

November 25, 2014

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

**Re: BCBA's Oral Presentation to Telecom Notice of Consultation CRTC 2013-551
Review of wholesale services and associated policies (File No. 8663-C12-201313601)**

Dear Mr. Traversy:

- 1 The British Columbia Broadband Association (BCBA) would like to thank the Commission for giving us the opportunity to present our perspective on this topic.
- 2 Our membership is made up of 36 Internet provider's and telecom equipment suppliers in British Columbia and Alberta. The majority are rural wireless providers, however many of our members operate in urban markets delivering ADSL and Cable to consumers and business using wholesale tariffed products.
- 3 The current market conditions in urban areas of BC and Alberta are not indicative of healthy competition in the marketplace. The regulatory regime has produced very different results regionally and it would appear that Central Canada has the strongest levels of non-incumbent competition. Here in BC we have only a handful of providers continuing to sell ADSL and TPIA services. There haven't been any real viable new entrants to the markets in many years, and due to mergers and acquisitions the number of competitors is shrinking. It is very difficult to attract investment based on our ability to provide competitive and modestly profitable offerings as a wholesale service provider.
- 4 While the urban markets have struggled, there has been some positive news as rural wireless operators who exist outside the direct competition of incumbent providers have found a niche delivering broadband to small pockets of customers deemed unviable by the incumbents, Shaw and TELUS.

Our industry is completely based on technology and as such it is in a constant state of flux. This is an extremely important time in that development cycle and we are encouraged that the Commission is looking at new products that are entering the marketplace – specifically

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Fibre to the Premise (FTTP).

- 5 Predictably, incumbent providers are arguing that they should not be mandated to offer wholesale services on their new fibre plants. They contend that these are new services that were constructed after deregulation and therefore should be exempt from tariffs. They have said that if they were made to sell to competitors on this network it would reduce their incentive to invest and construct these networks.
- 6 We believe that the outcome of moderate regulation to encourage competition will not be to reduce the level of investment in Canada's multibillion dollar incumbent telecom companies.
- 7 Rather the result will be to incent investment in the existing non incumbent competitors in the Canadian telecom markets. In British Columbia there is ample evidence of a large scale FTTP rollout by TELUS. Many entire communities are being fibred today and we are seeing firsthand what happens when fibre is brought into a home. Our residential customer is moved from wholesale ADSL to Fibre service as we are unable to compete with the legacy copper speeds of 6Mbps that are available in these scenarios. Without wholesale access to this fibre, competition will be eliminated. The incentive to invest can be preserved without eliminating competition.
- 8 We also believe wholesale channels provide incumbents with an opportunity to further increase revenue from the same facilities. Instead of losing a customer to a competing cable or Telco they are able to maintain the majority of the revenue while having independent ISPs takes care of marketing, sales billing and support.
- 9 **Wholesale Services Framework**
Many thoughtful submissions have addressed the current Wholesale Services Framework and changes that could be made to it to improve its effectiveness going forward.
- 10 One of the key challenges for the commission has been in the area of self-submitted costing metrics by incumbents regarding their service delivery. It has become very difficult to audit these costs as many network components for wholesale and retail delivery are the same. By including these components in the wholesale costing model it is possible for incumbents to skew the numbers to produce higher costing metrics. These metrics produce the wholesale costing which can lead to pricing of wholesale services at or above retail levels.
- 11 We would like to see a system where an independent 3rd party would be able to review these costing inputs more thoroughly to look for discrepancies. In particular, when there

are large variances from one incumbent to the other, these costs bear further investigation.

- 12 The current pricing around wholesale ADSL, at least from our point of view in dealing with TELUS, is appropriate if local loops were included in the pricing. This pricing level has been achieved after many years of effort on the part of wholesale providers, new competitors and the CRTC.
- 13 It has also come at a time where cord cutting is happening on such a large scale that unbundled local loops are needed in most cases to deliver ADSL service. That product is tariffed and can add considerable cost to deliver service. In a smaller community the rate bands can push the unbundled local loop cost above the ADSL port price.
- 14 TELUS does not charge any unbundled local loop costs to its retail customers which further reduce competitiveness for wholesale ISPs. This is an example of the discrepancies that result from the costing metrics provided by facilities-based carriers.
- 15 We feel that negotiated agreements are a positive way that incumbents and independent ISPs can work together and there are many positive signs of that happening in the industry. However without a mandated wholesale product, the incentive for incumbents to work on negotiated agreements is diminished.
- 16 In summary we believe that the Commission should continue to define and mandate access to essential components owned by incumbent operators required to deliver modern communication services. The CRTC should engage in 3rd party reviews of the costing metrics used to set wholesale rates. We also believe that encouraging negotiated business agreements will help to build a stronger and healthier telecom industry in Canada.
- 17 **Specific Wholesale Services**
The Commission needs a clear policy to assist in determining whether existing and future telecom services should be mandated or forborne. We believe that CNOC's submission which outlined the concept of Equality of Inputs had the best solution going forward. The BCBA would like to endorse that concept.
- 18 The key idea behind the Equality of Inputs is that if a service is delivered over an essential component and offered as a retail product, there should be a mandated wholesale option available as well.
- 19 The definition of an essential component in our mind would be one that is not easily

duplicable or is provided by 2 providers or less in any geographic market. By adopting this principle it would be easy to see that FTTP should be mandated as an essential component.

- 20 In regards to forbearance, we have not seen an area where forbearing has become viable in the services purchased for wholesale internet delivery. Rather we have seen emerging components that become essential due to their impact on the current and future business viability of ISPs. FTTP is a good example of something that will carry the future of the business model for telecom and any supplier who cannot provide these products will not survive. If such a time arose where most providers were in negotiated off-tariff agreements it would then make sense to forbear some of these services. It does help motivate incumbents to negotiate deals when there is a fallback tariff position for the smaller provider.
- 21 As bundling of video services has become the standard in the residential market, it has become difficult to gain traction in that segment. By implementing a wholesale video offering there would be an opportunity for competition growth as well.
- 22 **Approaches to Wholesale Rate Setting**
One of the key items that need to be considered strongly in future rate settings is an honest look at the retail offerings of the incumbent providers. Holding incumbents accountable to their costing information is important, but as a sanity check for any rates it is important to look at the websites to see what the current offerings are. Factoring in giveaways such as Televisions, Laptops and Tablets it should be apparent whether there is sufficient margin left for an independent ISP to compete.
- 23 We do prefer a cost plus model to a retail minus model, as it would be an administrative challenge to maintain retail minus. We think as a final check after establishing a price that the retail pricing is an important reference point.
- 24 We also feel that the commission could consider setting targets for the level of competition that would be deemed acceptable in various telecommunications markets. Rate setting could be used to encourage incumbents to serve wholesale customers in a more positive manner. This would result in increased market share and a more balanced telecom provider landscape.
- 25 It is important to note that a significant portion of competitor's revenue is returned to the incumbents through wholesale fees. Competitors need healthy profits to attract investment and to acquire the capital and infrastructure to climb the ladder of investment.
- 26 It is also important in this dynamic industry that pricing reviews take place every 2 years to

ensure that retail pricing hasn't dropped significantly, leaving wholesale providers in a difficult position for viability. These reviews should not require the same level of engagement as required for this important proceeding which is reviewing the entire wholesale process.

- 27 Thank you again for listening to our comments, we are eagerly awaiting the commissions determinations, especially in regards to FTTP as our members are losing customers today while this product awaits your decisions.

Sincerely,



Bob Allen

President - BC Broadband Association

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