Pirates of the Arctic: NorthwesTel and Communications Pricing in the North

SUMMARY

It is time to fire a broadside into the monopoly communications environment in Northern Canada. For much of the past century, the principal telecommunications service provider in Canada’s North has been NorthwesTel (NWTel). The NorthwesTel monopoly accomplished its goal: communications were brought to the North. Dial tone is available, at a price, in every community. But communications in the 21st Century has evolved. Communications today is much more than dial tone, just as communications on the high seas has evolved beyond the hoisting of different-coloured flags.

The NWTel monopoly – a monopoly that might have made sense when “the North” was still uncharted waters – is showing its age and, quite frankly, needs more than a few barnacles scraped from its hull. In fact, it needs a new hull to be made seaworthy for the 21st Century.

Companies with fresh thinking, innovative solutions, new services and leaner operations are eager to raise canvas and sail into the northern marketplace as service providers. Their promise? Lower prices, better service and more innovation. It’s been 14 years since the CRTC opened the communications markets of

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1 As the NWTel website states it: “Northwestel became the sole telecommunications supplier North of the 60th parallel.” Ownership in NWTel was transferred from BCE to Bell Canada in 1999.

2 … and its antecedent companies, Yukon Telegraph (1901) and Canadian National Telecommunications (1947) (CNT). Northwestel was established by CN to hold its CNT investment in 1979 and was sold to Bell Canada Enterprises in 1988.
the south to competition. The time has come to offer Northern citizens the same options and the same benefits.

What are the costs to Northern citizens of inaction? Higher prices. To prove the point, we looked at the hypothetical costs of dealing with NWTel as though it were selling the McDonald’s Big Mac. Our calculations were based on NWTel’s markups for both its retail and wholesale services against typical prices in southern Canada, and the results were astounding: if they were selling burgers, they’d be charging $61 – and that’s wholesale! (For a more complete discussion, see pp. 15-16.)

The title of this paper suggests piracy – that is admittedly hyperbole, but it is not too far off the mark. Given that this is government-mandated activity, it could best be described if not as outright piracy then definitely as buccaneering. After all, NWTel is plundering the North, legally, under the monopoly regime established by the CRTC!

**BACKGROUND**

What is it about the pirate’s life that attracts so many? Movie-goers the world over flock to witness the swashbuckling antics of Johnny Depp as Captain Jack Sparrow, and that’s just the latest in a long line of pirate-themed movie-house and theatrical fare stretching back more than a century.

While pirate movies are highly entertaining, they are most definitely not a reflection of reality: actual piracy remains a huge and deadly problem in many parts of the world.

However, it seems that nobody is immune from the romantic notion of life on the high seas – not even the presumably level-headed landlubbers at NorthwesTel Inc. Inspired, perhaps, by the elderly accountants aboard *The Crimson Permanent Assurance*, NWTel is applying to the Canadian Radio-television and Telecommunications Commission (CRTC) for:

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3 . . . with acknowledgement to the *Economist* and its Big Mac Index for inspiration.

4 Buccaneers were “privateers” with mandates from the British Crown to seek (Spanish) gold. Given that NWTel holds a government-sanctioned monopoly in northern Canada, all that is missing from the allusion are the Spanish.

5 . . . handing over some US$3.7B for the first four films alone, according to the *Pirates of the Caribbean* Wiki site (http://pirates.wikia.com/)

6 A list on Wikipedia includes well over 100 films, starting with *The Pirate’s Gold* from 1908. This list does not even mention such theatrical classics as *The Pirates of Penzance*.

7 This is the name of a 1983 Terry Gilliam short film in which said elderly accountants release their building from its moorings and sail off to attack the financial centres of the world. (http://www.imdb.com/title/tt0215685/)
• renewal of the regulatory framework that has applied in its territory for most of the past decade, including the continuation of its monopoly over facilities-based local service provision;
• a $2 per line increase in the rates it charges to both residential and business customers; and
• continuation of the polar-night status quo that continues to afflict the North, where competition to NWTel is prohibited.

NWTel’s list of demands doesn’t end here; NWTel also asks for a 25% increase in governmental aid, from $20M per year to $25.6M per year. They want an increase to help support an absurd market structure? Avast! There are other ways to split this pirates’ treasure.

The parley will take place in Yellowknife, NT, beginning on 4 October 2011. While NWTel prepares to wave the black flag to open negotiations with the CRTC, SeaBoard has studied the charts and taken soundings on the issue and is hoisting a red flag over the important issue of telecom competition in Canada’s North.

This paper outlines the issues and offers some recommendations to the CRTC. Unfortunately for NWTel, we find that many of its arguments do not hold water. This leaves us no choice but to encourage two courses for the Commission:

• First, we urge the CRTC to scuttle NorthwesTel’s monopoly over the provision of facilities-based local services in the North.

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8 In its submissions on September 2, with respect to the Notice of Consultation 2011-302, the Government of Nunavut concluded that the current situation does little to promote better telecommunication services in the North:

5. “The delivery model – a monopoly by a private company – isn’t working for Nunavut, or for the rest of the North. Nunavut – the whole of the north – needs a different delivery model.”

The Government of Nunavut goes on to observe that the NWTel increase is admittedly (by NWTel) not to increase the quality of service nor to augment the features available to telephone customers in all-save-one Nunavut communities.

9 Telecom Notice of Consultation CRTC 2011-302

10 In other words, we have reviewed the regulatory framework and the positions of various stakeholders – including NWTel, the territorial governments and those attempting to offer competitive alternatives.

11 A parley is a discussion between enemies. The blockbuster Pirates of the Caribbean movie franchise popularized the term (and the incorrect spelling, “parlay”) with landlubbers. On the high seas, a request for parley is made by raising a black flag. A red flag symbolizes defiance and was flown by ships in combat to indicate that they would fight to the death.
• Second, we advise the Commission to fire a broadside through NWTel’s wholesale pricing model, which plunders its competitors even as they attempt to offer real choice to Canadians living “north of 60.”

THE ISSUE

As Canadians prepare for a three-day shore leave, NorthwesTel Inc. – the incumbent telephone and cable company and Internet provider for much of Canada’s Arctic north – is applying for renewal of its Price Cap regulatory framework (and other related matters) before the CRTC.

SeaBoard’s focus in this proceeding is on the “asides” rather than on the Price Cap regime itself. Indeed, we argue that competition, not Price Caps, must be the focus of this hearing. Fix the competitive framework in the North and the rest of the issues (prices, caps, basket composition, and so on) resolve themselves – as they are doing in the territories served by NWTel’s owner, Bell Canada, and its sister company, Bell Aliant.

What’s more, by creating the framework for competition in the North, the CRTC would be sailing the course already charted for it, as the federal cabinet’s most recent policy direction to the CRTC instructs the Commission to rely on market forces to safeguard consumer interests to the extent possible.

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12 The 60th parallel represents the border between Canada’s northern territories of Yukon, Northwest Territories and Nunavut and the provinces to the south. Parts of Nunavut extend south of 60° and parts of Quebec and Newfoundland extend north of 60°, but the designation of Canada’s far north is traditionally interpreted as “north of 60.”

13 In this case, Canadian Thanksgiving, which takes place October 8-10.

14 Price Caps is a regulatory approach which tries to establish maximum prices that can be charged by a service or goods provider. The caps are set after consideration of costs of inputs, inflation, and prices charged by any competitors. The objective is to protect consumers (from too-high prices) while trying to ensure that the business will remain profitable. Other regulatory approaches include rate-of-return and revenue cap regulation. Telecommunications in Canada were regulated by the CRTC using rate-of-return calculations till the early 1990s. Price Caps were the regulatory mode for the next two decades. But in 2006, the federal cabinet established a new regulatory approach with a policy direction to the CRTC to rely instead on market forces.

15 Order Issuing a Direction to the CRTC on Implementing the Canadian Telecommunications Policy Objectives, Canada Gazette, 27 December 2006. The direction provides that “the Commission should: i) rely on market forces to the maximum extent feasible as the means of achieving the telecommunications policy objectives, and ii) when relying on regulation, use measures that are efficient and proportionate to their purpose and that interfere with the operation of competitive market forces to the minimum extent necessary to meet the policy objectives.”
NWTEL’S MONOPOLY

In its submissions to the CRTC, NorthwesTel takes the position that it already faces some competition in the North from cell phone providers (namely NWTel’s parent, Bell Canada), from Voice over IP providers and from resellers of NWTel services. Given the lack of more vibrant competition, and given that NWTel has not received any applications from aspiring competitors wanting to interconnect, the company advocates the continuation of its monopoly over facilities-based local services – with some adjustments, including a per-line increase of $2 to the monthly rates for residential and business telephone service as of 1 January 2012.

Many voices have expressed their dissatisfaction with the prospect of rate increases on top of what are already some of Canada’s highest rates for telephone service.\(^6\) The solution? Competition.

Competition at the retail level can do wonderful things for prices. A healthy, vibrant marketplace – a goal which Canada’s cabinet directed the CRTC to pursue – can do much to increase NWTel’s desire for more efficient and innovative operations. If NWTel is allowed to increase its prices, as it hopes, competitors might (if allowed to do so) sail into northern waters, charting new passages and offering northerners new options, new prices and new service levels.

There is, however, some dry dock work to do before the CCGS Competition\(^7\) sets sail. Competitors need connections, yet access to NWTel’s backbone connections southward and other wholesale services come at a usurious cost, making it difficult for other companies to compete. Indeed, if NWTel were to charge itself the same prices it now charges others for wholesale connection, NWTel could not sustain its business either. And the alternative – building one’s own network to compete against the incumbent – is prohibited by the law that protects NWTel’s monopoly over facilities-based local services. These are ice jams that the Commission must clear.

THE NORTH: IT’S NOT LIKE THE SOUTH

In its arguments before the CRTC for the preservation of its monopoly, NorthwesTel asserts that the North is not like southern Canada. The company claims that higher costs and

\(^6\) A good case for limiting NWTel’s monthly rate increase ambitions is made my Michael Janigan and the Public Interest Advocacy Centre in its 2 September 2011 comments on the Price Caps hearing, page 14.

\(^7\) This is not an actual vessel in Canada’s coast guard, but given the global interest in opening the Arctic to year-round shipping, the CCGS Competition might be an appropriate name for a new icebreaker.
thinner populations, combined with the requirement to invest to upgrade facilities to be able to offer the latest services, mean that it makes sense for there to be a single infrastructure provider. NWTel believes that it makes no sense to try to facilitate competition in such a marginal territory. Moreover, the company states that “no competitor has applied to interconnect,” and concludes that this must mean that there is no interest in the northern marketplace.

These seem like compelling arguments – but do they ring true? It’s a question worth running up the mast to see if any wind fills its sails.

SeaBoard agrees with NWTel that the region is different from the rest of Canada. As the chart below makes clear, the North consists of a huge geographic area with a very small population – especially when compared with Canada’s ten provinces:

<table>
<thead>
<tr>
<th></th>
<th>LAND AREA KM²</th>
<th>POPULATION</th>
<th>POP/KM²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yukon</td>
<td>474,391</td>
<td>34,246</td>
<td>0.072</td>
</tr>
<tr>
<td>Northwest Territory</td>
<td>1,183,065</td>
<td>43,529</td>
<td>0.037</td>
</tr>
<tr>
<td>Nunavut</td>
<td>1,936,113</td>
<td>32,900</td>
<td>0.017</td>
</tr>
<tr>
<td>The Ten Provinces</td>
<td>5,470,918</td>
<td>33,899,282</td>
<td>6.196</td>
</tr>
</tbody>
</table>

NWTel has a point – but this will not come as news to anybody who has travelled north of 60 (or, at least, watched any documentary or drama set there). The North is not like the south. The average population density in the provinces is more than 100 times that of the average in the territories. Obviously, the costs to serve northern residents cannot be less than the costs to serve those in the south – especially given the North’s harsher environment and the challenges of provision and maintenance.

Yet averages are not reflective of reality. Averages are artificial constructs. Select a 100-km² chunk of Nunavut at random and you are unlikely to find 1.7 people in it, as the average figure suggests. More likely, you will find nobody.

The northern population tends to be highly clustered. Most of the population is found in 72\(^\text{18}\) or so communities. Serving concentrations of people in 72 locations is a far easier job than serving that same population with a density of 1.7 people per 100 km².

\(^{18}\)There are 25 communities in Nunavut, 33 in NWT and 14 in the Yukon – 72 in total.
This is one area where the NWTel logic falls apart. Yes, the North is different. Yes, the populations are small and the area large. But the essential task is to get service to the communities. Those communities are finite in number.

What’s more, network architecture and operation north of 60 should not be more complex (and therefore more expensive) than in remote-rural\textsuperscript{19} areas in the south. In some cases, it may even be less complex. Northern populations are tightly clustered: of the 41,195 people in the Northwest Territories, Yellowknife is home to 20,000.\textsuperscript{20} On the other hand, cities and towns in the south tend to be surrounded by villages and farms — places that are just as rural yet still require local service, with all the infrastructure and staffing requirements that that entails. The population densities of, say, southern Saskatchewan farm country are sparse, too.

SeaBoard looked at the question of remote-rural areas of Canada in our paper, \textit{The Woods are Lovely, Dark and Deep},\textsuperscript{21} where we noted that such areas are at least as challenging to serve as communities in the Far North. What is different is that in the North, NWTel continues to receive ten of millions of dollars in government subsidies from various programmes.\textsuperscript{22} In fact, in its recent filing, NWTel has asked for a subsidy of $25.6M for 2012 in order to "ensure that all Canadians have access to high-quality services at reasonable rates."\textsuperscript{23,24}

Moreover, those aforementioned 72 northern communities already have service from NWTel. They are not, for the most part, new communities; NWTel has been there for

\textsuperscript{19}“Remote-rural” is a term coined by the SeaBoard Group in 2011.

\textsuperscript{20} Statistics Canada, 2006

\textsuperscript{21} We delve into the remote-rural definition in \textit{The Woods are Lovely, Dark and Deep} (SeaBoard Group, April 2011) and show that such areas are found across the country, including within a two-hour drive of the nation’s capital. Remote-ruralness is not a characteristic exclusive to the North.

\textsuperscript{22} The National Contribution Fund and the Service Improvement Plan (SIP) are two examples. In 2000, for example, and in addition to regular subsidies, NWTel received $85M from SIP to extend and upgrade its telephone network over the following five years.

\textsuperscript{23} CRTC 2007-5. Part of NWTel’s difficulty in supporting local competition in the North is the stated need to upgrade facilities — and, importantly, the software running on the company’s switching centres. In its case to the CRTC, SSi Micro points out that had NWTel adopted any of the software updates offered by its switch suppliers since the late 1990s, the necessary capabilities would be supported. That’s a long time without an upgrade, the sort of upgrade that other ILECs perform as a matter of course in the normal maintenance of their network. That NWTel has let its own network petrify in spite of a high-cost, serving-area subsidy suggests that its maintenance routines leave out major elements.

\textsuperscript{24} TELECOM NOTICE OF CONSULTATION CRTC 2011-302, REVIEW OF PRICE CAP REGULATORY FRAMEWORK FOR NorthwesTel INC. AND RELATED MATTERS, INITIAL EVIDENCE OF NorthwesTel, 13 JUNE, 2011, \url{http://www.nwtel.ca/media/documents/2011302_Review%20of%20Price%20Cap%20Regulatory%20Framework%20for%20NorthwesTel%20Inc.%20and%20Related%20Matters.pdf}
decades. Most of the company’s investment to serve those communities, and to connect those communities with the south, was made long ago.

Now it’s time for other service providers to have an opportunity to do the same – to the benefit of northern residents and businesses. It’s time for change, it’s time for innovation, it’s time for lower prices. In short, it’s time for competition.

COMPETITION

Competition is a strangely liberating word. It “brings out the best in us.” It “makes us stronger.” Dr. Johnson defined competition as “the action of endeavouring to gain what another endeavours to gain at the same time.”\(^{25}\) It is a phenomenon known to all of us – indeed, a veritable hallmark of modern commerce.

The Canadian communications market has been opening to competition for the past three decades.\(^ {26}\) Nothing was done capriciously. Nothing was done without deliberation.

The key to understanding the focus on the North in the current NorthwesTel petition is the year 1997. That’s the year most Canadians were allowed to choose their local phone service provider. It marked the real end of monopoly service, monopoly thinking and monopoly pricing for most Canadians. A few smaller incumbent phone companies were protected from facilities-based local competition for another decade, but those monopolies ended in 2006. Yet for the North – and for Canadians living north of 60 – that monopoly treatment continues.

A LONG TIME AGO

Because 1997 is so important, let’s take a closer look at that year.

\(^{25}\) Dr. Samuel Johnson (1709-1784), Dictionary of the English Language, 1755.

\(^{26}\) The competitive thrust began when government allowed the attachment of foreign devices (that is any equipment not supplied by the phone company itself) onto the phone network. It may seem strange to those for whom the 1970s are known only by historical reference, but once upon a time you could only obtain telephones from the phone company and you could not own them. Instead, you had to rent them by paying a monthly premium to the monopoly phone company. Consumer choice of long distance carrier was introduced in 1991, and choice of local telephone service provider was introduced into most of Canada in 1997. Business fared slightly better with more choice and lower costs: business was given competitive alternatives for private lines in the 1970s and for fax services in the 1980s.
## Exhibit 1
### Selected Notable Events of 1997

<table>
<thead>
<tr>
<th>EVENT</th>
<th>WHERE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Communications Competition</td>
<td>Canada</td>
</tr>
<tr>
<td>Gilles Duceppe is elected leader of the Bloc Québécois.</td>
<td>Canada</td>
</tr>
<tr>
<td>Jean Chrétien is re-elected with a second consecutive majority.</td>
<td>Canada</td>
</tr>
<tr>
<td>Bre-X geologist Michael de Guzman falls from a helicopter.</td>
<td>Indonesia</td>
</tr>
<tr>
<td>Bill Clinton is inaugurated for a second term.</td>
<td>USA</td>
</tr>
<tr>
<td>Tony Blair becomes Prime Minister of the United Kingdom.</td>
<td>UK</td>
</tr>
<tr>
<td>J.K. Rowling’s <em>Harry Potter and the Philosopher’s Stone</em> is published.</td>
<td>UK</td>
</tr>
<tr>
<td>Steve Jobs returns to Apple Computer.</td>
<td>USA</td>
</tr>
<tr>
<td>Bernie Ebbers of Worldcom bids for MCI for $40B.</td>
<td>USA</td>
</tr>
<tr>
<td>James Cameron’s <em>Titanic</em> is released.</td>
<td>USA</td>
</tr>
<tr>
<td>Sovereignty of Hong Kong is transferred to China from Britain.</td>
<td>China</td>
</tr>
</tbody>
</table>

**Deaths:**
- Mother Teresa, Nobel Peace Prize winner
- Pierre Péladeau, founder of Québecor
- Mobutu Sese Seko, president of Zaire
- Allan Ginsberg, American “beat” poet
- William S. Burroughs, American author
- Fela Kuti, Nigerian musician
- James Stewart, American actor
- Diana, Princess of Wales

What is notable about the events listed in Exhibit 1 is that they all seem so long ago.

- Take Clinton’s second term, for example. Then, he was (nearly) disgraced.\(^\text{27}\) In the decade and a half since, the ex-president has been transformed – totally rehabilitated by the passage of time and the cooling of fervour. Clinton now enjoys a global role as a senior statesmen and philanthropist.\(^\text{28}\)

\(^\text{27}\) To refresh your memories, in the 1998 scandal known under various names, including “Lewinskygate” and “Zippergate,” Clinton was impeached by the US House of Representatives but subsequently acquitted by a trial in the Senate. And navy blue dresses joined pirate outfits as legitimate Hallowe’en costumes.

\(^\text{28}\) The Clinton Foundation ([http://www.clintonfoundation.org/](http://www.clintonfoundation.org/)) works to alleviate poverty, improve global health, strengthen economies and protect the environment.
• James Cameron has gone on to new heights in the fifteen years since 1997 (one can almost forget Titanic).

• Much water has also passed under the bridge since MCI and Worldcom, which fell from being the largest merger in the United States to a historical footnote.29

The advent of competition in the Canadian telecommunications marketplace was also a long time ago. Our airways no longer bear tidings from Candice Bergen offering us “the Most™” from Sprint Canada. The Stentor Alliance has broken up30 and – on the surface at least – Bell and former alliance members BCTel and AGT (now known as Telus) are keen competitors.31

NORTHERN EXPOSURE

But not all of Canada has benefitted from competition. The people of Canada’s North continue to be pillaged by a monopoly. Exhibit 2 compares the pricing for communications services in two regions: Montreal, where residents benefit from a competitive marketplace (and have since 1997), and Yellowknife, where residents are served by NorthwesTel’s monopoly and their interests are supposedly protected by the CRTC’s Price Cap regulation. As Exhibit 2 illustrates, the benefits to shareholders of a monopoly are clear. So, too, are the costs to customers.

29 Worldcom, the successor company, changed its name back to MCI Inc. after the Ebbers scandal. The company was bought by Verizon in 2006 for $7.6B.

30 In 1999.

31 However, it should be noted that the two companies have reaffirmed their network sharing relationships and, indeed, have launched new joint network builds, which suggests that the competitive fervour may be more for public consumption than integral to the corporate DNA.
Exhibit 2
Competitive Marketplace vs. Monopoly Marketplace

Sources: Company websites, SeaBoard Group; 2011

<table>
<thead>
<tr>
<th>SERVICE</th>
<th>YELLOWKNIFE</th>
<th>MONTREAL</th>
<th>NORTHERN PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone line – ILEC</td>
<td>$31.33</td>
<td>$29.92 (includes Call Display and Call Waiting)</td>
<td>for dialtone: 4.5%</td>
</tr>
<tr>
<td>Call Display:</td>
<td>$6.40/month</td>
<td>Bell Home phone Basic, not including any bundle</td>
<td>for same service: 30.4%</td>
</tr>
<tr>
<td>Call Waiting:</td>
<td>$5.25/month</td>
<td>discount.</td>
<td></td>
</tr>
<tr>
<td>NWTel Local Service</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>none</td>
<td>$17.35 (includes unlimited local and province-wide</td>
<td>44.6%</td>
</tr>
<tr>
<td>Telephone line –</td>
<td></td>
<td>long distance calling with Videotron</td>
<td>(does not include</td>
</tr>
<tr>
<td>Alternative</td>
<td>none</td>
<td>customers)</td>
<td>regional long</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>distance calling)</td>
</tr>
<tr>
<td>Telephone line –</td>
<td>none</td>
<td>$15.95 (includes 300 minutes of local and long</td>
<td>62.9%</td>
</tr>
<tr>
<td>Alternative VoIP</td>
<td></td>
<td>distance calling anywhere in Canada or the USA;</td>
<td>(does not include</td>
</tr>
<tr>
<td></td>
<td></td>
<td>includes all popular features; free iPhone</td>
<td>cost of 300</td>
</tr>
<tr>
<td></td>
<td></td>
<td>app)</td>
<td>minutes of Canada</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Offered by Babytel; requires Internet access.</td>
<td>and US long</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>distance calls)</td>
</tr>
</tbody>
</table>

The price for local connection charged by NorthwesTel, at $31.33, isn’t significantly different from prices charged in southern Canada. Indeed, the company says as much:
“NorthwesTel offers a full range of services to our northern customers, at rates comparable to those in southern Canada.”

The $31.33 price will rise to $33.33 per line on 1 January 2012 should the CRTC approve NWTel’s applications for a basic service increase.

**But while the price is similar, the services are not.** Table 2 shows us that the Bell Canada rate for basic telephone service in Montreal is $29.92 before any multiple service discounts and after a six-month promotional discount. Northern customers are spending $1.41 per month more than Montreal customers yet do not receive the Call Display and Call Waiting services that their southern counterparts receive from NWTel’s parent company. Those services are available, at least in Yellowknife, for an additional $11.65 per month.

The real contrast, however, comes when one compares what NWTel is offering in the North to what competing companies are offering in Montreal. Videotron, for example, has attracted more than a million home telephone customers away from Bell since launching its competing phone service in 2005. At $17.35 before multiple service discounts, Videotron’s service is $12.57 per month less than the Bell service and $13.98 per month less than the “feature-free” NWTel service.

Curiously, NWTel has shown that it can be more aggressive in telephony pricing, too, but not in the Northwest Territories. If you care to move to High Level, AB, NWTel can offer you a service for $49.95 that includes all the calling features and free calling to anywhere in the US or Canada. This service is comparable to that offered by Babtel in Montreal (and anywhere else in Canada except the North), as shown in the final row of Table 2. However, the Babtel service is $34 per month less. Obviously, NorthwestTel still has much to learn about competitive pricing.

It is clear that there is a premium to be paid for northern service. Indeed, it almost goes without saying that, everywhere one turns, a “northern premium” is assumed. Given the weather, geographic conditions, paucity of roads and other transport corridors, scarcity of

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32 NorthwesTel.ca/perspnal/voice/local-services-rates/ September 2011.

33 NWTel proposes to upgrade its systems to make enhanced calling features like Call Display available in 29 more communities. The company is seeking subsidy assistance to make these features available, despite already receiving approximately $20M per year in subsidies from the National Contribution Fund for ongoing network upgrades (CTRC 2007-5). In its evidence, NWTel competitor SSi Micro points out that the software enhancements to make these features available, along with those upgrades associated with many of the features required to support a competitive local exchange framework, would have been available had NWTel made the “usual” software upgrades suggested by the manufacturer of its switching equipment over the last decade or so.
population and other factors, this makes sense – at least on first glance. Digging deeper and looking beyond telecommunications, the difference is less stark.

**BEYOND TELECOM**

Telecom network operators and service providers are not the only companies coping with the northern challenges. Things like geography, meteorology and demography affect all businesses. How do other companies, in other sectors, manage? Comparing retail prices for other goods and services in the North with those in more southern climes should give us a good indication of what the “northern premium” really is. So that’s what we did.

Exhibit 3 shows some examples of typical prices and markups that our team sought out in September 2011.³⁴

**Exhibit 3**

**Prices in the North vs. Prices in the South**

*Source: SeaBoard Group, 2011*

<table>
<thead>
<tr>
<th></th>
<th><strong>THE SOUTH</strong></th>
<th><strong>YELLOWKNIFE</strong></th>
<th><strong>NORTHERN PREMIUM</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eggs:</strong> 1 dozen, large, Omega 3</td>
<td>$3.13 IGA, Montreal</td>
<td>$2.99 Country Fresh, Co-op</td>
<td>-4.7%</td>
</tr>
<tr>
<td><strong>Milk:</strong> 2 litres, 2%</td>
<td>$3.42 Sealtest; IGA, Montreal</td>
<td>$2.79 Dairyland, Co-op</td>
<td>-22.6%</td>
</tr>
<tr>
<td><strong>Beer, draft:</strong> Pint of Molson Canadian</td>
<td>$6.25 Quail &amp; Firkin, Toronto</td>
<td>$7.50 Black Knight Pub, Yellowknife</td>
<td>16.7%</td>
</tr>
<tr>
<td><strong>Beer, bottles:</strong> 12 bottles, Molson Canadian</td>
<td>$20.95 Brewers Retail</td>
<td>$25.42 NWT Liquor Commission</td>
<td>17.6%</td>
</tr>
<tr>
<td><strong>Rum:</strong> Captain Morgan spiced, 750ml</td>
<td>$28.45 LCBO</td>
<td>$32.15 NWT Liquor Commission</td>
<td>11.5%</td>
</tr>
<tr>
<td><strong>Gasoline:</strong> 1 litre, regular</td>
<td>$1.36 Montreal, 15 Sept '11 gasticker.com</td>
<td>$1.42 Yellowknife, 15 Sept '11 gasticker.com</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>Dry Cleaning:</strong> Man’s Blazer</td>
<td>$8.39 Knob Hill, Toronto</td>
<td>$9.00 Diamond Drycleaners, Yellowknife</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

³⁴ It has been pointed out that September isn’t “the remotest month.”
<table>
<thead>
<tr>
<th>Item</th>
<th>“THE SOUTH”</th>
<th>YELLOWKNIFE</th>
<th>NORTHERN PREMIUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Mac: McDonald’s hamburger</td>
<td>$4.59 King &amp; Bathurst, Toronto</td>
<td>$4.70 Yellowknife, NT</td>
<td>2.3%</td>
</tr>
<tr>
<td>Car Battery: Motomaster Eliminator 51R 450CCA</td>
<td>$102.99 Canadian Tire, Toronto</td>
<td>$102.99 Canadian Tire, Yellowknife</td>
<td>0.0%</td>
</tr>
<tr>
<td>Daycare: Day, m/f, 3-5 year old</td>
<td>$855/month/full day Centro-Clinton Daycare, Toronto</td>
<td>$900/month/full day Yellowknife Play School</td>
<td>5.0%</td>
</tr>
<tr>
<td>Inglis 6.5 cu. ft. Dryer</td>
<td>$349.99 Canadian Tire, Toronto</td>
<td>$349.99 Canadian Tire, Yellowknife</td>
<td>0.0%</td>
</tr>
<tr>
<td>KFC Bargain Bucket (18 pieces with large fries)</td>
<td>$30.99 KFC Bloor &amp; Euclid Toronto</td>
<td>$39.89 KFC 48th &amp; Franklin Yellowknife</td>
<td>22.3%</td>
</tr>
</tbody>
</table>

**Average Premium:** 4.9%

It appears that things aren’t quite as expensive in the North – or at least in what could be called the “urban north” – as we expected. Many things are comparable, and some are even cheaper. **In our basket, the average northern premium was less than 5%.** The exception to this modest premium to live in the North, as we have seen above, is communications services. Consumers are paying a significant premium for communications. Exhibit 4 explores the possible implications of life in the North if NorthwestTel’s monopoly were to be extended to other areas of commerce in the North. A bucket of chicken? No change from $500! A tankful of gas, expensive enough in the south, would be over $1,000 per fill-up. Such would be the case if NorthwestTel’s pricing principles were adopted by other merchants. At those prices, the economy would grind to a halt, of course, and those merchants would require a monopoly to survive . . . just as in NorthwestTel’s case.

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35 Even fried chicken – which, despite protests from some quarters, is not a nutritional staple – comes with less of a “northern premium” than communications services. Those hankering for the Colonel’s secret recipe must pay a 22% premium, while a case of Molson Canadian is only 18% more expensive in Yellowknife. Even a pirate’s favourite tipple, rum, carries a mere 11% premium. Compare that with the previously-noted 30.4% hike for dial tone plus two basic services (Call Waiting and Call Display), and it’s sure to make any self-respecting pirate exclaim, “Arrrgh!”

36 In this example, a bucket of KFC would cost $518 before taxes.
## Exhibit 4
**If NWTel Were in Other Businesses . . . .**

*Source: SeaBoard Group, 2011*

<table>
<thead>
<tr>
<th></th>
<th><strong>YELLOWKNIFE COMPETITIVE PRICE</strong></th>
<th><strong>IF NWTEL SOLD IT</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gasoline:</strong></td>
<td>$1.39</td>
<td>$18.07</td>
</tr>
<tr>
<td>1 litre, regular</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Beer:</strong></td>
<td>$7.50</td>
<td>$97.50</td>
</tr>
<tr>
<td>1 pint, Canadian</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Car Battery</strong></td>
<td>$102.99</td>
<td>$1338.87</td>
</tr>
<tr>
<td><strong>KFC Bargain Bucket</strong></td>
<td>$39.89</td>
<td>$518.57</td>
</tr>
<tr>
<td>(18 pieces with large fries)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* This assumes a price differential similar to that which NWTel applies to communications service provision to wholesale customers in the North. SSi Micro has stated to the Yellowknife News that NWTel’s wholesale prices are 13 to 30x what prices are for similar services in southern Canada. Our examples in Exhibit 4 use the lower end of that range.

Another way to illustrate this pricing discrepancy is by using the famous Big Mac as a comparator. A regular Big Mac, which costs $4.70 in a competitive Yellowknife market, would cost a northern carrier (when buying wholesale from NWTel) a whopping $61 – and that’s the wholesale price! One is left to ponder what the consumer would eventually have to pay once the burger came to market from a competitor forced to use NorthwesTel’s wholesale services at current price levels. Price points, at least for burgers, certain to wipe the smile off Ronald McDonald’s face.

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37 Ronald McDonald is a clown character used as the primary mascot of the McDonald’s fast-food restaurant chain. The creator of Ronald McDonald was Willard Scott (a local radio personality who also played Bozo the Clown on WRC-TV in Washington, D.C. from 1959 until 1962), who performed using the moniker “Ronald McDonald, the Hamburger-Happy Clown” in 1963 on three separate television spots. These were the first television ads featuring the character.
Fortunately, NWTel isn’t involved in any businesses outside communications, and competitive markets exist such that the consumption of beer and chicken don’t require a bank loan. However, it does beg the question: why are costs for other goods and services in Yellowknife more in line with those in the south? The answer comes down to competition. If the Black Knight Pub were to plunder patrons’ pockets, customers could flee to Coyote’s Bar and Grill, The Raven’s Pub, or a number of other establishments. Want to shop around for a car

38 The prices reflect: a) the price of a Big Mac™ purchased at McDonald’s, 202 Old Airport Road, Yellowknife; b) the price as if it were sold by NWTel using a ratio of the NWTel price for retail telecommunications services and southern telecommunications services from Bell (Montreal): (~25% ∆ assuming call waiting, CLID available on NWTel line as it is on Bell line); and c) a 13x multiplier, representing the lowest end of the differential range identified by SSi Micro as the wholesale services premium over equivalent services in southern Canada charged by NWTel. It is interesting to note that, if we were to apply this NWTel premium at the higher end of the range suggested by SSi Micro, this would result in Big Mac sandwiches costing $176.40 each!
battery? The Yellowknife Chamber of Commerce lists several alternatives to Canadian Tire on its Yellowknife Business website.\(^3^9\)

What’s more, all of these businesses operate on the same level playing field. McDonald’s does not have a monopoly on fast food, nor does any regulator dictate that all pre-school children must attend only Yellowknife Play School.

But the regulated monopoly that NWTel enjoys means that there is no level playing field for competitive providers. If $500 for a bucket of fried chicken seems too dear, pity the communications aspirant in the North – and pity, too, the poor consumer.

**WHY COMPETITION WORKS**

Would competition help? Or are prices in Yellowknife higher than in more temperate climes because of population scarcity, harsh environments and all the other excuses NWTel furnishes?

The answer can be found 3,197 kilometres\(^4^0\) to the southeast, in Dryden, ON. This northern Ontario community is served by the Dryden Municipal Telephone System, a small, independent incumbent that has been operating in a completely competitive environment since losing its monopoly protection for facilities-based local service in 2006.\(^4^1\) Let’s compare the DMTS service in Dryden with that offered by NWTel (a member of the Bell family) in Yellowknife.

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\(^3^9\) [http://www.yellowknifebusiness.com](http://www.yellowknifebusiness.com)

\(^4^0\) That is, if you choose to drive and follow the directions served up by Google Maps. As the crow flies? Or if you are flying your own plane? That would be more direct at 720 nm south (\(\sim 12^\circ\) of latitude) and 851 nm east (\(20^\circ\) of longitude @ \(\sim 50^\circ\)N).

\(^4^1\) Some may argue that DMTS is still the only game in town, as no other provider has entered the marketplace. However, the point is not whether competition actually exists, but whether a viable threat of competition exists.
Given Dryden’s population (half that of Yellowknife, and slightly less dense to boot) and the harshness of its climate (comparable to that of Yellowknife\(^{42}\)), prices for communications services should be at least as much as they are in Yellowknife, if not more. And yet the Dryden Municipal Telephone System – a small, independent telecom company – offers cheaper local access, cheaper calling features, and a much cheaper (and faster) broadband Internet experience than what the Bell Canada-backed NWTel can manage.

What does competition look like outside the world of communications in Dryden? SeaBoard research established that the two communities, Dryden and Yellowknife, are each served by Canadian Tire, so we know that car battery pricing, etc., will be identical. Interestingly, they are each served, too, by a Loblaw’s company, Extra Foods. The second and third pages of the flyers for each community for the period between Friday 23 September and Thursday 29 September are shown below. The price differential? Modest. Some things are priced identically, while other things are priced at a (modest) premium. Peaches, for example, are 34¢ per lb. more in Yellowknife, reflective of the added spoilage the delicate peaches would

\(^{42}\) ... although, admittedly, for fewer months of the year. Missing from the comparator chart are “degree days” or other measures of the persistence of winter conditions.
experience in the longer journey, we suspect. A “peach premium” of 35% can be justified by reasons which are understandable. If NWTel sold fruit, however, a pound of peaches would cost $13!

**Exhibit 5**
**Comparative Grocery Pricing: Yellowknife, NT and Dryden, ON**

*Source: Extra Foods, 2011*

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**COMPETITION – BUT COMPETITION IN-IRONs**

It is true that Northerners can choose an alternative to NWTel for some services, but what kind of alternatives are they, really?

NWTel’s competition is limited, and focussed, necessarily (given the NWTel monopoly) in the non-regulated portion of the communications business. One company, Ice Wireless, offers limited wireless service, operating in 3 of the 72 communities. There is no other wireless competition, as yet: Globalive (Wind) bid for and won AWS wireless spectrum in the last

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43 Flyers for Extra Foods, Dryden, ON, and for Extra Foods, Yellowknife, Downtown. Prices are for goods on offer in each location from Friday 23 Sept. through Thursday 29 Sept. 2011.
auction, the company is believed to be studying deployment options, but the North is not believed to be a priority. The internet option available in the North is SSi Micro (in the NWT) and Qiniq in Nunavut. In the Yukon there is no mobile nor internet competitor to NWTel. As the Yukon Government stated in its intervention in support of SSi’s Part 1 application:

“The Yukon Government further notes that as far back as 1997 there were alternate providers in Northwestel’s operating territory: “Northwestel stated that, at the time of the application there were 19 other ISPs providing service in its operating territory, that no provider had a market share greater than 20%, and that Northwestel’s share of the IS market was less than 10%.” Today the only ISP choice available in Yukon is Northwestel.”

Moreover, what competitive services there are are being provided generally without the use of Northwestel’s facilities. They’re also offered without relying upon resale – the only mode of competitive access that NWTel appears to be able to contemplate (suggested in the company’s submission to the Commission).

One example is the Qiniq network, owned by the Nunavut Broadband Development Corporation and built and managed by SSi Micro of Yellowknife. Qiniq serves 25 communities across Nunavut. It connects those communities to the Internet using satellite services through a gateway that SSi Micro owns and operates in Ottawa. It offers high-speed Internet service to approximately 90% of the population of Nunavut.

But these competitive Internet service providers (ISPs) cannot offer facilities-based local voice service since this is within NWTel’s monopoly. They are denied the opportunity to make investments in the communications infrastructure of the Far North. They are denied the opportunity to offer service bundles with full control over their own pricing. And northern residents and businesses are denied the advantages of facilities-based competition that have been well-demonstrated in southern markets.

In the Northwest Territories capital of Yellowknife, SSi Micro has been offered a wholesale connection rate that is higher than the retail rates that NWTel charges its own clients. It is difficult to contemplate a business model where such a pricing arrangement makes any

44 Government of the Yukon, CRTC Intervention in support of SSi Micro Part 1 Application, 27 July, 2011; CRTC File No. 2011-0988-5; Para 7, Page.3..

45 The quotation cited by the Yukon Government was taken from CRTC Telecom Order 98-619.

46 For more information on Qiniq and the Nunavut Broadband Development Corporation, see The Woods are Lovely Dark and Deep, SeaBoard Group, April 2011, and Avoiding the Tragedy of Dorothy, SeaBoard Group, June 2006.
sense. The CRTC, for example, in an attempt to come up with a quick way to establish a rule-of-thumb wholesale rate for broadband services this past summer, proposed a “retail-minus” approach which would take the retail rate for a given service in a marketplace and deduct a factor representing those elements of the retail service that would not be included in the wholesale cost (costs like detailed consumer billing, help desks, transaction costs, and marketing and sales expenses). In our view, this would have been a relatively easy means of establishing wholesale rates. In comments to CRTC staff, the industry tried to point out the various difficulties in such an exercise, but the principle, to our mind, is sound. It is certainly a prudent test, and it is easy to carry out. Let’s explore what such a test could mean to NWTel wholesale clients in Yellowknife.

NWTel offers its residential clients in Yellowknife a range of services, shown below in Exhibit 7. Notable is the top rate, the 25 Mbps plan; it offers a speed comparable to that of southern offerings, with a data cap that is 100GB, and an incremental usage penalty of $7.50 per GB.

Exhibit 7
NWTel Residential Internet Services – Using Cable Modems

Source: nwtel.ca/personal/internet/cable/, 23 September 2011

<table>
<thead>
<tr>
<th>Service</th>
<th>Download</th>
<th>Upload</th>
<th>Usage Cap</th>
<th>Price/Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-speed Lite</td>
<td>384 Kbps</td>
<td>128 Kbps</td>
<td>5 GB</td>
<td>$41.95</td>
</tr>
<tr>
<td>High-speed Standard</td>
<td>5 Mbps</td>
<td>384 Kbps</td>
<td>20 GB</td>
<td>$62.95</td>
</tr>
<tr>
<td>High-speed Performance</td>
<td>16 Mbps</td>
<td>768 Kbps</td>
<td>70 GB</td>
<td>$83.95</td>
</tr>
<tr>
<td>High-speed Extreme</td>
<td>25 Mbps</td>
<td>1 Mbps</td>
<td>100 GB</td>
<td>$129.95</td>
</tr>
</tbody>
</table>

---

47 Prices and underlying technologies differ from community to community. In Yellowknife, NWTel offers consumers and businesses high-speed Internet services using both cable modem and DSL technologies. Cable Internet packages cost less and offer more than DSL-based services.

48 NWTel is both the telephone service provider in Yellowknife and it is the cable company. Curiously, the company that is Canada’s largest telephone company elects to deliver internet services in Yellowknife through its cable plant rather than its DSL infrastructure – better service, lower cost, faster throughput.
Adopting the CRTC’s proposed broadband retail-minus pricing regime for wholesale services would suggest a wholesale price shown in Exhibit 8 below.

Exhibit 8

**NWTel Wholesale Broadband Pricing – Assuming CRTC Retail-Minus Pricing Protocol**

*Source: SeaBoard Group, 2011*

<table>
<thead>
<tr>
<th></th>
<th>DOWNLOAD</th>
<th>UPLOAD</th>
<th>USAGE CAP</th>
<th>PRICE/MONTH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High-speed Extreme</td>
<td>25 Mbps</td>
<td>1 Mbps</td>
<td>100 GB</td>
</tr>
<tr>
<td></td>
<td>(wholesale)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Unfortunately, the rates offered by NorthwesTel to its potential wholesale customers are confidential. However, given that they are purported to be 13 to 30x the prices charged in the south, we surmise that they are rather more than they would be if the CRTC’s own interim discount formula were used.

There are three ways for erstwhile competitors in Yellowknife to connect to the global Internet. They can apply to NWTel for access to its i-Gate or V-Connect services (services that SSi Micro contends that are 13 to 30x the price of equivalent pricing in the rest of Canada) or they can look for high-capacity connections from Yellowknife to a point of presence where they can access the facilities of an alternative carrier. An example of such an

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49 Paragraph 19 of CRTC Order 2011-377, where an interim wholesale broadband tariff is established based on stand-alone retail rates charged by ILECs/Cable companies, less 35% for residence customers or less 15% for business customers.
option might be using a DS3\textsuperscript{50} or OC-3\textsuperscript{51} connection between Yellowknife and High Level, AB, for example, where both Telus and the Alberta Supernet\textsuperscript{52} have connections. Yet, again according to SSi Micro, when one applies for that facility from NWTel, it is proposed to be provisioned as a Special Assembly (a non-tariff service), the price and terms for which are usurious ($120,000\text{/month} - \text{see below}) and when challenged, the rate is said by NWTel to be forborne (meaning that it is a competitive service such that the company can charge what the market will bear). Like it, Leave it ...

**NORTHERN LIGHTS**

The following exhibit, Exhibit 9, is SeaBoard’s attempt to compare the price for 100 Mbps service\textsuperscript{53} from Yellowknife to Edmonton via High Level, AB, from NorthwesTel and from the Alberta Supernet, a facility built by Bell Canada (in partnership with Axia Netmedia). Most of the NWTel quotations that SSI has raised in its CRTC filings are filed with the Commission in confidence and are not available for us to examine. The Special Assembly prices, however, are public. So we thought we’d shop around.

\textsuperscript{50} 45 Mbps.

\textsuperscript{51} Optical Carrier-3, \textasciitilde150Mbps.

\textsuperscript{52} And, through the Alberta Supernet, access to Bell Canada's network through Bell West.

\textsuperscript{53} The NWTel Special Assembly rates are identical for 45 Mbps (DS-3) and for 150Mbps (OC-3) connections. SeaBoard elected to shop for a GigE (1000 Mbps) connection as its reference, given that it is a standard ethernet connection speed that has more than enough capacity to look after a ‘nailed-up’ 150 Mbps link. We chose to use a GigE connection without a service level agreement (SLA) offering 95\% availability, rather than a 100 Mbps connection with a SLA. The price of a 100 Mbps connection would have been $1,000\text{/month}, 1/120\textsuperscript{th} of the price of the NWTel cost.
**Exhibit 9**  
Wholesale Circuit Pricing – Compared

*Source: NorthwesTel, SeaBoard Group, 2011*

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### Oral quotation only:

**Provider: Axia Netmedia**

- $2,500/month – five-year term
- 1000 Mbps Ethernet, 95% availability, no SLA
- High Level – Edmonton

**Service charges and local connection costs in addition.**

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### NWTel Special Assembly

The NWTel special assembly rate is given on the left. The company requires $120,000 per month, on a three-year term (for a total of $4.32M), for OC-3 (or DS-3, interestingly) service between Yellowknife and Edmonton. NWTel says it will use its own facilities between Yellowknife and High Level, and it will negotiate with other carriers for the High Level to Edmonton portion.

By road, High Level is 716 km from Yellowknife and 782 km from Edmonton. Crows and aircraft take more direct routes: High Level is 558 km from Edmonton and 510 km from Yellowknife.

Given that there are no other service providers on the High Level to Yellowknife route – NWTel has a monopoly, after all – we looked at what it would cost to transport 1000 Mbps between Edmonton and High Level, which is approximately half the distance, whether by car or by crow. Perhaps the price would equate to something like “half” – with a northern premium adjustment. Of course, the magnitude of that “adjustment” is what we were trying to establish. The result? A ~100 Mbps connection from Yellowknife to Edmonton is available.
from NWTel, under Special Assembly, for $120,000/month on a three-year term. That works out to $111.32/kilometer/month (using air-kilometres). Our Supernet quote, by contrast, is for $2,500/month on a five-year term, but for half the distance (and 10x the speed!). To compare the two, we looked to cost per route-kilometer of fibre; this worked out to be ($2,500/month / 558 km) $4.48/kilometer/month, or 1/25th the cost of the NWTel rate.

Our initial test of the SSI Micro contention that NWTel wholesale facility costs are ‘expensive’ suggests that the company’s characterization is correct.

Using such a test, the NWTel pricing for wholesale connections to southern Canada, whether by i-Gate, V-Connect (using SSI’s assessment of the confidential NWTel data) or by our own research into the costs of a lease of a DS-3 or an OC-3 carrier (or our 1000 Mbps ‘compromise’), is unconscionable. The CRTC is wrong to have forborne, (if it did so as NWTel contends) these connections: It should take steps to remedy the situation to the benefit of all who live and work in the North.

**RETAIL-MINUS:**
**AN APPROACH TO ESTABLISHING A WHOLESALE PRICING METHODOLOGY**

One of the clearest ways to approach wholesale pricing in a field where costs are unclear, such as telecommunications, is to look at the retail price for guidance.

Wholesale rates, it is argued, share the same infrastructure – and the same cost base – as do retail rates, except that much of the cost structure that concerns retail custom is eliminated. There is no need for the expenses associated with billing systems, customer care and support, retail provisioning, advertising and marketing. Eliminating that cost structure from the retail rate is the basis for the wholesale rate.

Looking at the NorthwestTel pricing through the lens of a retail-minus approach, we find the odd result that NWTel pricing for wholesale customers appears to be retail-plus rather than retail-minus. For some reason, NWTel seems to believe that wholesale customers need to pay more than retail customers – strange things done under the midnight sun!
WOULD THEY COME? YOU CAN BET ON IT!

SSi Micro has gone on record to say that it would like to provide competitive telephone services in the parts of the North where it offers Internet services under its own brand. The company uses NWTel facilities where appropriate but notes that NWTel’s connectivity tariff makes its transmission facilities amongst the most expensive in the world – up to 3000% (the company suggests) more than the same facilities would cost from ILECs in other parts of Canada. Our own evidence suggests that the company is right, a 25x premium to connect Yellowknife to High Level over the cost to connect High Level to Edmonton as shown above.

SSi Micro acknowledges that network building in the North can be more expensive than elsewhere in Canada, and it is ready to recognize that fact in its interconnection agreements. For example, SSi Micro has offered to pay NWTel twice the going rate, a markup of 100%, in southern markets for backbone access – quite a premium, given that our research has revealed that the “northern premium” on NWTel’s own communications services is much less than that, despite being well above the <10% premium on many common goods and services, from appliances, car parts and petrol to food and drink.

Instead of accepting this offer, NWTel is demanding up to 30 times the southern market rate for backbone access – a ransom that would make the beard of Edward Teach turn grey.

The way forward is clear: without real competition, service suffers, prices go up and innovation runs aground. NorthwesTel’s current monopoly holds a cutlass to the throats of northern residents and businesses, who are offered an unpleasant choice: either stand and deliver – i.e., open your wallets – or walk the plank.

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54 As formally declared in the SSi Micro intervention, CRTC Public Process Number 2011-302, Case: 158298, where the company states, “SSi is also ready to compete in the local services market in the North.”


57 Teach (1680-1718), better known as “Blackbeard,” is one of the most famous pirates in the history of the Caribbean. It’s said that opposing crews would often surrender upon sighting The Queen Anne’s Revenge and its notorious captain. Teach took to piracy during the War of Spanish Succession (1701-1714) and was killed in November 1718.
Prime Minister Stephen Harper speaks often of Arctic Power. In a 2007 speech in Churchill, MB, he asserted that Canada’s true North ranks highly in his government’s priorities, stating, “Ignored for far too long by Ottawa, we’re committed to helping the region finally realize its true potential.”

In that same address, the Prime Minister pledged action to encourage investment in the Arctic. He vowed to protect Canada’s Arctic sovereignty in the face of increased international interest in the region. He promised that Northerners would have more control over their own economic and political destinies. And he announced a slew of scientific and infrastructure projects to help make all of this happen.

Investments are already being made in health care; to cite one example, in late August of this year, Harper announced an additional $60M over the next two years for the Territorial Health System Sustainability Initiative. Canada’s military has conducted polar exercises. And a request for proposals is expected this year under the Prime Minister’s $720M icebreaker program for the design of the CCGS John G. Diefenbaker, projected to be the largest, most powerful vessel in Canadian history.

These are huge investments in Canada’s North. Regardless of whether they are undertaken to confirm Canada’s sovereignty and economic right to develop the North or to foster goodwill among northern residents, these initiatives will undoubtedly benefit from access to robust, innovative and affordable communications services. Yet the current monopoly and usurious wholesale pricing structure favoured by the brigands aboard the pirate ship NorthwesTel have frozen development of the innovation and affordability that only effective, facilities-based competition can provide. It’s time for the CRTC to call in its icebreaker and clear the way forward. This would be in keeping with the federal cabinet’s stated philosophy of paying more attention to market forces.

It’s time to end the monopoly on local service. And it’s time to force NWTel to offer wholesale connectivity at rates that are more in line with market rates in the south – and with 21st Century reality.

58 http://pm.gc.ca/eng/media.asp?id=1843

59 http://www.ccg-gcc.gc.ca/e0010762
STRANGE THINGS DONE UNDER THE MIDNIGHT SUN

There can be no surer sign of global warming than reports of piracy in latitudes associated more with Hudson and Frobisher than with the likes of Anne Bonny, Calico Rackham Jack, Thomas Tew and William Kidd. Even though there may not have been sightings of the Jolly Roger flying above northern waters, piracy surely exists in the Arctic – and it takes the form of communications pricing.

There are strange things done in the midnight sun
By the men who toil for Bell;
Those Arctic phones and Internet tones
The high cost of which has a smell;
The Northern Lights have seen queer sights,
But the queerest they ever did see
Is the continued support and constant quest
To renew the NWTel monopoly.\(^{60}\)

BLOW THE MAN DOWN

In terms of telecommunications regulation, northern Canada is at a crossroads. It is up to the CRTC Commissioners to see that:

- the renewal of NorthwesTel's monopoly does not take place; and
- NWTel be compelled to offer access to its facilities to competitors at reasonable rates.

The Commission should affirm the principle of a competitive marketplace and bring the benefits of competition to Canada’s North. Let the sun set on this last vestige of government-sanctioned buccaneering. Let’s relegate it to the briny deep where it belongs.

Otherwise, if the CRTC hasn’t got the will to bring market forces to the North, northerners might just wish that current Prime Minister, and soon-to-be (possibly) Russian President Vladimir Vladimirovich Putin might lead the free-market revolution north of 60 . . . now that would be ironic in Stephen Harper’s Canadian North!

\(^{60}\) Adaptation of The Cremation of Sam McGee, with apologies to Robert William Service (1874-1958), the Bard of the Yukon.
FOR FURTHER READING

Some Notes for Canada’s Newest Industry Minister – An Open Letter, SeaBoard Group, July 2011
A Tide in the Affairs of Men, SeaBoard Group, May 2011
The Woods are Lovely, Dark, and Deep, SeaBoard Group, April 2011
Hertz Much: Canadian Wireless Spectrum Valuation, SeaBoard Group, March 2011
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