Telecom Decision CRTC 2005-43

Ottawa, 4 August 2005

Bell Canada's 2005 application to modify its service improvement plan

Reference: 8638-C12-72/02

*In this Decision, the Commission **approves** Bell Canada's 2005 application to modify its service improvement plan to include a new service criterion.*

1. The Commission received an application by Bell Canada, dated 1 June 2005, proposing to modify its service improvement plan (SIP). Bell Canada proposed to add a new service criterion to its SIP, such that the project for a locality would be implemented only if the capital cost for the project did not exceed $62,500 per actual customer wishing to obtain service (taker). Bell Canada's application was filed pursuant to Part VII of the *CRTC Telecommunications Rules of Procedure*.

2. On 13 June 2005, Bell Canada filed a letter in which it identified, among other things, the SIP localities that would be affected by its proposal.

3. The Commission received no comments regarding this application.

Background

4. In *Telephone service to high-cost serving areas*, Telecom Decision CRTC 99-16, 19 October 1999 (Decision 99-16), the Commission examined the level of telecommunications service in Canada and concluded that it was, in general, very high. The noted exceptions were the high-cost serving areas (HCSAs), which are generally found in remote, rural regions and in the Far North. The Commission noted that telephone service to these areas was generally more costly to provide and was often of lower quality than service in other regions.

5. The Commission determined that it was appropriate to define a basic service objective (BSO) to ensure that a basic level of telephone service would be available to the public throughout Canada.

6. In Decision 99-16, the Commission defined the BSO as comprising:

   (a) individual line local service with Touch-Tone dialling, provided by a digital switch with capability to connect via low-speed data transmission to the Internet at local rates;

(b) enhanced calling features, including access to emergency services, Voice Message Relay service, and privacy protection features [included in call management services (CMS)];

(c) access to operator and directory assistance services;

(d) access to the long distance network; and

(e) a copy of a current local telephone directory.

7. In order to implement these goals, the Commission directed all incumbent local exchange carriers (ILECs) to file SIPs for approval, or to demonstrate that the BSO had been and would continue to be achieved in their territories. The ILECs were directed to consult with stakeholders prior to preparing their SIPs.

8. In *Regulatory framework for second price cap period*, Telecom Decision CRTC 2002-34, 30 May 2002 (Decision 2002-34), the Commission addressed the implementation of Bell Canada's SIP. The Commission directed Bell Canada to commence rolling out its SIP in 2002. The Commission further directed Bell Canada to start a project in a locality if it met the following criteria: (a) the maximum average cost per premises was $25,000 using a 100 percent take rate, and (b) at least one customer requested service and was willing to contribute $1,000.

9. The Commission directed Bell Canada to start with those localities that had the highest demand. The Commission stated that Bell Canada could report new expenditures in the annual tracking report and request approval for those additional capital expenditures and funding at that time. The Commission directed Bell Canada to file tracking reports on 31 March of each year.

Bell Canada's application

10. Bell Canada noted that in Decision 2002-34, the Commission had approved the criteria for the implementation of a SIP project. Bell Canada proposed that an additional criterion be adopted, namely that the SIP for a locality be implemented only if the capital cost for a project did not exceed $62,500 per actual customer.

11. Bell Canada stated that since the issuance of Decision 2002-34, the actual take rates had been well below 100 percent, both for localities and for premises within localities. Bell Canada noted that in 2004, the locality take rate was 74 percent (i.e., in only 74 percent of localities which qualified for the SIP had at least one customer chosen to take service). Bell Canada further noted that the average premises take rate in those localities where at least one customer chose to take service was only 40 percent in 2004. Bell Canada submitted that the 2004 take rates were entirely consistent with those experienced throughout the three-year period of Bell Canada's SIP.

12. Bell Canada submitted that a further complication had arisen in that, while the premises take rate had historically averaged around 40 percent for localities that took service, for the localities remaining to be served there were many instances where the premises take rate in a particular locality was far below 40 percent. Bell Canada stated that given that the financial viability for all projects had been premised on the assumption of 100 percent take rates, the financial implications of substantially smaller take rates would be quite extreme.

13. Bell Canada noted that under the current SIP for 2005 and 2006, it had planned to extend service to an additional 1,226 qualifying localities and 10,207 qualifying premises, at a capital cost of $88 million. Bell Canada identified 69 projects in its existing SIP where the cost per actual customer would be equal to or greater than $62,500 as a result of the extremely low premises take rates in those localities.

14. Bell Canada stated that each of the localities in its SIP met the Commission's existing implementation criteria in that (a) the average cost per premises was $25,000 or less using a 100 percent take rate, and (b) at least one customer had requested service and was willing to contribute $1,000. Bell Canada submitted that due to the very small premises take rate to date in each of the 69 localities it had identified, the average cost per customer was significantly higher, reaching $1.8 million per customer in one case.

15. Bell Canada submitted that it would be unreasonable, in terms of cost, to proceed with the actual implementation of projects of this nature. Bell Canada argued that in establishing cost limitations in Decision 2002-34, the Commission clearly was of the view that service need not be provided to all premises under any circumstances and, furthermore, that projects should only be undertaken if costs were reasonable.

16. Bell Canada submitted that, in fact, in Decision 2002-34, the Commission had denied Bell Canada's plans to improve service in several small exchanges in order to meet the BSO, based on the estimated cost of such service extensions. Bell Canada submitted that after examining the cost of equipping the small exchanges, the total number of customers to be served, and the expected penetration rate within each exchange, the Commission had found several projects in Bell Canada's proposed SIP not to be reasonable due to the high cost and expected low penetration rate. Bell Canada submitted that the same factors were at issue with many of the remaining projects in Bell Canada's 2005 and 2006 SIP.

17. Moreover, Bell Canada submitted that the implementation of projects with excessively high costs per actual customer would be equally unreasonable in terms of public policy principles. Bell Canada stated that its SIP in non-HCSAs is ultimately funded by its deferral account. Bell Canada submitted that the balance in the deferral account would therefore be less if it implemented its SIP projects. Bell Canada submitted that, given the nature of the deferral account, the public interest must be weighed in terms of whether funds would be better allocated to certain SIP projects or, instead, to other projects to benefit residential customers which were, or could be, funded by the deferral account. Bell Canada submitted that, similarly, the balance in the National Contribution Fund was impacted by SIP projects, given that the Commission had directed the company to add its Phase II SIP costs for HCSAs to the costs that flow into its total subsidy requirement (TSR) calculation.

18. Bell Canada stated that, in order to provide a more reasonable balance between expected costs and the relative benefits to be derived from such expenditures, it proposed that a further criterion be added to its existing SIP implementation criteria as follows: (c) the capital cost does not exceed $62,500 per actual customer. Bell Canada defined an "actual customer" as a customer who has paid the $200 deposit to indicate that they wish to obtain service from the company. Bell Canada submitted that the proposed benchmark of $62,500 per actual customer was simply a refinement of the Commission's existing criterion of $25,000 per premise, which was based on a 100 percent take rate. Bell Canada submitted that the proposed benchmark of $62,500 per actual customer considered the historic premises take rate of 40 percent in the company's SIP.

19. Bell Canada submitted that with the addition of this third criterion, the public interest would be better served by ensuring that capital projects with unreasonable costs were not implemented.

Commission's analysis and determinations

20. The Commission notes Bell Canada's submission that the take rates would be very low in many SIP localities planned for 2005 and 2006 when compared to Bell Canada's historical take rate of 40 percent. Specifically, for the 69 localities identified by Bell Canada, the average take rate is 5 percent. The consequence of this very low take rate is that the cost per taker is substantially higher than anticipated by the Commission in coming to Decision 2002-34. Specifically, the evidence provided by Bell Canada indicated that the cost per taker in these localities would range from $69,100 to $1.8 million and average about $163,000 per taker.

21. The Commission is concerned that the costs per taker in these localities are well above the Commission's criterion of $25,000 assuming a 100 percent take rate set out in Decision 2002-34. The Commission further notes that there is a significant amount of capital that would be associated with providing local service in these localities, specifically $25.7 million. In the Commission's view, the evidence provided by Bell Canada demonstrates that it would be unreasonable to proceed with the implementation of such projects, in that it would result in an inefficient use of capital. Accordingly, the Commission is of the view that the inclusion of a third criterion of a maximum of $62,500 per taker is reasonable.

22. The Commission notes that Bell Canada's proposed criterion would result in $25.7 million in capital, 158 customers who have paid deposits, and 69 localities, or 2.4 percent of the total localities in the company's SIP,[1] being dropped from Bell Canada's SIP.

23. The Commission notes that customers dropped from the SIP may obtain telephone service from satellite service providers at prices comparable to the customer's $1,000 contribution amount in Bell Canada's SIP.

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[1] Bell Canada Tracking Report 31 March 2005, page 19.

24. In light of the above, the Commission **approves** Bell Canada's proposal to add a new service criterion to its SIP, such that the project for a locality would be implemented only if the capital cost for the project does not exceed $62,500 per actual customer. This change takes effect as of the date of this Decision. The Commission directs Bell Canada to issue revised tariff pages forthwith to reflect the change.

Secretary General