

**Overview of Telecommunications Issues
for Rural and Remote Areas**

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Declining rates for long distance telephone service are generally welcomed by consumers as the productive result of deregulation and increased competition in the telecommunications sector. But a second shoe is falling, this one far from consumer-friendly: the same forces that have driven long distances rates down now have the echo effect of pushing local telephone rates higher. For rural and remote areas especially, the dynamics of the situation are even more serious, creating a potential crisis in both cost and availability of telecommunications services. While all areas—urban and rural—face pressure for higher local telephone rates, in rural and remote areas there are additional problems relating not only to cost, but also the quality and range of telecommunications services likely to be available in the future. Beyond basic telephone service, Internet access to the information super highway is one of the key concerns.

The governments of Saskatchewan and Manitoba believe the looming threat to rural and remote telecommunications service is sufficiently serious that they have launched an appeal to the Federal Cabinet to overrule a recent decision by the Canadian Radio Television and Telecommunications Commission (CRTC). In the October 1999 ruling, the CRTC declined to establish a national fund to subsidize telecommunications services in rural and remote areas. It is generally more expensive to install and deliver telephone services in rural and remote areas because of sparse population and vast geographic distances. Provincial or regional funds are currently used, usually by individual

telecommunications companies, to equalize telephone rates between rural and urban consumers and to subsidize development of telecommunications infrastructure in rural areas. In the appeal, Saskatchewan and Manitoba are seeking establishment of a "Universal Service Fund" with consistent contributions from telecommunications companies across Canada, to act as a mechanism to fund higher cost services in rural and remote areas and to ensure all Canadians have access to the same level of telephone services, at roughly the same price. The provinces are citing the existence of similar national funds in other countries, including the United States, as precedents of public policy that supports the need for and the concept of a Universal Service Fund to ensure equitable delivery of telecommunications services to all citizens, regardless of geographic location.

In philosophical terms, the CRTC has in recent years been implementing a policy of diminished regulation in telecommunications, preferring to let marketplace competition rule. In the rapidly evolving world of telecommunications, the CRTC has endorsed the view that robust competition will deliver, more effectively than conventional regulation, the best telecommunications services, at the lowest price. Because SaskTel, Saskatchewan's dominant telecommunications company, is set to be the last Canadian telephone company to come under CRTC jurisdiction on June 30, 2000, the CRTC's approach to telecommunications policy is of increasing influence in Saskatchewan.

In practical terms, the CRTC's course of allowing competition to take its course tends to work when the marketplace has enough consumers and enough dollars to fuel spirited

competition. That translates into a situation where telecommunications competition is delivering desired results in urban areas where there are significant numbers of people in a concentrated geographic area. Many potential customers close together means the telephone company can install infrastructure at a relatively low cost, and generate significant business from that investment.

Beyond urban centres, in rural and remote regions, it's a different situation. Sparse population combined with vast distances, means the cost of telecommunications infrastructure increases and the amount of business that infrastructure generates decreases, when compared to the urban market. In a world where competition rules, that can lead to both substantially higher telephone rates for rural and remote residents as telephone companies attempt to recover their costs with a user-pay approach, or a situation where no services are available because it doesn't make economic sense for a service provider to invest in infrastructure or to operate outside the more lucrative urban areas.

The issue of price and service provision are of particular importance to provinces like Manitoba, Saskatchewan and the three territories. As an example, SaskTel, which is considered to serve the most rural province in Canada with 30 per cent of Saskatchewan's population living on farms, small towns and villages, and in First Nations communities,¹ noted in its 1998 Annual Report: "regulatory and market realities could force us to set rates according to costs." That could result in existing rural telephone rates of \$22 per month increasing to more than \$100 monthly under a purely user-pay approach. The

prospect of substantially higher telephone bills or not having access to the same modern telecommunications services available in urban centres, such as high-speed Internet, therefore exists.

In December 1997, the CRTC appeared to acknowledge the looming problem of funding rural and remote service by deciding to hold hearings into the issue of Service to High-Cost Serving Areas.² This provided an opportunity for several parties, notably the Government of Saskatchewan, to present its case for a Universal Service Fund as a means of subsidizing future delivery of high cost telecommunications services to rural and remote regions. The proposed fund would draw a consistent contribution from telecommunications companies across Canada and, in turn, support rural and remote service on a national basis. It essentially represented a national pool for funding rural and remote service, rather than the provincial and regional pools that are currently supported by individual telephone companies.

In its application to the CRTC, Saskatchewan supported its call for a Universal Service Fund by noting:

"By reducing margins in order to compete with national companies in the more profitable markets, companies serving rural and remote areas cannot economically serve all of their customers at current rate levels, nor can they continue to expand service into these areas or upgrade existing infrastructure. . .

¹ Government of Saskatchewan press release, Government Fights CRTC Decision, November 10, 1999

² Telecom Public Notice CRTC 97-42, Service to High-Cost Serving Areas, December, 1997.

"The Province agrees and considers these proceedings to be an opportunity for the CRTC to refocus on the key social policy objective of universal service. The outcome will directly influence our ability to achieve the telecommunications policy directions articulated by both levels of government.

"A fundamental outcome of these proceedings will be the method by which this country protects and expands rural services during the transition from monopoly to competition. The traditional methods of subsidizing rural service are at risk in the transition, and the likelihood of competitive providers offering service in small rural communities is slim. As a consequence: ³

"Rural residents may be doubly harmed. First current monopoly providers may ignore rural markets while they focus their competitive attention and their investments on the urban locations where they face competition.

"Secondly, new providers may fail to enter rural markets."⁴

The CRTC decision resulting from the hearing⁵ ordered national standards for basic telephone service. This represented a first, tentative step toward assisting customers in rural and remote areas because it defines what basic telephone service is. What the CRTC decision doesn't do is provide any new mechanism—such as the Universal Service Fund—to pay for delivery of those telephone services to high-cost areas. The decision simply tells telephone companies to provide the basic service to all customers, including

³ Government of Saskatchewan Submission To Canadian Radio-Television and Telecommunications Commission In Response to Telecom Public Notice CRTC 97-42 Service to High Cost Serving Areas, May 1, 1998, Paragraphs 28, 29

⁴ Parker, E., Telecommunications and Rural Development: Threats and Opportunities, TVA Rural Studies, University of Kentucky, May, 1996

⁵ Telecom Decision CRTC 99-16, Telephone Service To High-Cost Serving Areas, October 19, 1999.

those in rural and remote areas. It defines basic services as single-line touch-tone telephone access, access to operator and directory assistance, Internet access, 911 service, private lines and provision of telephone directories. On the question of funding basic service the decision is largely silent, saying the status quo of subsidies from long-distance should be sufficient to cover the extra costs of serving high cost areas. The CRTC says if cross subsidization from long distance revenue isn't adequate to cover costs to rural and remote areas, the telephone companies should either increase their rates or save money by creating efficiencies elsewhere. Although it wasn't stated, the provincial governments appear to believe that they may be called on to fund telecommunication services to rural and remote areas. The end result is that, despite the request from Saskatchewan, the Universal Service Fund was not created.

There was, however, one dissenting opinion to the CRTC decision by Commissioner Andrew Cardozo. He wrote:

"On a broad level, I look at this proceeding as being about 'the last spikes in the telecommunications railroad.' It is about how to get telecommunications services to the outlying areas, which are served at a high cost. . . This decision sets a 'basic service objective' (paragraph 24), with which I am in full agreement. It is both timely and realistic. Further, it notes that this objective is for companies serving the far north as well as those in southern Canada, and again I agree with this. Where I depart from the majority is with regards to the means that we put in place, such that all Canadians can have access to this basic service objective in a reasonable amount of time. . . In fact, I am in partial agreement with part of the

decision that deals with southern Canada. While I agree with the direction to all incumbent local carriers to file service improvement plans as set out in paragraph 41, my concern is that the direction does not go the next step and clearly provide them access to supplementary funding if needed."⁶

Saskatchewan Inter-governmental Affairs Minister Jack Hillson said the CRTC decision was unacceptable to Saskatchewan because nothing short of a Universal Service Fund would financially support future telecommunication services to rural and remote areas:

"We certainly think this decision fails Saskatchewan, especially farm families and people living in rural or remote areas. On the one hand (the CRTC) says affordable service is important. On the other hand, the decision works against affordable service for Saskatchewan farm families."⁷

With the Government of Manitoba, Saskatchewan launched a joint appeal to the Federal Cabinet seeking the Universal Service Fund. Cabinet has up to one year from the date of the original CRTC decision—October 19, 1999—to rule. An observer of telecommunications issues, Larry Sanders, remarked in a recent presentation on the issue: "Pessimists (including friends of mine who work for the Government of Saskatchewan, who would never agree to be quoted saying this out loud) expect to lose this appeal."⁸

At time of writing, no ruling on the appeal had been issued.

⁶ Telecom Decision CRTC 99-16, Telephone Service To High-Cost Serving Areas, October 19, 1999. Dissent by Commissioner Andrew Cardozo

⁷ Saskatoon StarPhoenix, October 20, 1999, Page A6, by Bruce Johnston, Saskatchewan News Network.

Arrival of the CRTC on the Saskatchewan Scene

A decision in 1989 by the Supreme Court of Canada which clearly established federal government jurisdiction over telecommunications prompted an agreement between the federal and provincial governments to gradually bring provincially owned telephone utilities under CRTC jurisdiction. The process was slow, involving a series of deadline extensions, interim steps and additional federal-provincial negotiations, and resulted in incremental arrival of telecommunications competition in Saskatchewan, including the start of long distance competition in November, 1996. The final step in that process occurs later this year when SaskTel, which is owned by the Saskatchewan government, will be the last of the provincial telephone companies to come under CRTC regulation on June 30, 2000.

The arrival of CRTC telecommunications authority in Saskatchewan creates a convergence of regulatory and competitive issues that intensify the urgency of the rural and remote issue.

In preparation for CRTC regulation, SaskTel in 1999 made a submission to the CRTC proposing a process for the transition to federal regulation. The submission included an application for forbearance (ie: an exemption) from several CRTC regulations. The

⁸ Sanders, Larry, Widening the digital divide: the telecommunication policies of the CRTC, paper presented to the Ontario Library Association Superconference, Toronto, Feb. 5, 2000, page 25.

CRTC has previously granted such forbearance to other telecommunications companies across Canada, believing the pressures of the competitive marketplace exert more adequate control on provision of telecommunications services than conventional regulation. SaskTel simply asked that it be extended the same latitude, so it could play by the same rules as its competitors. John Meldrum, Sask Tel's Corporate Counsel and Vice President of Regulatory Affairs, said forbearance currently exists across Canada in requested areas—such as long distance—where the competitive model has replaced the need for regulation of prices.

"The CRTC has decided to forgo regulating areas of business such as long distance and Internet, because market competition is sufficient to ensure fair pricing," according to Mr. Meldrum. "This is as true in Saskatchewan as anywhere else in Canada, and is demonstrated by the fact that SaskTel's prices are competitive and in line with national standards. SaskTel wants the same regulatory freedoms that have been granted to all the other major telecommunications companies in Canada to ensure that we are able to serve our customers without the regulatory constraints and associated costs that come with detailed regulation."⁹

Assuming the application is granted, the stage is set not only for CRTC authority in Saskatchewan, but also for the arrival of more intense competition. And that next step toward telecommunications competition, which is currently underway with the introduction of competition for local phone service in Saskatchewan urban areas, brings the issue of rates and services to rural and remote areas to the forefront.

Rate Rebalancing

At the core of the rural and remote telecommunications issue is rate rebalancing, a technical term for what most consumers see as falling long distance rates and a rising price for local services. Historically, long distance rates have been a lucrative source of revenue and profit for telephone companies and proceeds from long distance have been used to pay for high-cost infrastructure and service, such as telephone service in rural and remote communities. This cross-subsidization allowed telephone companies, with varying degrees of success, to provide basic telephone service to all customers at roughly the same price. While there were regional variations in levels of service, Saskatchewan was seen as one of the more successful examples of the value of cross-subsidization with its early elimination of party lines and provision of private line service to all areas of the province. Service improvements and parity of rates between urban and rural customers was seen as living up to dictates of both the Federal Government's Telecommunication Act and provincial government policy that all citizens, whether resident in urban or rural areas, have access to reliable and affordable telephone service.¹⁰

Don Ching, President of SaskTel, defined rate rebalancing as: "simply meaning that the price of long distance is going down and the price of local service and other services provided by the telephone company are going up. . . While there has been a charge for local service, that charge has never reflected the cost of providing the service and hence was subsidized from long distance revenues as well. With the opening up of the

⁹ SaskTel Press Release, SaskTel Marks First Official Step Toward Federal Regulation, Sept. 21, 1999

¹⁰ Telecommunications Act, 1993, Section 7(b).

telecommunication industry, the breakdown of the telecommunication monopolies and the advent of competition, the price of long distance has been dropping dramatically. As a result, long distance revenues received by telephone companies have been dropping dramatically."¹¹ During the 1990s, long distance costs for Saskatchewan consumers dropped 60 per cent, according to Mr. Ching.

The corollary to lower long distance rates is higher local rates. Mr. Ching demonstrated that relationship by announcing that SaskTel would seek to raise local rates to \$22 per month for all urban and rural residential customers effective March 17, 2000. The request, which represents changes in monthly telephone rates ranging from a decrease of \$3.25 to an increase of \$6.15, was approved by Saskatchewan's Provincial Rate Review Panel, a body which reviews rate increases proposed by the province's Crown corporations.

Mr. Ching pointed out that prior to the rate increase Saskatchewan's local rates—including those in rural and remote areas—were being subsidized from long distance revenue by about \$58 million annually. Even after the rate increases, the annual subsidy from long distance to local will still total \$33 million. That subsidy means continued pressure on local rates; and for rural and remote customers it creates the prospect that their rates may overtake urban rates to reflect the actual cost of service. In fact, in its appeal to the Federal Cabinet Manitoba and Saskatchewan raise the spectre that the existing CRTC

¹¹ Remarks by Don Ching, Local Rate Announcement, January 14, 2000, page 2.

course is likely to lead to much higher local rates for telecommunications users in northern and rural areas of Canada.¹²

It is forecast these higher rates could raise the current basic phone bill for a rural Saskatchewan resident from the range of \$20 per month to the range of \$100 per month. In its original submission to the CRTC's High Cost Serving Areas hearing, the Government of Saskatchewan noted:

"Failure to maintain an adequate regionally sensitive mechanism to ensure that all residents will continue to have affordable access to basic telecommunications services will have onerous consequences for communities across the country. By reducing margins in order to compete with national companies in the more profitable markets, companies serving rural and remote areas cannot economically serve all of their customers at current rate levels, nor can they continue to expand service into these areas or upgrade existing infrastructure. In Saskatchewan, for example, without subsidies many rural subscribers would have to pay as much as four or five times more than they currently do. Under these circumstances, if required to pay in excess of one hundred dollars a month just to acquire a dial tone, many residents and businesses would not be able to retain access to even basic telephone services."¹³

¹² Petition of the Government of Manitoba and the Government of Saskatchewan to His Excellency, The Governor General In Council, January 14, 2000, page 18.

¹³ Government of Saskatchewan Submission to Canadian Radio-Television and Telecommunications Commission In Response to Telecom Public Notice CRTC 97-42 Service to High Cost Serving Areas, May 1, 1998, paragraph 38.

Universal Service Fund

Faced with competing telecommunications companies, the fact Saskatchewan will still have a \$33 million subsidy flowing from long distance to local rates, even after the proposed rate increase, and the prospect that rural and remote telephone rates could skyrocket as a means of eliminating that subsidy, the Government of Saskatchewan advanced the Universal Service Fund.

This lower contribution is because of two factors: (1) other companies have fewer rural and remote customers to serve; and (2) they are already operating in much more competitive markets. The national average for subsidy rates from long distance revenue to local rates is only half a cent for every minute of long distance revenue, compared to Saskatchewan's two cents. As greater competition looms in Saskatchewan, the disparity between SaskTel contribution rates and the contribution rate of its competitors places SaskTel at a disadvantage to its competitors on the long distance front.

If it is going to compete effectively, SaskTel's long distance rates need to be equal to or lower than its competitors. That implies that components of its rates also need to be equal to or lower than its competitors. If SaskTel is making a higher contribution to local rates than its competitors, that will result in higher long distance rates and loss of market share. Conversely, if SaskTel lowers its contribution to local rates to get its long distance rates in line with its competitors, it also lowers the amount of money available to subsidize local rates. Because SaskTel is about to face new competition for local telephone service in urban areas, there will be additional downward pressure on urban local telephone rates

induced by competition. Together, these factors will conspire to put huge upward pressure on rural and remote local telephone rates.

Anticipating these factors, and noting what other countries have done to deal with rural and remote telephone rates and service, Saskatchewan proposed the Universal Service Fund.

Rather than dealing with rural and remote service on a regional or provincial basis, the Universal Service Fund envisions tackling the issue on a national basis. Specifically, rather than allowing different telephone companies to make different levels of contributions from long distance to subsidize local rates, the Saskatchewan proposal suggested the CRTC enforce a single, national contribution rate. All telephone companies would be required to make the same contribution to the Universal Service Fund. That would solve SaskTel's problem of making a different contribution than its competitors and also create a fund of national scope and strength to deal with telecommunications issues in rural and remote areas. The end result would be a national pool of funds, rather than several smaller provincial pools, with consistent contributions from all telecommunications companies, rather than a patchwork of varying contribution rates.

The Government of Manitoba told the CRTC the Universal Service Fund is needed and:

"A national rural and remote support fund concept is consistent with the policy objectives set out in the Telecommunications Act. It also would create the broad base of sustainable inter-territorial funding needed to maintain and advance rural

and remote service without imposing an undue or unreasonable burden on telecommunications users. Such a fund would have the additional benefit of being easily understood and administered. A national fund also can be made to be competitively neutral and governed to ensure that the benefits flow where they are required."¹⁴

Saskatchewan added that:

"A national Universal Service Fund is the most effective method of achieving these principles. The Province suggests that this approach is an effective method of transcending provincial and territorial boundaries, balancing social and commercial interest, and fairly distributing the financial responsibility to serve all Canadian citizens regardless of where they may reside in Canada."¹⁵

The Universal Service Fund is urgently needed, the two provinces argued, to maintain affordable access to quality telecommunications for Canadians in rural and remote regions. "In the absence of a telecommunications network to which everyone is connected at comparable rates," the appeal says, "rural and northern regions, and the provinces and territories in which they are disproportionately located, will be further disadvantaged in competing in the global economy and in particular with their American counterparts."

¹⁴ Petition of the Government of Manitoba and the Government of Saskatchewan to His Excellency, The Governor General In Council, January 14, 2000, page 14.

¹⁵ Ibid

Advocates of the Universal Service Fund argue the issue is not just about affordable and reliable basic telephone service, but also about the critical telecommunications link to the information super highway and, specifically, the Internet. In its original submission on the Universal Service Fund, the Government of Saskatchewan said: "The issue of on-ramps to the information super highway is really a question of whether residents and businesses have local access to the Internet or must pay long distance toll calls to make their Internet connections." In the later appeal Saskatchewan argues that:

"The telephone is at the core of today's social, cultural and economic life. For residents of rural and remote communities, in particular, the value of their telecommunications system is greater than the ability to simply make routine telephone calls. Increasingly, the ability to be competitive within a global economy and to progress and prosper in one's own community is reliant on telecommunications . . . Economic and technological trends emerging on the global stage are increasingly forcing rural and remote communities into the information age, with the following result: No rural community . . . can long remain a peaceful backwater in this river of global change. To remain viable as communities, all must adapt to the changed environment by using information and information technology to keep their communities competitive. Communities that fail to do so will have fates similar to small communities that were bypassed by . . . railroads and highways in earlier times."¹⁶

¹⁶ Petition of the Government of Manitoba and the Government of Saskatchewan to His Excellency, The Governor General In Council, January 14, 2000, pages 10, 11.

Other groups agreed with the position, including the Saskatchewan School Trustees Association (SSTA). In support of the appeal of the CRTC decision, Association President Gary Shaddock said a Universal Service Fund is needed to "ensure that Internet access to schools in rural, remote or northern areas of Saskatchewan is not lost due to dramatic and prohibitive cost increases." In a supporting submission to the Federal Cabinet the SSTA argued:

"Successive Saskatchewan Governments of all political stripes have built SaskTel into a first class utility which through cross-subsidization provides first class affordable services for virtually every resident of Saskatchewan. To suggest that the taxpayers of Saskatchewan must now subsidize a previously profitable utility to ensure the right of foreign companies to skim the profitable telephone services and export the profits out of Canada is to say the least, offensive. The Government of Saskatchewan has submitted SaskTel to national regulation to meet the policy or treaty requirements of the Federal Government, but it should not now cost Saskatchewan taxpayers and children to be Canadian."¹⁷

The comment acknowledges the possibility that if SaskTel isn't able to muster sufficient funds to provide service to rural and remote areas, provincial governments may be called upon to provide new subsidization to high cost telecommunications areas.

In its appeal of the CRTC's decision not to proceed with a Universal Service Fund, Saskatchewan and Manitoba set out six reasons why the decision should be overturned:

¹⁷ Saskatchewan School Trustees Association Petition to the Governor In Council, Telephone Service to High-Cost Serving Areas, January 12, 2000, page 30.

- The Decision means continuing to depend on an inappropriate and fragile subsidy mechanism;
- The Decision means increased rates for northern and rural Canadians and the creation of a new inequity between these Canadians and urban telecommunications users;
- The Decision undermines the future economic and social well-being of northern and rural areas;
- The Decision creates a condition where companies driven by competitive imperatives will be reluctant to make the investments needed in rural and northern areas beyond the required minimal or basic services prescribed by the Decision;
- The Decision is inconsistent with the Telecommunications Act and federal policy.

The appeal asks that Cabinet direct creation of a national Universal Service Fund pursuant to section 46.5 of the Telecommunications Act and that the CRTC proceed with public hearings, no later than July 1, 2000, to determine how the fund would operate.

A ruling on the appeal must be made no later than October 19, 2000.

Conclusion

The concept of a Universal Service Fund becomes a key factor in determining the telecommunications landscape in rural and remote areas in a world where competition increasingly influences delivery of telephone services.

Without a Universal Service Fund drawing on the resources of larger telecommunications companies serving more highly populated and commercially lucrative markets, more sparsely populated regions will face increasing upward pressure on their monthly telephone bills. Whether adequate infrastructure will be extended to provide modern services, such as high-speed Internet access, to rural and remote areas will also be in question.

That in turn advances to the forefront the issue of whether conditions of the Telecommunications Act, and similar provincial government policies, relating to equitable provision of telecommunications services to all citizens are being met, and whether rural and remote areas are being treated equitably with urban centres.

Saskatchewan's Telecommunications Timeline

- August, 1989** Supreme Court of Canada rules telecommunications is a federal responsibility, prompting negotiations to bring provincially owned telecommunications companies, such as SaskTel, under eventual jurisdiction of the Canadian Radio-Television and Telecommunications Commission (CRTC).
- November, 1996** Competition for long distance telephone services becomes widely available in Saskatchewan.
- December, 1997** CRTC calls hearings on Service to High-Cost Serving Areas.
- May, 1998** Government of Saskatchewan proposes Universal Service Fund at CRTC hearings as means of dealing with high-cost service areas.
- October 19, 1999** CRTC issues decision on high-cost serving areas, rejecting Universal Service Fund.
- January 14, 2000** Saskatchewan and Manitoba governments file joint appeal of CRTC decision to Federal Cabinet, seeking reversal of ruling and introduction of Universal Service Fund.
- Sask Tel announces application for increase in local telephone rates to reduce, but not eliminate, cross-subsidization between long distance and local telephone charges.
- June 30, 2000** Sask Tel comes under CRTC jurisdiction.
- October 19, 2000** Deadline for Federal Cabinet's decision on Saskatchewan and Manitoba appeal of CRTC ruling requesting establishment of Universal Service Fund.