

Integrated Telecommunication Services

CRTC reviewing wholesale high-speed access framework

Industry Overview

Wholesale HSA under review; lowering rates 10%

The Canadian Radio-television and Telecommunication Commission (CRTC) has announced a review of its wholesale high speed access (HSA) framework. The review was flagged in November by the outgoing CRTC Chairperson in his final speech at the Canadian Telecom Summit. In the CRTC's view, the existing framework and rates are not fulfilling the public policy goal of lowering consumer prices through increased competition and choice. The CRTC is also implementing an interim 10% reduction to existing aggregated wholesale HSA rates. Revised tariffs are due to be filed by March 17, 2023.

Industry impact hinges on new rates

This wholesale HSA review was anticipated. The outcome could take over a year to complete. We believe it is likely to result in lower wholesale rates and increased access to fiber-to-the-home (FTTH) through an aggregated HSA model where independent ISPs connect to a central point of interconnection to access the facilities-based provider's entire operating territory (transport and last mile). We think the key will be at what rates. Any incremental reduction to the existing rates helps wholesales. Small changes should help wholesales and have a minimal impact on investment. The risk for the CRTC is overshooting. If rates are set too low, incremental network investment will suffer and consumers' long-term interest will be harmed. After an impressive multi-year industry investment in fiber, the industry's ROIC is down materially from five years ago. In our opinion thoughtful regulation will consider the returns such a substantial investment requires (above the cost of capital) to avoid destroying value while encouraging ongoing investment. The industry has a good track record of balancing the demand of shareholders, subscribers, the regulator, and policy makers. The industry is also well positioned to compete with wholesales following several recent acquisitions.

CRTC wants other regions to embrace wholesale HSA

The CRTC is also seeking comments on how to expand wholesale HSA to more regions and create an equitable balance. Currently, nearly 90% of wholesale HSA demand is concentrated in Ontario and Quebec. This is much higher than the 60% of households within these two provinces. The CRTC is also focused on re-establishing an equitable distribution of wholesale HSA between telcos and cablecos. Today, roughly 75% of wholesale demand uses cable compared to a roughly 50/50 split back in 2015.

Updated CRTC policy direction supports investment

The key objectives of the recently updated CRTC policy direction include supporting competition and investment in addition to affordability, access, innovation, and reducing barriers to entry. Among the policy direction's principles of effective regulation are: 1) predictability, 2) proportionality, and 3) the balancing the priorities of a) competition, b) investment, c) choice, d) innovation, and e) reasonable prices.

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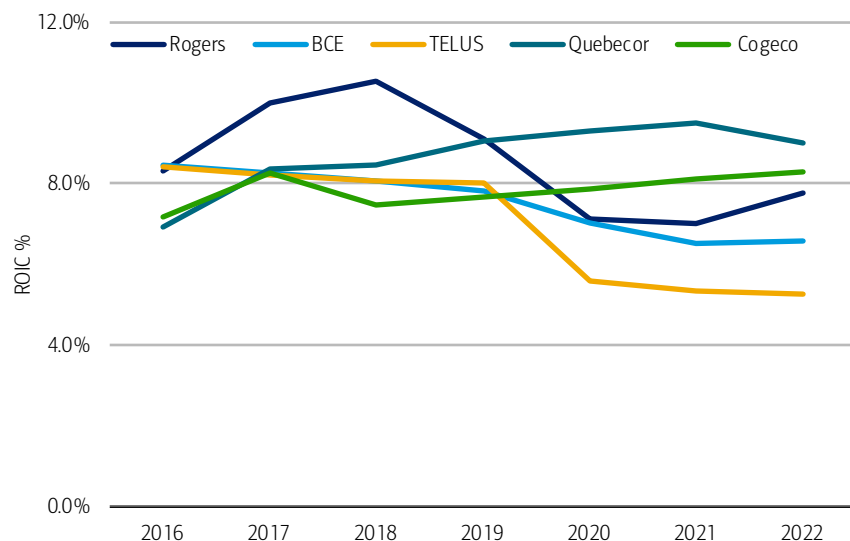
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Industry ROIC fell with fiber build-out

The substantial fiber investment needed to deploy next generation networks has contributed to a decline in telco return on invested capital. We believe the regulator will be mindful of this when considering new rates for wholesale HSA. In the past, the CRTC has effectively balanced in the competing priorities of political policy directions.

Exhibit 1: Return on invested capital – Canadian telecommunication sector

Massive telco fiber investment contributing to declining ROIC



Source: BofA Global Research estimates; company reports

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