Bell Aliant Bell

Abridged

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2013 04 29

To: Mr. John Traversy
Secretary General
Canadian Radio-television and
Telecommunications Commission
Ottawa, Ontario
K1A 0N2

Subject: **Associated with Bell Aliant Atlantic Tariff Notice 449, Bell Aliant Central Tariff Notice 440 and Bell Canada Tariff Notice 7386 – Reply Comments**

Dear Mr. Traversy,

1. Bell Aliant Regional Communications, Limited Partnership (Bell Aliant) and Bell Canada (collectively, the Companies or Bell) are in receipt of comments which address the above-referenced Tariff Notices (TNs) related to the Companies' General Tariffs (GTs) – Item 5410, Gateway Access Service (GAS) applicable in the Companies' operating territories in Ontario and Québec as well as GT – Item 626 ADSL Access Service and Item 640 – ADSL Access Service FTTN that apply in Bell Aliant's Atlantic region. In these TNs, the Companies proposed updates to the rates for their wholesale Aggregated High Speed Service Provider Interfaces (AHSSPIs) pursuant to Telecom Notice of Consultation CRTC 2013-80, *Review of outstanding wholesale high-speed access service issues related to interface rates, optional upstream speed rates, and modem certification* requirements dated 21 February 2013. Comments on the Companies' rate proposals and the supporting cost studies were filed by the Canadian Network Operators Consortium Inc. (CNOC), MTS Inc. (MTS) and Allstream Inc. (collectively, MTS Allstream), Primus, and Vaxination Informatique (Vaxination) in letters dated 22 April 2013. In addition, Vaxination and CNOC filed initial comments addressing the same TNs in letters dated 16 April 2013. Pursuant to the direction set out by Commission staff in a letter dated 22 April 2013, this represents the Companies' reply to these comments.

2. The key issues raised in the intervener comments relate to the following:

a. the definition of the AHSSPI service offered by Bell Canada and Bell Aliant in their Ontario and Québec serving areas, which according to some interveners is not clear;
b. inconsistencies and differences in the costs that were filed by Bell Canada, Bell Aliant and Telus Communications Company (TCC) in support of their proposed rates;
c. concerns over the fact that the Bell Canada and Bell Aliant costs for the services at issue in their Ontario and Québec serving areas and hence the proposed rates for those

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services are significantly higher than the costs, and the associated rates, filed by the ILECs for other serving areas or rates that have already been approved by the Commission; and, in general, the lack of supporting information that justifies the costs differences, and cost inclusions; and

d. concerns over the magnitude of certain costs that Bell Aliant filed for the AHSSPI services it offers in its Atlantic region.

3. Another issue which MTS Allstream raised is that Bell Canada only filed proposed rates for its IP AHSSPI service while, in its view, Bell Canada should have also filed updated rates and supporting cost studies for its legacy AHSSPI service.

4. The Companies address these comments below and provide further detail on their cost inclusions which demonstrate that in light of the activities that must be undertaken to provide the services at issue, the inclusion of costs for those activities in the Companies' cost studies is fully justified, as is the magnitude of those costs. The Companies note that they are not in a position to comment on the activities that TCC has to undertake to provide the interface to its wholesale high-speed Internet access services (i.e., its Wholesale ADSL Internet NNI service), nor on the magnitude of the specific expense and capital costs that TCC has included in its cost study for that service. As a result, the Companies are not in a position to offer explanations for the differences in the costs for the service at issue between TCC and the Companies. Similarly, since the Companies do not have any knowledge of the various inputs and assumptions that MTS Allstream used in the cost study it filed in support of its proposed interface rate, nor of the specific adjustments the Commission made to the filed costs in order to develop the approved rates for MTS Allstream, the Companies are also not in a position to compare their costs to those of MTS Allstream in a meaningful manner, and reconcile the differences between those costs.

5. The remainder of this submission provides the Companies' detailed reply to the specific concerns raised by interveners.

The Companies' Response to the Specific Issues Raised by the Interveners

A. AHSSPI SERVICE DEFINITION

6. In their comments, Vaxination, CNOC and Primus question the Companies' definition of the AHSSPI service or seek clarification of the definition of AHSSPI, suggesting that it is impossible for interveners to provide meaningful comments on the Companies' costs and more importantly, impossible for the Commission to ensure that double billing does not occur as a result of one or more components costed in both AHSSPI and the Capacity-Based Billing (CBB) portions of the service.[1]

7. MTS Allstream also addresses the service definition and notes that the aggregation of end-user traffic is part of the CBB component and therefore Bell's AHSSPI is only a port, and the associated cost should not include any costs associated with usage or aggregation.

8. MTS Allstream states that it shares Vaxination's concern expressed in its 16 April 2013 letter to the Commission regarding Bell's study that by continuing to rely on the service definition Bell has given, Bell may be double counting some of its cost components or recovering non-recurring initial set up costs through the monthly rates, which results in a mismatch between the nature of the costs and their recovery.

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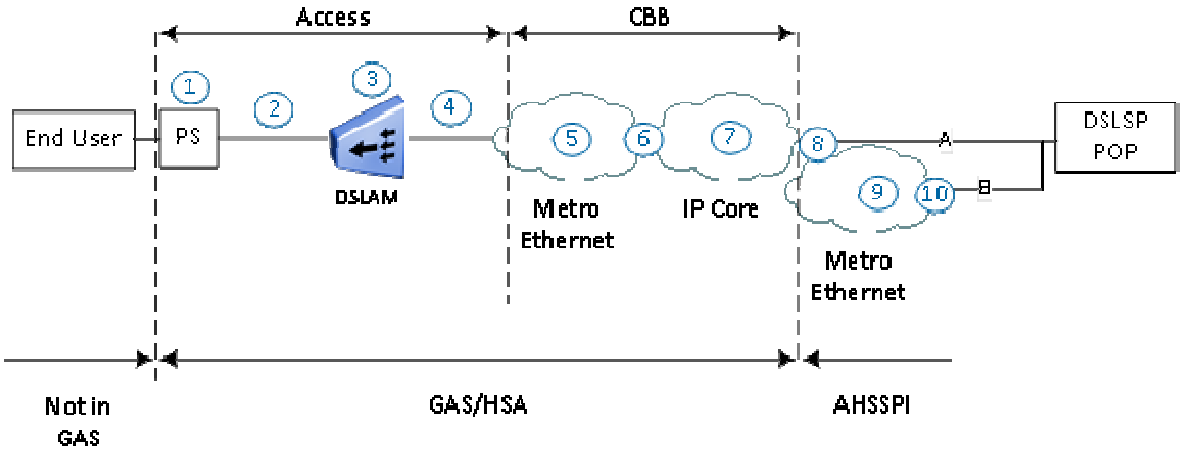
[1] See, for example, Vaxination, 16 April 2013 letter, *Re: TNC 2013-80 Bell Canada's cost study for AHSSPI CRTC File: 8661-C12-201303487*, paragraph 5. Similar concerns are expressed by Vaxination in its 22 April 2013 comments on the Companies' TNs at issue as well.

Response

9. In response to the concerns expressed by parties with respect to the lack of clarity of the AHSSPI service definition and the suggestions made by some that the Companies have therefore double counted costs, the Companies are providing the following diagram that clearly shows the demarcation points and equipment inclusions for each of the three elements of their GAS tariff applicable in their Ontario and Québec serving areas, namely Access, CBB and AHSSPI. As will be explained further below, there is no overlap between the three elements from an equipment perspective and no double counting of costs in the Companies' cost studies for each of these three elements, nor between the GAS tariffs and Ethernet Access Service.



No.	Equipment	Description
1	POTS Splitter (PS)	Separates voice and DSL traffic at the customer location close to the Network Interface Device (NID).
2	Copper Facilities	Provides the metallic connectivity between the Digital Subscriber Line Access Multiplexer (DSLAM) and the customer premises. The copper cost is recovered through the rates for exchange access services, loops and dry loops and is not included in the GAS tariffs.
3	Digital Subscriber Loop Access Multiplexer (DSLAM)	Provides the xDSL signal and transports traffic to the Metro Ethernet network.
4	Fibre Umbilical	Required to connect the remote DSLAM to the serving central office (CO).
5	Metro Ethernet	Multiservice edge switched network used to aggregate Ethernet traffic.
6	Broadband Remote Access Server (BRAS)	Aggregates individual user sessions from the DSLAM and applies policy management.
7	Internet Protocol Core Network (IP Core)	Provides routing and transport from the edge of the IP network and aggregates traffic to hand off to the AHSSPI.
8	AHSSPI Port	The AHSSPI is either a port on an IP Edge Router or an Ethernet Switch.
9	Metro Ethernet Network	Required when the DSLSP is not served by a CO equipped with an IP Edge Router. Consists of multiple Ethernet Switches to carry traffic from the DSLSP's Ethernet Switch to the edge of the IP Core.
10	AHSSPI Port	When a DSLSP is served by a CO equipped with an Ethernet

		Switch only, in addition to the costs in No. 9 above the AHSSPI includes a port on that Ethernet Switch.
A	Fibre Link/Access – DSLSP served by or co-located (mandated co-location) in an IP POP (Not part of AHSSPI, but a required, separate tariff element)	To connect a DSLSP POP to AHSSPI, a DSLSP could purchase either GT Item 5020 - Ethernet Access Service or Access Services Tariff Item 122 - Ethernet Connecting Link. Neither (A) nor (B) are part of the AHSSPI (or GAS) service but are separate tariff elements that are used to connect the DSLSP to the AHSSPI.
B	Fibre Link/Access – DSLSP **not** served by or co-located (mandated co-location) in an IP POP (Not part of AHSSPI, but a required, separate tariff element)	

10. The AHSSPI tariff element is shown in the right-hand side of the above diagram and can be provisioned in two different manners, depending on the type of equipment located in the wire centre serving the DSLSP's POP.

11. In the first scenario, where the DSLSP's serving wire centre contains an IP router and Ethernet switch, the AHSSPI is defined as a port on either the Ethernet switch or the IP Edge router.

12. Whether the AHSSPI is a port on the IP Edge router or the Ethernet switch, in order to connect from the DSLSP's point of presence (POP) to the AHSSPI, the DSLSP could also purchase Ethernet Access Service (GT Item 5020) or Ethernet Connecting Links (AST 122) if it is co-located in the same CO as the AHSSPI. To be clear, as noted above, the Ethernet Access and the Ethernet Connecting Link services are separate and distinct from the AHSSPI or any other tariff element in the GAS tariff. Furthermore, neither the Ethernet Access nor the Ethernet Connecting Link services include the port on the IP Edge router or Ethernet switch. Accordingly, contrary to suggestions by the interveners, there is no double counting of cost between these different services.

13. In the second scenario, where the DSLSP's serving wire centre only contains an Ethernet switch, the DSLSP's traffic must traverse multiple Ethernet switches in the Metro Ethernet network to reach the edge of the IP core. In this case, the AHSSPI costs reflect the cost of a port on the Ethernet switch in the DSLSP's serving wire centre, as well as the cost of traversing the Metro Ethernet network. None of these costs are included in any other rate element of the GAS tariff, nor are they part of the Ethernet Access Service or the Ethernet Connection Link which could be used to connect the DSLSP's POP to the AHSSPI port on the Ethernet switch in the wire centre serving the DSLSP's POP.

14. The Companies' proposed AHSSPI rates reflect a weighted average of the scenarios described above, where the weights reflect the manner in which and where the DSLSPs connect to the Companies' network on a growth basis.

15. In light of the above, it is clear that the concerns expressed by Vaxination, CNOC, MTS Allstream and Primus over double counting are unfounded and therefore, their comments regarding double counting should be disregarded.

B. INCONSISTENCIES ACROSS THE AHSSPI COSTS FILED BY BELL CANADA, BELL ALIANT AND TCC

General

16. CNOC and Primus point out that there are significant differences and inconsistencies between the AHSSPI costs filed by Bell Canada, Bell Aliant and TCC in total, and across various cost categories, and that the ILECs did not provide sufficient information to understand these differences or the appropriateness of the cost inclusions in their studies. CNOC notes that it would not expect such differences as the same technology is used to deploy the service, and the costs to deploy such technology should not be sensitive to geographic location. CNOC also notes that due to economies of scale it would expect Bell to have the lowest cost, and this is not the case.

17. Similar comments are made by MTS Allstream. MTS Allstream also compares the rates proposed by Bell Canada, Bell Aliant and TCC to its high-speed internet (HSI) interface rates and points out that most of these ILEC rates are higher than the MTS Allstream rate. MTS Allstream specifically singles out Bell's rates applicable in the Ontario and Québec serving territories of Bell Canada and Bell Aliant, noting that those rates are roughly six times higher than the MTS Allstream rate, while the interface provided by Bell provides the same functionality as the interface provided by MTS Allstream.

18. In the section below, the Companies first address the flaws associated with commenting on the reasonableness of an ILEC's cost estimate for the service at issue for a specific cost element based solely on a simple comparison of that cost estimate to the cost estimate for that same element that was provided by another ILEC. The Companies then address the intervener comments on the costs associated with the Companies' proposed monthly rate for their AHSSPI services that were included in each of the following cost categories:

- Expenses Causal to Service;
- Expenses Causal to Demand; and
- Capital Causal to Demand.

19. The Companies also address the comments provided by CNOC and MTS Allstream on the AHSSPI service charge costs the Companies filed, and note that no other party commented on those costs.

A Simple Comparison of an ILEC's Cost Estimate for a Particular Cost Element to the Estimates Developed by Other ILECs, In And Of Itself, Is Not Meaningful to Formulate a Conclusion About the Reasonableness of That Estimate

20. Prior to addressing the specific intervener comments on the cost that the Companies included in each cost category, the Companies submit that it is not reasonable to conclude that the value of the cost for a specific cost element in a given expense category in a given serving area is overestimated simply because that cost is higher than the costs that other ILECs have identified for that same cost category in the context of a similar service in their serving areas. The magnitude of the cost for the AHSSPI service in any given territory is dependent on a number of factors, including the number and size of the DSLSPs that require the AHSSPI service, including the different intricacies of the DSLSPs' network configurations which may require different levels of engagement from the Company's employees to support them, the expected demand for the service, the number of queries about the service that the Company at issue is expected to receive from customers, and the level of ongoing service-related support that customers are projected to require.

21. In addition, while certain activities are expected to be undertaken in a given territory for a specific service (in this case the AHSSPI service), such as assigning dedicated account executives to the service which is the case for Bell Canada, it does not follow that the same activity is required for a comparable service in another ILEC's serving area. As already noted, it could be the case that demand for the service is so low that a dedicated account executive is not needed, for example. This in fact is the case in the Bell Aliant Atlantic region as discussed below.

22. With respect to the forecasted level of demand, the Companies note that the projected level of their AHSSPIs in-service base in their Ontario and Québec serving areas is significantly higher than Bell Aliant's forecast of the in-service base of AHSSPIs in its Atlantic region. Table 3 in the Attachments to the cost study reports that the Companies filed in support of their TNs show that the annual demand in the Bell Aliant Atlantic region is projected to be only about 12 to 16 units over the study period, which contrasts with a projected base that ranges from approximately 260 to 620 units per year in the Bell Canada and Bell Aliant Ontario and Québec serving areas over that same period. As a result of the low demand levels in the Bell Aliant Atlantic region, the support activities associated with the service in that region are separated by longer periods of time than the support activities that are required in the Companies' Ontario and Québec serving areas, and there is no dedicated support that has been set up specifically for AHSSPIs.

23. The AHSSPI demand forecasts for the Bell Aliant Atlantic region also show very minimal growth over the study period. As such, conservative estimates which amount to fractions of full time equivalent employees were identified for the Bell Aliant AHSSPIs in that region in support roles such as product management, service management, and technical support, whereas within the Bell Canada and Bell Aliant Ontario and Québec serving areas, due to the large and rapidly growing number of AHSSPIs, multiple existing and growing numbers of full time resources are identified in these roles in order to support the service. This is one of the key differences that accounts for the differences in the projected level of expenses for the AHSSPIs offered by the Companies in their Ontario and Québec serving areas versus the AHSSPIs offered by Bell Aliant in its Atlantic region.

24. Based on the above, it is very clear that one cannot simply compare the level of the costs in a given cost category for the AHSSPI service across different ILECs and different serving areas, without having a more in-depth knowledge of factors such as the demand levels, the nature of the company-specific cost drivers and provisioning practices, and conclude that the highest cost is "exorbitant" and must be incorrect.

Assessment of the Intervener Comments on the Costs Associated with the Companies' AHSSPI Monthly Rates

Expenses Causal to the Service – AHSSPI Monthly Rate

25. The costs in this category were addressed by CNOC and Primus. These interveners point out that unlike Bell Canada and Bell Aliant, TCC has not included any costs under this category in its cost study. CNOC also notes that the Bell Canada and Bell Aliant Ontario and Québec costs are much higher than costs that Bell Aliant included in its study for its Atlantic region, on a per interface per month basis, and as a percentage of the total cost.

a) Expenses Causal to Service - Other

26. CNOC notes that the key difference in the cost inclusions appears to be related to the costs in the "Other" sub-category. For Bell Canada, it notes that this sub-category contains costs associated with product management and bad debt, which Bell evaluates at over $2.3 million over the 10-year study period (or ~$250K per year), whereas for Bell Aliant, the corresponding costs in its Atlantic region, which are a lot lower, consist of product management costs and the costs that were incurred to undertake the Bell Aliant cost study.

27. In CNOC's view, the product management costs Bell included in its cost study is not reasonable to manage a service of this type with a limited market, and due to economies of scale CNOC notes that it would expect the cost per interface for this cost element to be lower for Bell than for Bell Aliant in its Atlantic region, which is not the case.

28. Primus also notes that it is not clear how the explicit time estimates referenced by Bell which were used to develop its product management costs were developed.

Response

29. The Companies note that Product Management will be required in the context of the AHSSPI services that they will offer in their Ontario and Québec serving areas throughout the study period and will involve numerous activities. For example, Product Management activities for the AHSSPI service offered by the Companies in Ontario and Québec will include building and maintaining service descriptions and other documentation related to the service that either the Companies' customers use directly, or which are used by the Companies' resources who manage the service. It will also include attending customer calls to provide product and process details to the customer as they relate to AHSSPI. The initial configuration, ongoing support and management of the AHSSPI service represent the most complex portion of the overall GAS service. Adding DSL end-customer subscribers is relatively seamless from a product management and sales perspective.

30. The costs labeled as Product Management also include the costs associated with working with Network Operations to review capacity as it relates to AHSSPI and plan for additional capacity requirements. As ISPs are increasing capacity over time and this trend is expected to continue, the in-service base of AHSSPIs is projected to increase over time. Also, with the expected reduction of AHSSPI rates, the demand for AHSSPIs is expected to increase, resulting in more work from a capacity planning perspective. This means that product managers will become engaged with most orders for AHSSPIs to review available capacity, and they will also have to prepare regular forecast updates for the Network Planning teams to appropriately adapt to the increases in demand.

31. The Product Management expenses that are included in the Companies' Ontario/Québec cost study reflect the costs of the type of ongoing activities that are discussed above and these activities will have to be undertaken in the context of the service at issue. As such, these costs are causal to the AHSSPI service and are appropriate to include in the Companies' AHSSPI cost study.

32. The Companies note that in the case of Bell Aliant, Product Management will also be required for the AHSSPIs it offers in its Atlantic region. However, as already noted, given the very low demand associated with the service in that serving area, the extent of Product Management that will be needed will be nowhere near the levels that will be required in that Company's and Bell Canada's Ontario and Québec serving territories.

b) Expenses Causal to Service - Billing

33. As Bell Canada and Bell Aliant noted in their cost study report, the billing costs that were included in their Ontario/Québec cost study represent the one time IS/IT development costs associated with implementing the IP AHSSPI rate change in the Companies' systems. Both CNOC and Primus express concern over the magnitude of these costs, which the Companies have estimated at approximately $130,000 over a 10-year period, or $3.38 per interface per month. In CNOC's view, this amount is "an exorbitant cost claim to implement a simple set of rate changes". CNOC notes that Bell Aliant quantified the cost for this item at $0.22 per interface per month for its Atlantic region. CNOC also notes that the billing cost that Bell Canada and Bell Aliant included in the Ontario/Québec cost study appears excessive considering that the interface rate applies to a single service. Primus notes that TCC has not included any costs in this category.

34. Vaxination questions the need to include IT costs for developing the billing altogether and notes that the billing was developed a long time ago, and therefore development costs should not now be included in the studies at issue.

Response

35. The billing costs included in the Companies' Ontario/Québec cost study under the Causal to Service cost category reflect the one-time cost to implement the rate change in the Companies' systems. It does not include any cost for billing systems that were developed "a long time ago" as noted by Vaxination. It is strictly the cost to make the rate changes that will need to be implemented in the Companies' systems in the context of their AHSSPIs.

36. It is also noteworthy that the cost to make the changes to the billing systems is not impacted by the number of AHSSPIs in-service. Regardless of the number of interfaces, the cost to implement the rate changes must be incurred.

37. The Companies' specific cost estimate of $130,000 is consistent with the costs the Companies generally incur for making rate changes for their wholesale services in their Ontario and Québec serving areas. This cost includes the cost associated with the analysis of the systems that will be impacted by the rate change, and assessments of the various changes that need to be undertaken to ensure that the rate changes are seamlessly implemented and made in all of the affected systems. This includes ensuring that the rate changes flow appropriately throughout the asset management system which identifies the specific types of AHSSPI service subscribed to and the associated price plan, the billing system which applies the charges to the appropriate billing accounts, and the bill presentment system which provides billing information to customers online. This one-time cost associated with the billing changes in the context of the Companies' AHSSPI services is causal to these services and must be included in the Companies' cost study.

38. The Companies note that the Bell Aliant costs for the Bell Aliant Atlantic region are lower than the Companies' billing costs in their Ontario and Québec serving areas as only one system is involved in the Atlantic region, as opposed to the multiple systems that are impacted in the Bell Canada and Bell Aliant Ontario and Québec serving areas. As noted above, these systems consist of the asset management system, the billing system, and the bill presentment system.

Expenses Causal to Demand – AHSSPI Monthly Rate

a) Expenses Causal to Demand - Maintenance

39. Both CNOC and Vaxination raise concerns regarding the maintenance costs included by the Companies in their Ontario/Québec cost studies. CNOC submits that those maintenance expenses relative to the maintenance expenses that were included in the cost studies by TCC and Bell Aliant for its Atlantic region are excessive, and, in CNOC's view, it seems illogical that these costs are greater than the cost of the actual port. CNOC also notes that these costs would be expected to be lower for the large carriers, due to economies of scale, when expressed on a per interface basis.

40. Vaxination notes that without a proper definition of AHSSPI, it is impossible to consider what equipment needs to be maintained.

Response

41. As the Companies noted in their Ontario/Québec cost study report, the costs they included in this category for their IP AHSSPI services are not just the costs of ongoing maintenance and repair activities, but also the costs associated with help desk and the provision of support to ISPs.

42. The costs associated with help desk activities capture supporting customers that have billing queries with respect to AHSSPIs. Since this service is not billed on the same invoice as the Internet service, there are separate queries that the Companies receive with respect to just this service. Costs are also included for activities such as resolving trouble issues or service assurance issues.

43. The Companies note that the cost of the support provided to the ISPs by the Customer Service Engineers (CSEs) is by far the largest cost component, representing roughly # of the cost in this category. Activities include the ongoing support to ISPs who have questions about the service or require expertise when trying to configure their networks based on their individual requirements. ISPs often have very different business models, needs, and network architecture, so a certain level of customized work is required by them from the CSEs.

44. The CSE support provided to ISPs is also related to trouble issues. If an AHSSPI link goes down, the CSE is usually engaged in finding a solution. The CSE will work with the customer and the help desk to identify the root cause of the trouble. In some cases, the issues could last longer and may require interim solutions to be put in place which the CSE would help implement. The CSE may also be involved in traffic pattern/peak reviews. The CSE would work with the network planners of each ISP company to determine their current utilization of their AHSSPI links, and to help them plan for future needs based on DSL demand forecasts, application requirements, and planned changes to the ISP's network. These reviews happen more often for ISPs with fluctuating demand patterns. Since the CSE involvement is customer specific, it is logical that if customer demand increases for AHSSPIs, then the CSE requirements will also increase.

45. The second largest component of the cost is the cost associated with the time spent by escalation managers associated with the help desk. This represents approximately # of the cost in the maintenance category. The escalation manager provides a point of contact for the ISPs to resolve service assurance and process issues.

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46. The cost associated with ongoing maintenance and repair activities represent the remainder of the costs in this category. The maintenance and repair cashflows are generated from the maintenance and repair factors by asset class driven by the plant in service for the associated asset class.

47. For Bell Aliant in its Atlantic region, the same cost category contains the costs associated with maintenance and repair of AHSSPI equipment. These costs were developed based on corporate average percent plant in service factors appropriate to each capital asset class. The costs associated with time spent by the Wholesale Product Manager and the Wholesale Service Manager on activities such as resolving trouble issues or service assurance issues in the context of the AHSSPIs provided in Bell Aliant's Atlantic region are included in the Expenses Causal to Demand – Other category. The costs associated with time spent by internetworking support experts associated with activities such as resolving trouble issues or service assurance issues are included in the Expenses Causal to Demand – Service Provisioning category. As such, the Bell Aliant costs in this category are not directly comparable to the costs that are included in this category in the Bell Canada and Bell Aliant Ontario/Québec cost study.

b) Expenses Causal to Demand - Service Provisioning

48. CNOC notes that the Companies described the service provisioning costs that they put in this sub-category as ongoing costs associated with outward order fulfillment and administration activities. CNOC notes that TCC has not included any such costs in its study, and that the Bell Canada and Bell Aliant costs are $5.14 per interface per month in their Ontario and Québec serving areas compared to $36.23 for Bell Aliant in its Atlantic region. CNOC submits that Bell Canada and Bell Aliant should be required to clarify what these costs cover in terms of specific activities, and notes that it is also concerned about potential double counting of these costs, as inward order fulfillment costs are addressed in these Companies' service charge cost studies.

Response

49. As stated by the Companies' Ontario/Québec cost study report, this category includes the costs associated with outward service orders and administration activities, which comprise the warehouse and distribution expenses associated with capital assets. The outward order costs represent over # of the costs in this category and the warehousing and distribution costs account for the remainder.

50. The Companies confirm that there is no double counting with inward order costs. The activities included in this sub-category consist of all the activities associated with an outward order when an ISP requests removing an AHSSPI. There is no inward order activity in this category. The inward costs are included in the Companies' service charge cost study. Thus CNOC's concern that there is double counting of these costs has no validity.

51. Regarding the Bell Aliant cost study for the Bell Aliant Atlantic region, the Companies note that this sub-category in that study also includes costs associated with ongoing service assurance support. Although some of the same groups are involved with taking both the inward order and the outward order, the activities are separate and as such, no double counting occurs in that case either. The cost category also includes the costs related to the time spent by internetworking support experts on activities such as resolving trouble issues or service assurance. It is the inclusion of these costs in this category that results in the observed

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difference between the Bell Canada and Bell Aliant cost in the Companies' Ontario and Québec serving areas (estimated at $5.14 per interface per month) and the Bell Aliant cost in Bell Aliant's Atlantic region (estimated at $36.23 per interface per month). If Bell Aliant were to exclude this cost from this category of costs for its Atlantic region, then the cost per interface in that region would be less than # as opposed to $36.23.

c) Expenses Causal to Demand – Advertising and Sales Management

52. CNOC notes that both Bell Canada and Bell Aliant include advertising and sales management expenses in their cost studies. In the Bell Canada and Bell Aliant Ontario/Québec cost study, these costs are costs associated with ongoing sales activities and with managing the customer relationship by the assigned account executives. CNOC notes that Bell Canada evaluates this item at $6.1M over a 10-year study period, which translates to ~$600K per year, which in its view is overestimated. CNOC notes that TCC has not included any costs in this category and the cost Bell Aliant included in its Atlantic cost study is less than 20% of the amount claimed by the Companies in their Ontario/Québec cost study. CNOC also questions the reasonableness of including any costs in this category, noting that ILECs typically do not market interfaces on their own.

Response

53. For the reasons noted earlier, the Companies submit that it is not reasonable to conclude that a specific cost, in this case the cost associated with ongoing sales activities and managing the customer relationship by assigned account executives, is overestimated simply because that cost is higher than the sales management costs that are expected to be incurred by another ILEC for a similar service, or in a different serving territory.

54. The Companies note that their demand forecast for the IP AHSSPI service is significantly higher in their Ontario and Québec serving areas than the forecasted level of demand for the AHSSPI service at issue in Bell Aliant's Atlantic region, as already noted. As such, the level of support required in the Companies' Ontario and Québec serving areas is significantly higher than the level of support that is needed for the few AHSSPIs that are expected to be in service in the Bell Aliant Atlantic region. For example, in the Companies' Ontario and Québec serving areas, given the volume of demand, sales and customer account primes deal with the customers that request AHSSPIs. The work these resources are involved in includes managing the contracts for customers and attending meetings with the CSEs and customers as it relates to the ISP network planning.

d) Expenses Causal to Demand – Billing

55. Vaxination questions the validity of the ongoing billing costs by noting that based on its understanding, the one bill that Bell Canada sends out includes the EAS, AHSSPI and CBB components of the service and a separate bill includes the GAS access costs. It notes that since the EAS, AHSSPI and CBB components are predetermined amounts based on ordered quantities, the generation of the associated invoices should be very simple and straightforward.

Response

56. The Companies note that the billing costs that are included in this sub-category do not include any costs for generating the invoice or sending out the bill as Vaxination assumes. These billing costs include the cost of supporting customers who have billing queries related specifically to the AHSSPI. Therefore, Vaxination's concern is unfounded.

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e) Expenses Causal to Demand – Other

57. CNOC points out that Bell included bad debt in the "Other" sub-category of expenses causal to demand, which no other ILEC has included, and the inclusion of such costs in this sub-category suggests that there could be potential double counting as bad debt was also included under the Expenses Causal to Service category.

Response

58. The Companies note there is no double counting of the bad debt expense. Bad debt expense is applicable to demand-driven revenues for the service, and all revenues associated with the AHSSPI are demand-driven. In a price floor test, the Present Worth of Annualized Cost or PWAC represents the present worth of all causal costs (including taxes) at the beginning of the study period, which is then used to set the price floor for a service, i.e., the price at which a company will recover all of its causal costs[1]. The PWAC, in this sense, represents the "minimum revenue requirement" for setting the price. Given this, the bad debt percentage is applicable on the total revenue requirement, i.e., on the total PWAC associated with both the Causal to Demand and Causal to Service cost categories. This is exactly how the Companies calculated the bad debt in their AHSSPI cost study. In other words, although the revenue requirement is calculated based on both demand-driven and service-driven costs, the revenue required to break-even is all demand-driven. Applying bad debt expense to only the PWAC associated with the Causal to Demand costs would mean that the cost of bad debt is not associated with the total revenue required to cover the costs (i.e., the total PWAC) but rather just with a portion of that revenue. Therefore, the bad debt expense the Companies have included in their cost study, which is based on the total PWAC, is appropriate.

Capital Causal to Demand

59. CNOC addresses the differences in the costs included by the ILECs under this category, and notes that only Bell Canada and Bell Aliant included Outside Plant Equipment costs in their cost studies. CNOC notes that the description Bell Canada and Bell Aliant provided for these costs implies that certain ISPs will be served by a CO with an Edge Router. It also notes that the Companies have not identified how they determined the proportion of ISPs that are or are not served by the said Edge Router in order to quantify these costs, which is critical to the assessment of the reasonableness of the costs.

60. CNOC also expresses concern over potential double counting of this type of cost, noting that it is not clear to CNOC whether these types of Outside Plant Equipment costs, which are transport costs, are recovered in separate transport fees that ISPs pay to Bell in the circumstances where an ISP is not served by a CO with an Edge Router.

Response

61. As the Companies explained earlier in this submission there are various possibilities in how and where DSLSPs connect to their network. CNOC is correct that some DSLSPs will be served from offices without an IP Edge Router and accordingly additional outside plant equipment is required to connect that office to the IP Edge. Since these outside plant costs are causal to provisioning the AHSSPI service in this particular scenario, consistent with the Phase II costing principles that were used in the Companies' AHSSPI cost studies, these outside plant costs were included in the development of the proposed AHSSPI rates. The proportion of

[1] In general terms, the PWAC is computed by summing up the present worth of expenses, capital expenditures, gross salvage, removal costs, income tax payable and other applicable taxes calculated based on the assumption that revenues are equal to the causal costs.

AHSSPIs that are not located at an IP Edge Router CO is based on the location of existing and forecasted AHSSPI demand.

62. With respect to the concern raised by CNOC regarding double counting of costs, see section A above which clearly demonstrates that no double counting has occurred.

63. In the Bell Aliant Atlantic region certain AHSSPIs are located in a CO that does not have a BRAS tunnel switch. In those cases, transport costs from a BRAS tunnel switch to the serving CO are included in the AHSSPI costs. Bell Aliant Atlantic determined the proportion of AHSSPIs that are not served by a CO with a BRAS tunnel switch based on the location of existing and forecasted AHSSPI demand. ISPs do not pay separate transport fees to Bell Aliant Atlantic in the circumstance where an ISP is served by a CO that does not have a BRAS tunnel switch.

IP AHSSPI Service Charges

64. Two interveners addressed the Companies' proposed service charges, namely CNOC and MTS Allstream. CNOC notes that in the Expenses Causal to Demand category, the service provisioning costs that Bell and Bell Aliant included in their cost studies are much higher than the costs that were included by TCC, and therefore the Bell and Bell Aliant costs are not reasonable. CNOC also notes that these costs were defined by Bell and Bell Aliant as being ongoing costs associated with inward order fulfillment and administration activities, but that TCC has not provided a description of what its cost represents.

65. Finally, CNOC notes that it is not clear to the company whether the ILECs have accounted for savings associated with the fact that ISPs often have to order multiple interfaces in single orders to account for the fact that 10 Gbps interfaces are not yet available. If not, in CNOC's view, this savings should be reflected as a reduction in these costs.

66. MTS Allstream comments on the Bell Aliant proposed AHSSPI service charge in Bell Aliant's Atlantic region and expresses concern over the increase in this charge relative to the charge currently in place. MTS Allstream notes that since Bell Aliant continues to apply the flat rate billing model to both its legacy and FTTN wholesale HSI services in the Atlantic provinces, there should be no significant changes to the processes necessary to implement an ADSL AHSSPI port. In MTS Allstream's view, the major factor that should affect the rate besides the Commission's directives is the change in labour rates. MTS Allstream then submits that since the 140% increase in the service charge that Bell Aliant proposes is much higher than the change in the Consumer Price Index since Bell Aliant filed its original cost study in October 2005 which is only about 15%, the Bell Aliant proposed charge is not reasonable.

Response

67. In response to the concern expressed by CNOC, the Companies note that although an ISP may include multiple interfaces on a single inward request, the Companies must create a separate order for each and every individual AHSSPI. The touch times developed by the Companies to establish the proposed service charge rate are applicable to each individual AHSSPI order. As such, if an ISP includes multiple AHSSPIs on a single inward request, touch times are not reduced nor are the associated costs. In fact, the touch times and associated costs would increase by a factor based on the number of AHSSPIs on the single inward request.

68. However, the Companies' assessments show that there could be some time and cost efficiencies associated with the service charge for the activity of the CSE team when the inward

request includes more than one AHSSPI, although the savings would amount to a very small percentage of the total service charge costs (i.e., # #). The Companies note that this cost savings should have been reflected in the cost, and hence the proposed rate.

69. With respect to the MTS Allstream comment, the Companies note that in the 2006 Bell Aliant Atlantic Cost Study for ADSL Access Service, in section 6.4.4 Expenses Causal to Demand - ADSL Access AHSSPI, service provisioning costs were described as including "labour costs associated with VLAN configuration on the Ethernet and tunnel switches, domain name configuration on Radius servers, tunnel switches, and BAS". Costs associated with these activities were therefore captured in the monthly equivalent cost rather than the service charge. In the current cost study it was considered more appropriate to recover the costs associated with the initial activation of the AHSSPI within the service charge rather than within the monthly equivalent rate. The service charge has therefore increased as compared to that in the 2006 cost study.

C. REVISION OF BELL CANADA'S RATES FOR ITS LEGACY AHSSPIs

70. In its comments, MTS Allstream states that Bell Canada's and Bell Aliant's rate proposals are lacking in that they only include proposed revisions to the rates for Bell's IP AHSSPI in GT Item 5410, but do not include any proposed revisions to the rates for their legacy AHSSPIs under that GT to reflect the Commission's pricing determination in TRP 2011-703. In MTS Allstream's view, even though those services were grandfathered on 9 April 2012, Bell should either propose revised rates for its legacy AHSSPIs or the Commission should direct Bell to waive the service charges that would otherwise apply to ISPs that choose to migrate to a Bell IP AHSSPI rather than pay the higher monthly rates for a legacy AHSSPI.

Response

71. In response, the Companies note that over the past several years, they have actively encouraged ISPs to migrate from Legacy AHSSPIs (which connect to the Companies' ATM networks) to IP AHSSPIs (which connect to the Companies' IP backbone). To facilitate this migration, the Companies' GAS FTTN GT Item 5440 states that neither Administration Fees nor Gateway Mapping Fees will apply for customers migrating an AHSSPI from the Companies' ATM networks to their IP networks.[2] Clearly, the Companies have already addressed the concern raised by MTS Allstream in its comments with respect to removing barriers that impede migration to IP AHSSPIs, as no service charges apply in the case of such migrations.

72. With respect to MTS Allstream's suggestion that the Companies should also have proposed new rates for legacy AHSSPIs, the Companies note that the Commission has already approved the destandardization of the Companies' legacy AHSSPIs, effective 9 April 2012. As such, legacy AHSSPIs are not available for new installations or for the upgrade of existing arrangements occurring after the effective date of 9 April 2012. As noted in the Companies'19 December 2011 Tariff Applications (TNs) 391 and 7338 which proposed the destandardization, there are several reasons why destandardization of Legacy AHSSIs was appropriate:

a. First, much of the underlying equipment which forms the ATM network (used by both Legacy ATM and Ethernet AHSSPIs) is at the end of its service life, or is manufacturer-discontinued. As a result, certain ATM equipment is unavailable to support an

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[2] GT Item 5440.4.(3) and 4.(4).

expansion of the current ATM network's capacity to meet significant additional traffic demands from the Companies' wholesale Internet services. Therefore, due to increasing demand on the Companies' ATM aggregation networks and the impracticality of continued expansion of these networks, the Companies must truncate the use of ATM facilities as much as possible in order to support the growth in traffic from existing customers.

b. Second, the legacy AHSSPIs are unsuitable for the carriage of traffic from FTTN end-users and their continued use is counterproductive to the investments the Companies have been making to improve the consistency of upload and download speeds for all end-users. The Companies' FTTN Internet services (retail and wholesale) are designed to work most efficiently with Ethernet/IP networks. However, a number of ISPs continue to lease Legacy AHSSPIs and in these cases, the Companies must reroute the traffic back to their ATM aggregation networks as opposed to their IP backbones. In light of the current traffic demands on the ATM network and since it is not practical to expand the capacity of that network, this has the potential to limit the speeds available to end-users, especially in the case of FTTN access customers riding over the ATM aggregation network because the ISP is using either Legacy Ethernet or Legacy ATM AHSSPI. Given that Wholesale ISPs can continue to serve legacy speed customers on IP AHSSPIs, the Companies are of the view that the ATM network is inappropriate in the long term for the continued delivery of legacy GAS and HSA and for delivery of the new higher speed FTTN services.

c) Third, the functionality that would be required to implement the approved CBB model whereby customers order capacity in increments of 100 Mbps, has not been standardized for ATM equipment. Attempting to develop new features for the ATM equipment, much of which is manufacturer-discontinued would be a wasteful use of resources.

73. In approving the destandardization of Legacy AHSSPIs in Telecom Order CRTC 2012-145, the Commission was clearly in agreement with the Companies' reasons for wishing to destandardize these interfaces as part of their continuing effort to encourage ISPs to migrate their AHSSPI interconnection to IP interfaces. MTS Allstream's suggestion that Legacy AHSSPI cost studies (and rates) should be updated only serves to undermine this migration, which is a policy the Commission has already endorsed through its approval of TNs 391 and 7338. Accordingly, the Companies submit that updated cost studies for those interfaces are not required and that MTS Allstream's comments should be disregarded.

74. Please direct all inquiries or correspondence regarding this application to Philippe Gauvin at (613) 785-6286 or e-mail to bell.regulatory@bell.ca.

Yours truly,

[Original signed by D. Henry]

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