

Retail Quality of Service Indicators

As part of the second price cap decision, incumbent telephone companies are also subject to an interim penalty mechanism for retail quality of service. Under this mechanism, these companies could pay a penalty of up to 5% of their annual revenues from total local retail, business and residential services that are regulated. For Bell Canada, the potential penalty amount could be as much as approximately \$262 million annually.

The interim penalty mechanism covers 13 retail quality-of-service indicators. If a company does not meet the CRTC's average annual standard for any of these indicators, the penalty could range from \$5 million to \$20 million for each indicator that is not met on an annual average basis. The amount of penalty payable would be based on how much the actual results for each indicator deviated from the CRTC standard.

This mechanism is currently under review in the proceeding initiated by Public Notice 2003-3, *Retail quality of service rate adjustment plan and related issues*, and a decision has not yet been made. Based on actual results year-to-date, we do not expect Bell Canada to face any penalties for the penalty period of July 1, 2004 to June 30, 2005.

Decision on Incumbent Affiliates

On December 12, 2002, the CRTC released its decision on incumbent affiliates, which requires Bell Canada and its carrier affiliates to receive CRTC approval on contracts that bundle tariffed and non-tariffed products and services. This means that:

- all existing contracts that bundle tariffed and non-tariffed products and services must be filed with the CRTC for approval
- all new contracts that bundle tariffed and non-tariffed products and services must receive CRTC approval before they are carried out
- carrier affiliates must meet the same approval requirements as Bell Canada on products and services they offer in Bell Canada's operating territory.

On September 23, 2003, the CRTC issued a decision that requires Bell Canada and its carrier affiliates to include a detailed description of the bundled services they provide to customers when they file tariffs with the CRTC. The customer's name will be kept confidential, but the pricing and service arrangements it has with the Bell Canada companies will be available on the public record.

This decision increased the regulatory burden for Bell Canada and its carrier affiliates at both the wholesale and retail levels. It could also cause some of their large customers to choose another preferred supplier, which could have a material and negative effect on their results of operations. Bell Canada's appeal of this decision to the Federal Court of Canada was dismissed on September 14, 2004. As a result, Bell Canada has submitted tariffs for CRTC approval for those contracts with bundles that have not yet expired in order to provide more detailed descriptions of the bundled services.

Allstream and Call-Net Application Concerning Customer-Specific Arrangements

On January 23, 2004, Allstream Corp. (Allstream) and Call-Net Enterprises Inc. (Call-Net) filed a joint application asking the CRTC to order Bell Canada to stop providing service under any customer-specific arrangements that are currently filed with the CRTC and are not yet approved.

Allstream and Call-Net have proposed that Bell Canada should only provide services to these customers under its general tariff.

Bell Canada provided its comments opposing all aspects of this application. If the CRTC grants it, Bell Canada will be required to cancel contracts with many of its enterprise customers and, in some cases, to reprice services. This could have a material and negative effect on Bell Canada's ability to offer new services to the large business customer market on competitive terms and conditions.

Public Notice on Changes to Minimum Prices

On October 23, 2003, the CRTC issued a public notice asking for comments on its preliminary view that revised rules may be needed for setting minimum prices for the regulated services of incumbent telephone companies and for how they price their services,