level of the local service subsidy that the company receives due to the above-mentioned changes in ownership and tax status.
6. More specifically, Ontera requested that the Commission
  - for the period of 1 October 2014 to 31 December 2014, (a) modify the company's monthly subsidy amounts from \$1.98 per residential network access service (NAS)<sup>6</sup> to \$9.57 for Band E, and from \$20.30 per residential NAS to \$30.87 for Band G, and (b) approve a retroactive subsidy payment of \$79,298 to the company from the NCF for the above-noted period;
  - effective 1 January 2015, (a) modify the company's interim monthly subsidy amounts to \$9.57 per residential NAS for Band E and to \$30.87 per residential NAS for Band G, and (b) approve a retroactive subsidy payment to the company from the NCF from 1 January 2015 to the effective date of the Commission's decision; and
  - direct the Central Fund Administrator<sup>7</sup> to disburse the retroactive subsidy payment as a priority payment<sup>8</sup> and to adjust the distribution of Ontera's 2015 subsidy payment to reflect the revised interim amounts for 2015.
7. Ontera submitted that after Bell Aliant purchased both KMTS and DMTS, in 2008 and 2013 respectively, the Commission reflected the change in tax status from tax-exempt entities to tax-paying entities in its subsidy calculations for both entities.

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<sup>6</sup> A NAS is the line that provides subscribers with access to the telephone network.

<sup>7</sup> The Central Fund Administrator is an independent third party that collects contributions from telecommunications service providers and distributes subsidy payments to eligible recipients on behalf of the Commission.

<sup>8</sup> Pursuant to section 5.9 of the Commission's *Procedures for the Operation of the National Contribution Fund*, priority payments are designated disbursements made by the Central Fund Administrator from the NCF prior to the monthly subsidy payments made to ILECs other than the small ILECs and Northwestel Inc.

8. The Commission received no interventions with respect to Ontera's application. The public record for this proceeding, which closed on 1 May 2015, is available from the Commission's website at [www.crtc.gc.ca](http://www.crtc.gc.ca) or by using the file number provided above.

### **Commission's analysis and determinations**

9. Ontera's new status as a tax-paying entity is a material change that warrants an adjustment in the company's monthly subsidy per residential NAS amounts from the NCF. Approval of Ontera's request to adjust the company's subsidy amounts would be consistent with Decision 2001-756, which states that the subsidy amount for tax-paying entities should be based on costs that reflect the payment of income taxes.
10. Ontera's proposed changes to its monthly subsidy amounts and its requested retroactive payments are reasonable. Regarding Ontera's request to include a priority payment for the period of October to December 2014, the Commission has previously approved subsidy adjustment payments as priority payments.<sup>9</sup>
11. Accordingly, the Commission
- **approves** a subsidy adjustment of \$79,298 for Ontera for the period of 1 October 2014 to 31 December 2014 and **directs** the Central Fund Administrator to remit this amount to Ontera, as a priority payment, within **30 days** of the date of this decision;
  - **approves on an interim basis**, effective 1 January 2015, revised monthly subsidy amounts of \$9.57 per residential NAS for Band E and \$30.87 per residential NAS for Band G; and
  - **directs** the Central Fund Administrator to adjust the distribution of monthly subsidy for Ontera to reflect the revised interim subsidy per residential NAS amounts for 2015.

Secretary General

### **Related documents**

- *Bell Alliant Regional Communications, Limited Partnership – Application for a subsidy adjustment for the period 1 January 2002 to 31 December 2007*, Telecom Decision CRTC 2008-66, 23 July 2008
- *The Canadian revenue-based contribution regime*, Telecom Circular CRTC 2007-15, 8 June 2007
- *Regulatory framework for the small incumbent telephone companies*, Decision CRTC 2001-756, 14 December 2001

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<sup>9</sup> See Telecom Decision 2008-66.

- *Changes to the contribution regime*, Decision CRTC 2000-745, 30 November 2000