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

# Telecom Order CRTC 2018-338

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Ottawa, 31 August 2018

*Public record: Tariff Notices 923, 976, and 976A*

## Northwestel Inc. – Wholesale Connect service – Final rates

*The Commission **approves, on a final basis**, rates for Wholesale Connect service provided by Northwestel.*

### Background

1. Northwestel Inc.'s (Northwestel) Wholesale Connect service, introduced to 30 communities in the company's operating territory in March 2012, provides for the transport of telecommunications traffic across communities served by the company's fibre or high-capacity microwave radio transport links. The service, available at different bandwidth levels, is categorized into 4 distinct types of bands.[1] Competitors can use the Wholesale Connect service to connect their points of presence in those communities for the purpose of providing telecommunications services to their own end-users.

2. Northwestel filed Tariff Notice 923, dated 28 January 2015, in which the company proposed to introduce new speeds of 150 megabits per second (Mbps) and 200 Mbps in Type A and Breakout communities for its Wholesale Connect service. Northwestel also proposed to add 24 Type B and Type C communities to its Wholesale Connect service tariff; these communities were added as a result of transport upgrades completed under the company's Modernization Plan. The Commission approved Tariff Notice 923 on an interim basis in Telecom Order 2015-39, effective 27 February 2015.

3. On 12 May 2016, the Commission initiated a proceeding, through Telecom Notice of Consultation 2016-180, in which it set out to examine whether the rates for all of Northwestel's Wholesale Connect service speeds should be reviewed in light of Tariff Notice 923 and Telecom Decision 2016-117.[2]

4. The Telecom Notice of Consultation 2016-180 proceeding culminated with the issuance of Telecom Decision 2016-443 on 8 November 2016. In that decision, the Commission, among other things, directed Northwestel to file new tariff rates for each Wholesale Connect service

[1] Type A band consists of core communities served by fibre transport links (e.g. Whitehorse, Yukon, and Yellowknife, Northwest Territories). Type B band consists of communities connecting to Type A communities using fibre transport links (e.g. Fort Providence, Northwest Territories). Type C band consists of communities connecting to Type A communities using a combination of high-capacity microwave radio and fibre transport links (e.g. Dawson, Yukon). The Breakout band consists of communities outside of Northwestel's operating territory (currently only High Level, Alberta).

[2] In Telecom Decision 2016-117, the Commission revised the cost study assumptions used by the large incumbent local exchange carriers for their wholesale high-speed access services.

speed tier by community type. To support the new rates, the Commission also required Northwestel to file a revised cost study and use costing component assumptions consistent with Telecom Decision 2016-117.

5. Specifically, the Commission required that Northwestel

    - use a five-year study period starting 1 January 2017;
    - use a maximum switching equipment capacity of 10,000 Mbps;
    - express any unit costs from previous cost studies in 2017 dollars, using the annual capital unit cost change assumption set out in Telecom Decision 2016-443;
    - file an updated fibre cost factor (FCF)[3] based on the company's most recent five years of historical data and use this updated FCF in its revised cost study; and
    - with regard to the annual traffic growth assumptions and the annual capital unit cost change assumptions,
        - apply annual traffic growth rates per retail end-user that are consistent with historical levels for the first two years of the study period, then apply a constant growth rate of 32% for each of the remaining years of the study period; and
        - use minus 26.4% as the annual capital unit cost change assumption per Mbps for traffic-driven equipment and labour costs in the study period.

6. In Telecom Decision 2016-443, the Commission also made the following determinations regarding Northwestel's monthly Wholesale Connect service rates:

    - for the existing speeds of 100 Mbps and lower, by community type, the rates were made interim effective 8 November 2016; and
    - for the new speeds of 150 Mbps and 200 Mbps, for Type A and Breakout communities, the rates were to remain interim, effective 27 February 2015, as specified in Telecom Order 2015-39.

## Northwestel's 6 February 2017 applications

7. The Commission subsequently received two applications dated 6 February 2017 from Northwestel: a Part 1 application to review and vary certain determinations set out in Telecom Decision 2016-443 regarding the company's Wholesale Connect service, and Tariff Notice 976,[4] which reflected two rate proposals for Wholesale Connect service

[3] The FCF is used to estimate the transport fibre costs associated with a service. This approach relies on the ratio of fibre cable investments to the related fibre electronic investments. For example, an FCF of 0.25 means that for every $100 invested in fibre electronic equipment, $25 will be spent on fibre cable investment.
[4] Northwestel subsequently filed Tariff Notice 976A, dated 26 January 2018.

supported by cost studies. The two rate proposals in Tariff Notice 976 were referred to as Scenario A and Scenario B, where Scenario A reflected Northwestel's proposed rates based on its review and vary application, and Scenario B reflected Northwestel's proposed rates based on the Commission's directives set out in Telecom Decision 2016-443.

8. In Tariff Notice 976, Northwestel proposed revisions to its Wholesale Connect service rates,[5] with an effective date of 1 March 2017. Specifically, the company proposed

    - under Scenarios A and B outlined above, revised rates for all Wholesale Connect service speeds, for all community types, to reflect the costs established in an updated cost study;

    - the introduction of new speeds of 300 Mbps and 400 Mbps in Type A and Breakout communities; and

    - that Dawson City, Yukon, be reclassified as a Type B community (it is currently classified as a Type C community).

9. The Commission approved the rates from Scenario B on an interim basis in Telecom Order 2017-118 and denied Northwestel's application to review and vary Telecom Decision 2016-443 in Telecom Decision 2017-287.

10. In Tariff Notice 976A, Northwestel proposed (i) revised rates for all Breakout community speed tiers, and (ii) a new rate element referred to as a "per-customer recurring charge (monthly)"[6] for its Wholesale Connect service. Northwestel requested that the Commission approve the rates it proposed in Tariff Notice 976A and that they take effect when the Commission issues its determinations on Tariff Notice 976.

11. The Commission received interventions regarding Tariff Notice 976 from ArcTech Computers Inc., Iristel Technologies Inc. (Iristel), and SSi Micro Ltd. (SSi). No interventions were received pertaining to Tariff Notice 976A.

## Issues

12. The Commission has identified the following issues to be addressed in this order:

    - In the estimation of the FCF, is it appropriate to restate historical fibre electronics capital expenditures to 2017 dollar values using an annual capital unit cost change assumption of minus 26.4%?

    - In the estimation of Internet Protocol (IP) core router costs, is it reasonable to assume that 24 devices are required to deliver end-to-end Wholesale Connect service traffic?

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[5] See item 300 – Wholesale Connect Service in the company's Access Services Tariff.

[6] Northwestel introduced the per-customer recurring charge (monthly) for its Wholesale Connect service to recover its sales management, product management, and billing costs.

- Are the estimated sales management, product management, and billing costs reasonable?

- Is the markup on leased third-party fibre facilities appropriate?

- Is it appropriate for Northwestel to use a variable common cost factor (VCCF) to estimate variable common expenses?

- Should Dawson City be reclassified from a Type C community to a Type B community?

- Should Northwestel's Wholesale Connect service final rates be applied retroactively? If so, to what date?

## In the estimation of the FCF, is it appropriate to restate historical fibre electronics capital expenditures to 2017 dollar values using an annual capital unit cost change assumption of minus 26.4%?

### Positions of parties

13. In the proceeding leading to Telecom Regulatory Policy 2013-711, Northwestel estimated its FCF based on five years of actual historical expenditures (i.e. from 2008 to 2012), without restating historical expenditures to current-year dollars. However, in Tariff Notice 976, Northwestel updated its FCF using the average of the most recent five years of available data (i.e. from 2011 to 2015) expressed in current-year dollars (i.e. 2017 dollars). For the costs included in both the numerator and the denominator of the FCF, Northwestel proposed to restate its expenditures to 2017 dollars on the basis that capital increase factors (CIFs)[7] for fibre-optic cable and fibre electronics capital expenditures vary significantly. Northwestel proposed to adopt this methodology to estimate the FCF to account for the significant difference between the proposed CIFs of fibre-optic cable and fibre electronics capital expenditures.

14. Northwestel submitted that this methodology of restating historical expenditures is consistent with the methodology set out in the Regulatory Economic Studies Manuals (the Manuals) of the incumbent local exchange carriers (ILECs). The Manuals indicate that it is appropriate to restate historical capital expenditures to current-year capital expenditures using an inflation factor such as a CIF in order to develop the cost factors that are used in the ILECs' economic studies, including the FCFs. Northwestel submitted that in the formula to calculate the FCF in Appendix K of MTS Inc.'s[8] Manual, a CIF is used to restate historical capital expenditures into current-year capital expenditures to calculate this factor.

[7] CIFs are parameters that are applied to capital costs to forecast year-over-year price level changes for capital equipment.

[8] In March 2017, BCE Inc. completed its acquisition of MTS Inc., which is now operating as Bell MTS, a division of Bell Canada.

Northwestel further submitted that Bell Canada's Manual also states that to calculate the capital cost factor, historical costs must be expressed in current-year costs.

15. In Tariff Notice 976, Northwestel assumed a 2% CIF for fibre-optic cable and a minus 26.4% annual capital unit cost change for fibre electronics in arriving at its proposed FCF of 3.34.

16. With respect to Northwestel's use of a minus 26.4% annual capital unit cost change for Wholesale Connect service, the company submitted that this is consistent with the Commission's determinations in Telecom Regulatory Policy 2011-703. Further, the minus 26.4% is a CIF and is even more representative than the corporate average CIFs used by the ILECs. Northwestel argued that as such, if CIFs other than minus 26.4% were used to calculate the FCF, those CIFs should be applied to the restatement of other traffic-driven installed first costs (IFCs) and the structure cost factors study.

17. Iristel submitted that, contrary to Northwestel's claim, the annual capital unit cost change of minus 26.4% used to restate fibre electronics capital expenditures is not methodologically consistent with the CIF used to restate fibre-optic cable capital expenditures. The annual capital unit cost change of minus 26.4% is applied to the unit cost of fibre electronics and is expressed in dollars per Mbps. This change incorporates not only the impact of reduced supplier and installation costs but also the impact of increased equipment capacity as expressed in Mbps. The FCF calculation requires the use of a CIF for transmission equipment (i.e. both fibre-optic cable and fibre electronics) that incorporates the transmission cost change as opposed to a unit cost change per volume as proposed by Northwestel.

18. Iristel proposed that since the actual fibre transmission and fibre cable investment expenditures from 2011 to 2015 are in fact historical investment dollars, the use of the company's cost of capital in the restatement of actual 2011 to 2015 annual capital expenditures to 2017 dollar values would also constitute an appropriate approach that does not create distortion caused by asset-specific CIFs in the calculation of the FCF ratio.[9]

19. Iristel also proposed that, in the absence of a company-specific CIF for fibre electronics, Northwestel could use Bell Canada's CIF (i.e. minus 9%).

20. In response to using the company's cost of capital to restate historical capital expenditures to 2017 dollars, Northwestel submitted that this would not be appropriate because the company's cost of capital measures the opportunity cost of an investment and not a change in price, whereas CIFs recognize the annual price changes to specific types of equipment.

21. In response to using a minus 9% CIF to restate historical capital expenditures to 2017 dollars, Northwestel submitted that if minus 9% is to be applied to restate fibre electronic capital expenditures to 2017 dollars in the FCF calculation, it would be appropriate to use

[9] In response to a Commission staff request for information during the Tariff Notice 976 proceeding, Northwestel estimated the FCF to be 1.13 using its cost of capital to express actual 2011 to 2015 annual capital expenditures in 2017 dollars.

the same minus 9% CIF when restating 2012 fibre electronics IFCs to 2017 dollars in the cost study. Northwestel added that in any event, Iristel's argument is moot since, in Telecom Decision 2016-443, the Commission mandated that a minus 26.4% annual capital unit cost change be applied to traffic-driven equipment such as fibre electronics when restating historical capital expenditures to 2017 dollar values. Northwestel submitted that Iristel's approaches with respect to the FCF calculation should be disregarded and that the Commission should accept its FCF calculation that is based on industry best practices.

22. Northwestel submitted that if an FCF of 3.34 is discarded for a much lower FCF (calculated using a methodology that is out-of-step with normal practice), this would result in

    - inappropriate rates for Wholesale Connect service, and potentially other services;
    - a significant impact on Northwestel's fibre-optic investment decisions since it is still building out its fibre network; and
    - a reconsideration of future investments in transport fibre cable since the expectation of lower future revenues from services that use that fibre would hinder the possibility of seeing any successful business cases for future fibre-based transport builds.

**Commission's analysis and determinations**

23. In the methodology Northwestel used in the proceeding leading to Telecom Regulatory Policy 2013-711, the company did not restate historical expenditures used to estimate the FCF in current-year dollars. However, in its current application, Northwestel is proposing to restate historical expenditures used to estimate the FCF in current-year dollars using the formula set out in Appendix K of MTS Inc.'s Manual as follows:

    - restate its historical fibre-optic cable capital expenditures to 2017 dollar values using its proposed CIF of 2%, which reflects only year-over-year price level changes for capital equipment; and
    - restate its historical fibre electronics capital expenditures to 2017 dollar values using the proposed minus 26.4% annual capital unit cost change.

24. The Commission considers that Northwestel's proposed methodology of using an annual capital unit cost change to restate historical fibre electronics capital expenditures is not methodologically consistent with using a CIF to restate historical fibre-optic cable capital expenditures. The FCF calculation requires the use of a CIF for both fibre-optic cable and fibre electronics capital expenditures that incorporates year-over-year price level changes, as opposed to using a CIF for fibre-optic cable capital expenditures and an annual capital unit cost change for fibre electronics capital expenditures as proposed by Northwestel.

25. The Commission considers that an annual capital unit cost change is not the same as a CIF for the following reasons:

    - The annual capital unit cost change takes into consideration (i) the historical changes in Internet-related capital unit costs and the suppliers' ability to meet rising demand

by increasing equipment capacity at a lower cost per unit due to technological advancements, and (ii) the rapid growth in Internet traffic and Internet applications. Suppliers will further increase equipment capacity to meet increasing traffic demand, leading to further significant reductions in capital unit costs over time.

- Since the annual capital unit cost change reflects both the impact of a lower unit cost per unit (as a result of increased equipment capacity) and the impact of price level changes, the annual capital unit cost change cannot be considered to be equivalent to a CIF that reflects only year-over-year price level changes.

26. Further, the Commission considers that the use of a minus 26.4% annual capital unit cost change to restate historical fibre electronics capital expenditures to 2017 dollar values is not consistent with the Commission's determinations in Telecom Decision 2016-443.

27. In light of the above, the Commission considers that it is inappropriate for Northwestel to use a minus 26.4% annual capital unit cost change to restate historical fibre electronics capital expenditures to 2017 dollars in the estimation of the FCF.

28. However, the Commission is of the view that it would be appropriate for Northwestel to use a CIF that reflects year-over-year price level changes for fibre electronics capital equipment to restate historical fibre electronics capital expenditures to 2017 dollars in the estimation of the FCF, which is consistent with the methodology and formulas provided in Appendix K of MTS Inc.'s Manual.

29. In this context, the Commission requested that Northwestel provide a CIF that reflects year-over-year price level changes for fibre electronics capital equipment and that is comparable and consistent with the CIF used to restate fibre-optic cable capital expenditures. However, Northwestel did not provide this information.

30. In the absence of such specific data, the Commission determines that it would be reasonable to estimate the FCF using the methodology that Northwestel used in the proceeding leading to Telecom Regulatory Policy 2013-711. In that methodology, Northwestel did not require CIFs for fibre-optic cable and fibre electronics capital expenditures since it did not restate historical capital expenditures to current-year dollars. Applying this methodology results in the FCF reducing from 3.34 to 1.05.

31. In light of the above, the Commission determines that the appropriate FCF for Northwestel to use in this case is 1.05.

## In the estimation of IP core router costs, is it reasonable to assume that 24 devices are required to deliver end-to-end Wholesale Connect service traffic?

### Positions of parties

32. Northwestel assumed the following in its estimation of IP core router costs ($/Mbps):

- The costs of various devices (such as routers and distribution switches) are based on 2012 supplier prices and a maximum capacity of 10,000 Mbps. The 2012 unit costs

were restated to 2017 dollars using a minus 26.4% annual capital unit cost change, consistent with Telecom Decision 2016-443.

- 24 individual devices (such as routers and switches) are used to deliver end-to-end traffic for Wholesale Connect service.

33. Iristel voiced a number of concerns with respect to Northwestel's costing approach, as set out below:

    - Northwestel used an aggregate capacity of 10,000 Mbps instead of a maximum switching capacity of 10,000 Mbps, as the Commission determined in Telecom Decision 2016-443.

    - Northwestel applied an adjustment to the IP core network for redundancy and bidirectional traffic, which results in reducing the maximum capacity of the IP core network.

    - Northwestel's IP core network is configured such that traffic is always routed through all of the 24 devices all the time before being delivered to its final destinations.

    - Northwestel's network is engineered to provide primary path routing as well as secondary and tertiary path routing in the event of network congestion or failures on the primary path to a Wholesale Connect service customer location. Delivery over the secondary paths occurs only when there is network congestion or failures on the primary path.

34. In reply, Northwestel provided an example of how it estimated its IP core router costs. In the example, Northwestel assumed that to deliver traffic to a point of presence in Yellowknife or Whitehorse, the Wholesale Connect service traffic has to go through 6 or 7 devices, respectively. As part of its example, Northwestel provided the names of the locations of the devices and submitted that, on average, 6.5 devices are used to deliver end-to-end traffic for Wholesale Connect service; and used a redundancy factor of 2.

### Commission's analysis and determinations

35. With respect to Iristel's concern that Northwestel used an aggregate capacity of 10,000 Mbps in its costing approach instead of a maximum switching capacity of 10,000 Mbps, the Commission determines that Northwestel has appropriately used a maximum switching capacity of 10,000 Mbps.

36. The Commission notes that Northwestel, in estimating its IP switching costs, assumed that 24 devices are required to deliver end-to-end traffic for Wholesale Connect service. However, in Northwestel's example, the company assumed that, on average, 13 devices (i.e. 6.5 devices and a redundancy factor of 2) are required to deliver end-to-end traffic for its Wholesale Connect service.

37. The Commission considers that the use of 13 devices is appropriate in estimating Northwestel's IP switching costs, since 13 devices represents an average number of devices

that are used to deliver end-to-end Wholesale Connect service traffic, whereas 24 devices represents the total number of devices that are available for use by other services. Accordingly, the Commission has revised Northwestel's IP core router costs to reflect that, on average, 13 devices are used to deliver end-to-end traffic for the Wholesale Connect service.

## Are the estimated sales management, product management, and billing costs reasonable?

### Positions of parties

38. Northwestel's sales management and product management costs capture the cost of the activities of the sales and product management personnel who interface with wholesale customers. Billing costs comprise the costs for creating new bandwidth rate elements and changing the existing rates in the billing system.

39. Northwestel submitted that its estimated sales management and product management costs are based on its time estimates for the activities performed. Northwestel provided the list of activities and the associated occurrence rate and time estimates used to develop its cost estimates, and originally proposed to recover these costs, as well as its projected billing costs, on a per-circuit basis. In Northwestel's original proposal, it estimated its per-circuit charge per month to be $637.

40. To address the concerns raised concerning the possible over-recovery of Northwestel's sales management, product management, and billing costs, Northwestel filed Tariff Notice 976A. In that tariff notice, the company proposed to recover these costs through a separate monthly recurring charge per customer of $637 for Wholesale Connect service, instead of recovering these costs on a per-circuit basis.

### Commission's analysis and determinations

41. With respect to Northwestel's revised proposal to recover its sales management, product management, and billing costs by way of a separate monthly recurring charge per customer, the Commission finds this approach to be reasonable since it is applied on a per-customer basis; thus, it will not result in an over-recovery of these costs.

42. Based on its review of the evidence presented in this proceeding, the Commission considers that the billing cost component of Northwestel's proposed separate monthly recurring charge per customer is reasonable.

43. In estimating its sales management and product management costs, Northwestel included time estimates for 18 activities. The time estimates were based on interviews and were not supported by empirical evidence, such as measured data or time and motion studies. Rather, they were based on Northwestel's experience with similar types of wholesale services.

44. The Commission considers that Northwestel's time estimates are reasonable, with the following exceptions:

    - Northwestel included time estimates for review of monthly customer reports and network planning review with CSE and engineering under both sales management and product management activities. The Commission considers that given the size of the company's Wholesale Connect service, it is not reasonable to assume that both sales management and product management personnel conduct similar activities. Accordingly, the Commission **denies** the time estimates provided for reviews of monthly customer report and network planning with CSE and engineering under the sales management activity.

    - Northwestel provided time estimates for its service level agreement (SLA) review and calculation activity, and also provided separate time estimates for its issue credit activity. The Commission considers that the time estimate provided for the SLA review and calculation activity should include the time estimate for issuing credits. Accordingly, the Commission **denies** Northwestel's separate time estimate for the issue credit activity.

    - Northwestel provided time estimates for its monthly review of reports activity, and provided separate time estimates for its annual budget forecast activity, quarterly budget forecast activity, and monthly revenue variance analysis activity (the budget forecast activities). The Commission considers that the time estimate provided for the company's monthly review of reports activity should include budget forecast activities. Accordingly, the Commission **denies** the separate time estimates for the company's budget forecast activities.

    - Northwestel provided time estimates for customer review and discussion with customers under the sales management activity. The Commission considers that these time estimates are not reasonable in light of the company's time estimates for other activities (such as contract changes and local access facilities upgrade requests) that allow for interaction with customers. Accordingly, the Commission **denies** the time estimates provided for customer review and discussion under the sales management activity.

45. In light of the above, the Commission **approves** a revised monthly recurring charge per customer of $385 to recover Northwestel's sales, product management, and billing costs.

## Is the markup on leased third-party fibre facilities appropriate?

### Positions of parties

46. Iristel submitted that Northwestel should apply a markup of 30% on leased third-party fibre facilities acquired from the Mackenzie Valley Fibre Link (MVFL) instead of a 40% markup as proposed by Northwestel. Iristel argued that the markup that the Commission allowed Northwestel in Telecom Regulatory Policy 2013-711, i.e. 40%, was 10% higher than it would have been in order to take into account the additional risk associated with the

construction of fibre facilities in Northwestel's operating territory. Iristel submitted that the fibre facilities that are leased from the MVFL do not face any risk associated with fibre investment.

47. Iristel also requested disclosure of the markup in MVFL rates since it may include an affiliate markup that flows back to Northwestel.

48. Northwestel submitted that it is buying service from a third party and not from an affiliate; hence, no disclosure is required.

49. Northwestel further submitted that the MVFL fibre facility rates are set by the Government of the Northwest Territories (GNWT), the sole owner of the MVFL. Northwestel clarified that it and the Ledcor Group of Companies are partners in Northern Lights General Partnership, which operates the MVFL network on behalf of the GNWT.

### Commission's analysis and determinations

50. Since Northwestel has submitted that it is leasing fibre facilities from a third party that is not an affiliate of the company, the level of markup included in third-party fibre costs is not relevant.

51. With respect to Iristel's request that a 30% markup be applied on leased third-party fibre facilities instead of 40%, the Commission notes that, in a cost study, the same markup is applied to all components of Wholesale Connect service costs, and not applied selectively on cost components depending on their type and nature. Since a 40% markup has been allowed for Wholesale Connect service, it is reasonable to apply this markup on all of Northwestel's costs.

52. In light of the above, the Commission determines that the markup applied by Northwestel on its leased MVFL fibre facilities costs is appropriate.

## Is it appropriate for Northwestel to use a VCCF to estimate variable common expenses?

### Positions of parties

53. Iristel indicated that a VCCF is generally not used in cost studies, and requested that the Commission verify that the VCCF of 3.63% used by Northwestel is appropriate.

54. Northwestel acknowledged that the Commission determined in Telecom Decision 2008-14 that the large ILECs and cable carriers were no longer required to use the VCCF to estimate variable common expense. However, the company argued that given that Telecom Decision 2008-14 does not apply to it, the use of a VCCF to estimate its variable common costs is appropriate.

### Commission's analysis and determinations

55. As noted above, Northwestel was not a party in the proceeding leading to Telecom Decision 2008-14; thus, the Commission's determinations set out in that decision do not apply to it.

56. In the circumstances, the Commission considers it appropriate for Northwestel to use a VCCF to estimate its variable common expenses.

## Should Dawson City be reclassified from a Type C community to a Type B community?

### Positions of parties

57. Northwestel proposed to upgrade Dawson City from a Type C community to a Type B community, since the company's transport network to Dawson City has been upgraded to fibre from microwave radio as part of the company's Modernization Plan.

### Commission's analysis and determination

58. The Commission determines that it is appropriate to reclassify Dawson City from a Type C community to a Type B community on the basis that the company's transport facilities have been upgraded from microwave radio to fibre.

## Should Northwestel's Wholesale Connect service final rates be applied retroactively? If so, to what date?

### Positions of parties

59. Northwestel proposed that the final rates should be retroactive to 1 January 2017 (i.e. the start date of the company's cost study) instead of the dates the rates were made interim in Telecom Decision 2016-443 for the following reasons:

    - With respect to all speeds 100 Mbps and lower, by community type, it would not be reasonable to make the rates retroactive to 8 November 2016 without taking unrecovered costs into consideration.

    - With respect to the 150 Mbps and 200 Mbps speeds, for Type A communities and Breakout communities, since new methodologies (e.g. the application of a minus 26.4% annual capital unit cost change) were required to be incorporated into the revised cost studies and the rates took effect in May 2016 (i.e. subsequent to the filing of Northwestel's proposed 150 Mbps and 200 Mbps speed rates), it would not be reasonable to make the rates retroactive to 27 February 2015.

### Commission's analysis and determinations

60. The Commission considers that Northwestel's rationale for not making rates retroactive to the date they were made interim (i.e. 8 November 2016 for all speeds 100 Mbps and lower by community type, and 27 February 2015 for the 150 Mbps and 200 Mbps speeds, for Type A and Breakout communities) is reasonable.

61. However, the Commission considers that the retroactive date of 1 January 2017 proposed by Northwestel is not appropriate because the Wholesale Connect service rates were not made interim on that date. Generally, retroactivity applies to the date on which the rates are made interim.

62. The Commission made Northwestel's Wholesale Connect service rates for all speed tiers interim on 27 April 2017, as set out in Telecom Order 2017-118. Accordingly, the Commission determines that it is appropriate to apply retroactivity for the period from 27 April 2017 to the date of this order.

## Conclusion

63. In light of all the above, the Commission **approves on a final basis**[10] Northwestel's Tariff Notices 976 and 976A, with the amendments detailed above. The approved rates for the company's Wholeasale Connect service, set out in the Appendix to this order, are effective **27 April 2017**. Northwestel is to issue revised tariff pages[11] within **10 days** of the date of this order.

64. As a result of the Commission's determinations set out above, Tariff Notice 923 is now closed.

Secretary General

## Related documents

- *Northwestel Inc. – Application to review and vary certain determinations in Telecom Decision 2016-443 regarding Wholesale Connect service,* Telecom Decision CRTC 2017-287, 17 August 2017
- *Review of the rates for Northwestel Inc.'s Wholesale Connect service,* Telecom Decision CRTC 2016-443, 8 November 2016
- *Review of the rates for Northwestel Inc.'s Wholesale Connect service,* Telecom Notice of Consultation CRTC 2016-180, 12 May 2016
- *Review of costing inputs and the application process for wholesale high-speed access services,* Telecom Decision CRTC 2016-117, 31 March 2016
- *Northwestel Inc. – Interim approval of a tariff application*, Telecom Order CRTC 2015-39, 11 February 2015
- *Northwestel Inc. – Regulatory Framework, Modernization Plan, and related matters*, Telecom Regulatory Policy CRTC 2013-711, 18 December 2013

[10] The approved rates are for all of Northwestel's speed tiers, for all community types.

[11] Revised tariff pages can be submitted to the Commission without a description page or a request for approval; a tariff application is not required.

- *Billing practices for wholesale residential high-speed access services*, Telecom Regulatory Policy CRTC 2011-703, 15 November 2011; as amended by Telecom Regulatory Policy CRTC 2011-703-1, 22 December 2011

- *Review of certain Phase II costing issues*, Telecom Decision CRTC 2008-14, 21 February 2008; as amended by Telecom Decision CRTC 2008-14-1, 11 April 2008

# Appendix to Telecom Order CRTC 2018-338

## Wholesale Connect service – Approved monthly rates

| Bandwidth (Mbps) | Type A | Type B | Type C | Breakout | Per customer (monthly) |
|---|---|---|---|---|---|
| 5 | n/a | $788 | $1,867 | n/a | |
| 10 | $810 | $851 | $3,077 | $917 | |
| 20 | $885 | $1,113 | $5,700 | $1,036 | |
| 30 | $961 | $1,240 | $8,120 | $1,155 | |
| 40 | $1,036 | $1,366 | $10,540 | $1,275 | |
| 50 | $1,111 | $1,493 | $12,960 | $1,394 | |
| 60 | $1,187 | $1,620 | n/a | $1,514 | $385 |
| 80 | $1,337 | $1,873 | n/a | $1,752 | |
| 100 | $1,488 | $2,126 | n/a | $1,991 | |
| 150 | $1,864 | n/a | n/a | $2,588 | |
| 200 | $2,240 | n/a | n/a | $3,186 | |
| 300 | $2,993 | n/a | n/a | $4,380 | |
| 400 | $3,746 | n/a | n/a | $5,574 | |