Canadian Radio-television and Telecommunications Commission
Conseil de la radiodiffusion et des télécommunications canadiennes

# Telecom Decision CRTC 2012-620

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Ottawa, 8 November 2012

## Téléphone Milot inc. – Implementation of local competition for Quebecor Media Inc. on behalf of its affiliate Videotron G.P.

File number: 8663-M4-201206061

*In this decision, the Commission approves, with some modifications, Milot's implementation plan for local competition, which was filed in response to a formal expression of interest from Videotron.*

### Introduction

1. The Commission received a local competition implementation plan, dated 18 May 2012, from Téléphone Milot inc. (Milot).[1] The plan was filed in response to a formal signed expression of interest from Quebecor Media Inc. on behalf of its affiliate Videotron G.P. (Videotron), which indicated that it wished to interconnect with Milot to provide local services as a competitive local exchange carrier (CLEC) in Milot's serving territory.[2]

2. In its implementation plan, Milot identified the services and network components that it planned to make available to Videotron. Milot also provided its estimated costs for implementing local competition and local number portability (LNP) [referred to jointly as local competition] in the affected exchanges.

3. In Telecom Decision 2006-14, the Commission, among other things, set out the framework for local competition implementation in the territories of the small incumbent local exchange carriers (ILECs), including directives that the small ILECs must follow when submitting their implementation plans.

4. The Commission reviewed this framework and determined, in Telecom Regulatory Policy 2011-291, that local competition should continue to be introduced in the territories of all the small ILECs based on the existing framework, subject to the modifications set out in that decision. In particular, the Commission established certain measures to help mitigate the financial impact on small ILECs of implementing local competition.

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[1] The plan submitted by Milot is an update to the local competition implementation plan approved in Telecom Decision 2012-40.

[2] The affected exchanges noted in Videotron's formal signed expression of interest are Kingsey-Falls, Saint-Albert, and Warwick (including Saint-Valère).

5. In Telecom Decision 2012-40, the Commission approved Milot's local competition implementation plan for Cogeco Cable Inc. (Cogeco), including start-up and ongoing costs related to local competition implementation in the exchanges targeted by Cogeco.[3]

6. The Commission received comments from Videotron. The public record of this proceeding, which closed on 10 July 2012, is available on the Commission's website at www.crtc.gc.ca under "Public Proceedings" or by using the file number provided above.

## Issues

7. The Commission notes that Milot and Videotron have generally agreed on most elements of the local competition implementation plan, but that issues related to costs and certain implementation matters remain.

8. The Commission has examined the following questions in considering whether to approve Milot's proposed local competition implementation plan:

    I. Are Milot's proposed costs for implementing local competition appropriate?

    II. What mechanisms are available to Milot to recover its local competition costs?

    III. What would be a reasonable time frame to complete the implementation of local competition in the affected exchanges?

## I. Are Milot's proposed costs for implementing local competition appropriate?

9. Milot proposed start-up and ongoing costs for the implementation of local competition within the affected exchanges, including costs related to customer service group and carrier service group (CSG)[4] functions, LNP access, consulting, maintenance, and system modifications. Over the five-year study period, Milot estimated that it would incur approximately $201,000 in start-up costs and an average of $70,000 per year in ongoing costs to implement local competition in the affected exchanges.[5]

10. Based on its review of Milot's proposed costs, the Commission has made adjustments to the following cost components: costs associated with CSG personnel (salaries, training, accommodation, and personnel equipment and related maintenance), as well as consulting fees. A summary of the company's proposals, the Commission's adjustments, and the rationale for these adjustments is set out in the Appendix to this decision.

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[3] These exchanges are Charette, Saint-Alexis-des-Monts, Saint-Barnabé, and Saint-Paulin.

[4] The CSG is functionally separate from a telecommunications company's retail operations. Its role is to liaise and coordinate with CLECs when conducting a variety of inter-carrier activities, primarily with respect to customer transfers.

[5] The costs proposed by Milot in this proceeding are additional costs that Milot expects to incur in order to implement local competition in the exchanges targeted by Videotron and do not include costs approved in Telecom Decision 2012-40 for the implementation of local competition for Cogeco.

11. Accordingly, the Commission **approves** $175,000 in start-up costs and $33,000 per year in ongoing costs for the implementation of local competition in the affected exchanges.[6]

## II. What mechanisms are available to Milot to recover its local competition costs?

12. Two regulatory mechanisms are available to Milot for the recovery of local competition implementation costs: the recovery of up to $2 per network access service (NAS)[7] per month of ongoing costs through the National Contribution Fund (NCF) and an exogenous adjustment.[8]

13. In Telecom Regulatory Policy 2011-291, the Commission concluded that the small ILECs that incur ongoing local competition costs will be permitted to lower the primary exchange service (PES) rate component used in calculating their subsidy by an amount equal to the lesser of the approved ongoing costs on a per-NAS, per-month basis or $2 per NAS per month.

14. The Commission notes that in Telecom Decision 2012-40, it had approved a $0.68 reduction in the PES rate component used to calculate the amount of Milot's subsidy. The Commission also notes that the ongoing costs of $33,000 per year that it has approved in this decision correspond to a reduction of $0.42 in the PES rate component on a per-NAS, per-month basis. Since the total amount of ongoing costs approved for Milot in Telecom Decision 2012-40 and in this decision is lower than the maximum amount of $2 per NAS per month established for recovery of ongoing costs associated with local competition, the Commission **approves** an additional reduction of $0.42 in Milot's PES rate component used to calculate the amount of its subsidy, effective the date that local competition is implemented for Videotron.

15. Regarding the company's $175,000 in start-up costs approved in this decision, the Commission notes that in Telecom Order 99-239, it considered that it was appropriate to permit the large ILECs to recover their local competition start-up and ongoing costs through the use of an exogenous adjustment.[9] The Commission also adopted this approach for other small ILECs in Telecom Decisions 2007-78 and 2007-93.[10]

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[6] Start-up costs are expressed in terms of the present worth of annual costs over the five-year study period, while ongoing annual costs are expressed as annual equivalent costs over the five-year study period.

[7] A NAS provides customers with access to the telephone network.

[8] Pursuant to Telecom Regulatory Policy 2011-291, the local competition and wireless number portability start-up costs of small ILECs with 3,000 or fewer total residential and business NAS, including those of all their affiliates and/or their parent company, are to be reimbursed by new competitors. Given that Milot serves more than 3,000 NAS, this cost recovery mechanism is not available to Milot.

[9] An exogenous adjustment, which could result in a rate increase, reflects the financial impact associated with events that are not captured by other elements of the price cap regime. Adjustments would be considered for events or initiatives that meet the following criteria:

a) they are legislative, judicial, or administrative actions beyond the control of the company;
b) they are addressed specifically to the telecommunications industry; and
c) they have a material impact on the company.

[10] In these decisions, the Commission determined that the affected small ILECs should be allowed to recover their start-up costs over a period of five years.

16. The Commission notes that an exogenous adjustment would give Milot the flexibility to increase rates in order to recover its local competition start-up costs. Therefore, the Commission **approves** an exogenous adjustment of $44,000 per year over a period of five years.[11]

17. Should Milot choose to take advantage of the exogenous adjustment by filing a tariff application to increase rates, its application should include a proposed cost recovery methodology that (i) complies with the regulatory framework and policies in place at the time of filing, and (ii) is consistent with previous decisions regarding the implementation of local competition for other small ILECs.[12]

## III. What would be a reasonable time frame to complete the implementation of local competition in the affected exchanges?

18. Milot proposed that local competition for Videotron be implemented 180 days following the date of publication of the Commission's decision, in accordance with the time period that the Commission approved in Telecom Decision 2012-40 for the implementation of local competition for Cogeco. Videotron indicated that the time period to allow it to provide its services in Milot's territory should be shorter because most of the elements needed to allow Cogeco to provide its services in Milot's territory will be in place, and the elements needed to allow Videotron to provide its services in Milot's territory are essentially the same as those for Cogeco.

19. The Commission notes that the local competition implementation plan filed in this proceeding for Videotron and the one approved by the Commission in Telecom Decision 2012-40 for Cogeco concern different exchanges. The Commission recognizes that similar elements must be put in place to allow Videotron and Cogeco to provide their services in exchanges that concern them in Milot's territory. However, the Commission notes that a number of activities, such as the installation of interconnection facilities and LNP software, as well as the conducting of tests, must be carried out by Milot to allow Videotron's entry into competition, and that these activities must be carried out independently from those already undertaken to implement local competition for Cogeco. The Commission also notes that the implementation of local competition for Cogeco has not yet been completed, and that Milot will have to share its resources in order to implement local competition for Cogeco and Videotron.

20. Given Milot's resources, the activities it must undertake to facilitate Cogeco's and Videotron's entry into competition, and the number portability guidelines set out by the CRTC Interconnection Steering Committee (CISC), the Commission determines

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[11] This amount represents Milot's start-up costs of $175,000 annualized over a period of five years.
[12] See Telecom Decisions 2007-78 and 2007-93.

that all steps required to allow for local competition for Videotron to be implemented in Milot's territory are to be completed by no later than **7 May 2013**, which will constitute the effective date of local competition implementation.[13]

## Conclusion

21. In light of the above,

    a) The Commission **approves** Milot's implementation plan as modified above;

    b) The Commission directs Milot to provide information and assistance to Videotron in the negotiation process, as required, in order to implement local competition as quickly as possible so that Videotron may begin operating in Milot's territory by no later than **7 May 2013**

    c) When implementing all aspects of local competition in the affected exchanges, including but not limited to technical and network interconnection, Milot is to abide by the industry consensus items outlined in the various CISC documents related to interconnection, as well as the existing rules as outlined in the various decisions, orders, and letters issued by the Commission pertaining to local competition.

## Compliance with the Policy Direction

22. The Commission considers that its approval of Milot's implementation plan for local competition, as modified above, allows customers in the affected exchanges to benefit from competition in the local services market by allowing them to choose from the services, options, and prices offered by different service providers. As a result, the Commission considers that its determinations in this decision will advance the policy objectives set out in paragraphs 7(*b*), 7(*f*), and 7(*h*) of the *Telecommunications Act*.[14]

23. The Commission also considers that its conclusions will allow customers in the affected exchanges to benefit from local competition within a reasonable period of time, while allowing Milot to complete the steps required to implement local competition without imposing an overly demanding schedule on the company.

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[13] This local competition implementation date reflects the 180-day timeline proposed by Milot and is consistent with the CISC guidelines for number portability.

[14] These objectives are the following:
7(*b*) to render reliable and affordable telecommunications services of high quality accessible to Canadians in both urban and rural areas in all regions of Canada;
7(*f*) to foster increased reliance on market forces for the provision of telecommunications services and to ensure that regulation, where required, is efficient and effective; and
7(*h*) to respond to the economic and social requirements of users of telecommunications services.

24. In light of the above, the Commission considers that its determinations are consistent with the Policy Direction[15] requirements that the Commission should (i) rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives; and (ii) when relying on regulation, use measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives.

Secretary General

## Related documents

- *Téléphone Milot inc. – Implementation of local competition for Cogeco Cable Inc.*, Telecom Decision CRTC 2012-40, 24 January 2012

- *Obligation to serve and other matters*, Telecom Regulatory Policy CRTC 2011-291, 3 May 2011, as amended by Telecom Regulatory Policy CRTC 2011-291-1, 12 May 2011

- *Implementation of local competition in NorthernTel, Limited Partnership's serving territory − ExaTEL Inc. and Ontera*, Telecom Decision CRTC 2007-93, 28 September 2007, as amended by Telecom Decision CRTC 2007-93-1, 1 November 2007

- *Implementation of local competition in TBayTel's serving territory – ExaTEL Inc. and Shaw Communications Inc*., Telecom Decision CRTC 2007-78, 31 August 2007

- *Revised regulatory framework for the small incumbent local exchange carriers*, Telecom Decision CRTC 2006-14, 29 March 2006

- *Local competition start-up costs proceeding, Telecom Public Notice CRTC 98-10*, Telecom Order CRTC 99-239, 12 March 1999

[15] *Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives*, P.C. 2006-1534, 14 December 2006

**Appendix**

**Summary of local competition implementation cost adjustments for Milot**

**1 - CSG (salaries)**

*Proposal*

Proposed ongoing CSG expenses based on estimate of number of full-time employees (FTEs) and labour unit costs.

*Commission adjustment*

The Commission does not recognize any additional expenses.

*Rationale for adjustment*

The Commission acknowledged, in the proceeding leading to Decision 2012-40 (the previous proceeding), salary costs for one resource equivalent to 0.75 FTE for Milot.

Given the size of Milot and the expected number of transfer applications to be processed by the company in its entire serving territory, the Commission considers that the resource identified in the previous proceeding was sufficient to process the transfer requests of additional customers.

**2 - CSG (personnel training)**

*Proposal*

Proposed initial one-time expenses for CSG personnel training based on number of days of training and third-party hourly training rate.

*Commission adjustment*

The Commission does not recognize any additional expenses.

*Rationale for adjustment*

Milot is able to carry out CSG duties with a resource equivalent to 0.75 FTE, and the Commission already approved the training costs for this FTE resource in the previous proceeding.

**3 – CSG (accommodation)**

*Proposal*

Proposed ongoing expenses for CSG office space.

*Commission adjustment*

The Commission does not recognize any additional expenses.

*Rationale for adjustment*

Milot is able to carry out CSG duties with a resource equivalent to 0.75 FTE, and the Commission already approved the accommodation costs for this FTE resource in the previous proceeding.

**4 – CSG (personnel equipment and related maintenance)**

*Proposal*

The company submitted recurring expenses for CSG personnel equipment and related maintenance.

*Commission adjustment*

The Commission does not recognize any additional expenses.

*Rationale for adjustment*

Milot is able to carry out CSG duties with a resource equivalent to 0.75 FTE and the Commission already approved the equipment and related maintenance costs for this FTE resource in the previous proceeding.

**5 – Consulting**

*Proposal*

Proposed consulting fees based on time estimates and labour unit costs.

*Commission adjustment*

The Commission has limited start-up consulting fees to a maximum amount of $10,000.

*Rationale for adjustment*

Milot did not provide a sufficient rationale for the estimated number of hours required for the plan’s preparation and implementation.

This plan is only an update of the plan approved in the previous proceeding, and Milot acquired experience in implementing Cogeco’s entry into local competition.