



January 13, 2020

Chair Jesse Ketler  
Comox Valley Regional District  
770 Harmston Avenue,  
Courtenay, BC V9N 0G8

Dear Chair Ketler,

As Chair of the CVRD, we would like to bring your attention to an issue regarding a recent CRTC decision that will impact investment in broadband internet service in rural communities in British Columbia. We believe the opportunity to participate in a consultation opened by the Department of Innovation, Science and Industry (ISI) would be of interest.

The CRTC requires network owners like Shaw to open their networks to third-party resellers who use our infrastructure to resell internet to consumers. The purpose of this regime is to increase competition for consumers. The CRTC sets wholesale broadband rates for network owners to sell internet to these resellers. In August, the CRTC established new wholesale rates that are radically lower than those that have applied since 2016 and require network owners like Shaw to sell access at rates that are below our own costs.

This decision will cause the cable carriers to reduce their investment in broadband infrastructure **by up to 54%**. This reduction in investment, **which could range from \$2.5 billion to \$3.7 billion over the next five years** will have an impact on both the expansion of rural broadband and the aim of keeping British Columbia broadband speeds in the top 10 worldwide which is critical to growing Canada's digital economy.

Shaw Communications, along with other major cable companies in Canada, filed an appeal to the federal cabinet asking them to direct the CRTC to reconsider its decision and when doing so, take a balanced approach to achieving the government's key public policy objectives of affordability, competition, investment, innovation and the expansion of high-speed internet access to rural and remote communities. This is the first time Shaw has filed an appeal to cabinet, which underscores how concerned we are about this issue. To be clear, we are not opposed to third-party resellers, but we are deeply concerned that these new rates will have a negative effect on the growth and quality of the internet in B.C.

Following our cabinet appeal, a public consultation was launched, inviting comments from stakeholders. The consultation has opened and the comment period on our petition closes February 14, 2020. The Gazette Notice can be seen here: <http://www.ic.gc.ca/eic/site/smt-gst.nsf/eng/sf11569.html>.

We are reaching out to stakeholders, including the Comox Valley Regional District, who recognize the importance of investing in internet service, to participate in the consultation before **February 14, 2020**.

Thank you for considering our request. If you have any questions, please don't hesitate to contact me at (604) 629-3103.

Kind Regards,



Kiersten Enemark  
Government Relations Director, British Columbia  
Shaw Communications Inc.

# Challenges to Canada's Digital Future

How the recent CRTC decision will impact investment in your community

Presented to the Comox Valley Regional District

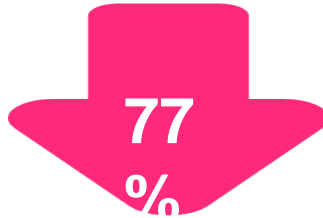
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Shaw)

# Background on Canada's Internet Reseller Regime

- Facilities-based phone and cable companies (the “**Network Owners**”) provide broadband internet access to homes and businesses in a community through network infrastructure they have invested in over time.
- The Canadian Radio-Television and Telecommunications Commission (the “**CRTC**”) decided that in order to increase competition in broadband internet, Network Owners would be required to open up their networks to third-party resellers such as TekSavvy, Primus and Cipher TV (the “**Resellers**”) at wholesale rates set by the CRTC.
- Resellers repackage the services of the Network Owners and sell them to the public using the Network Owner’s infrastructure.
- In 2016, the CRTC established interim wholesale rates for the Network Owners to sell their services to the Resellers.

# CRTC Decision on Third-Party Internet Access



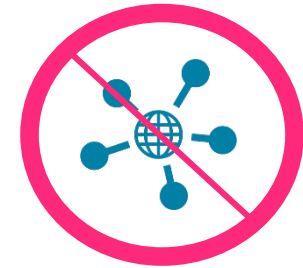
In August, the CRTC established wholesale rates that are **up to 77% lower than the interim 2017 rates** (These rates have not yet been implemented).



The CRTC also established **a single rate** for Network Owners to resell their services to Resellers, **regardless of speed**. (ie. 50 Mbps download speed is the same price as 600 Mbps service).



The CRTC **did not impose any requirements on Resellers to invest** in upgrades or expansions to network infrastructure.



The CRTC did not consider the impact its decision will have on the deployment of network infrastructure in rural and remote communities or on the ability of Canadian businesses to compete in the digital economy.

# Status of the Decision's Implementation

Cogeco, Eastlink, Rogers, Shaw, and Videotron (the “**Cablecos**”) are pursuing **three distinct remedies**:

## Federal Court of Appeal

- The Cablecos are asserting that the CRTC made **an error in law** in establishing the new rates. The Federal Court of Appeal has granted leave to appeal and stayed implementation of the new rates pending its decision.

## Petition to Cabinet

- On November 13, the Cablecos filed a Petition to the Federal Cabinet requesting that they direct the CRTC to reconsider its decision **and balance all the government's policy objectives** – affordability, competition, investment, innovation, growing the digital economy and the expansion to rural and remote communities.

## Application to the CRTC for Review and Vary

- The Cablecos will be filing a petition by December 13, 2019 requesting that the CRTC review and vary its decision with **a focus on the methodology** it used to determine the new rates.

# Why This Matters

1

The CRTC Decision has **jeopardized the balance** between affordability and competition on one hand and the government's other public policy objectives (investment, innovation, growing the digital economy and rural and remote connectivity) on the other hand.

2

Resellers have **no requirements to invest** in infrastructure to improve networks, deliver higher speeds or reach rural communities. We are the only country with no investment requirements for Resellers.

3

Canada's big cities and larger communities, will see reduced investment in network upgrades that will make it more **difficult to attract and retain businesses in the digital economy.**

4

**Rural, remote and Indigenous communities**, for which the business case for private investment is more challenging, will be significantly impacted by the reduction in investment.

# Impact on Investment

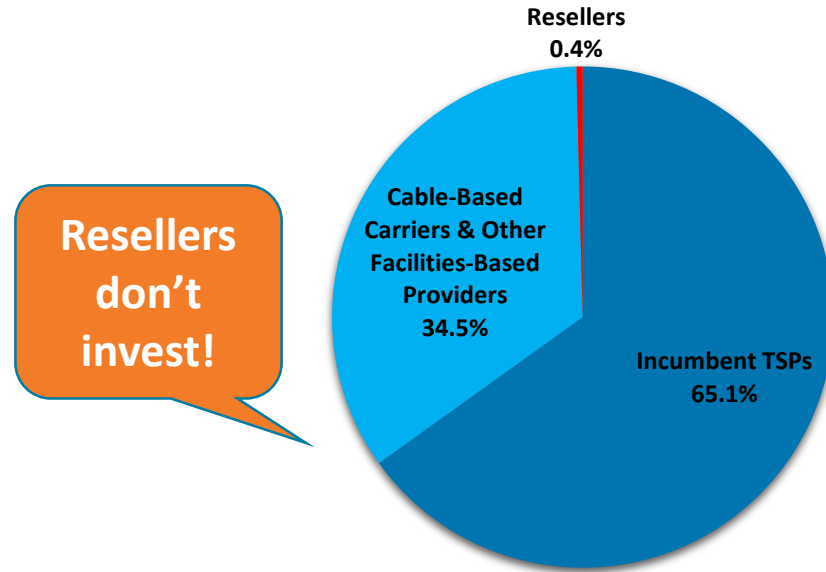
An economic analysis by **The Brattle Group** estimates that:

- The new rates will reduce the ability of the Cablecos to invest by **\$2.6 to \$3.7 billion** over the next 5 years.
- This will result in capex reductions between **38% to 54% of planned broadband capital expenditures** over 5 years.

A TD Securities analysis echoes these findings, estimating:

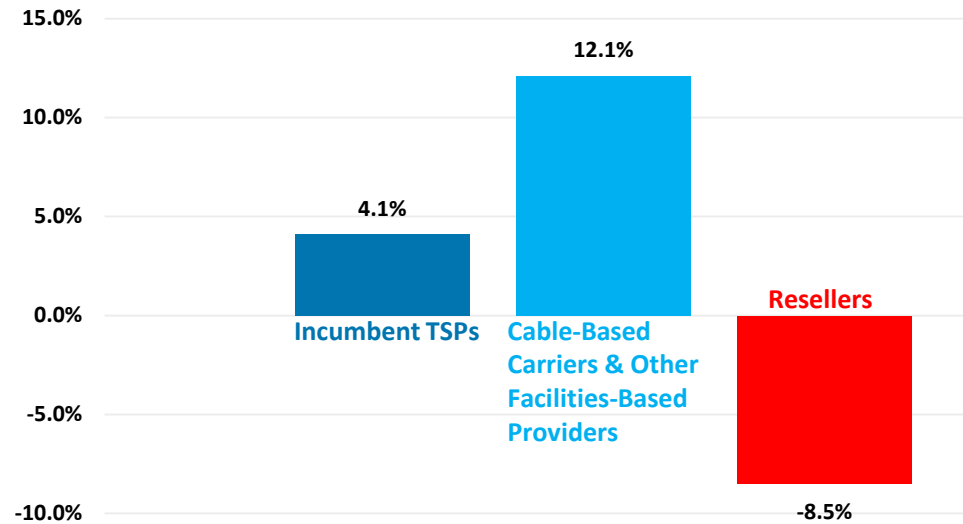
- Per annum investment in telecommunications infrastructure will **decline by ~22% per year**.
- This would be a **reduction of \$1.68 billion per year** in investment by the six publicly traded telecommunications companies (i.e Bell, Cogeco, Rogers, Shaw, Telus and Quebecor (Videotron). The amount is higher if we include Eastlink and SaskTel)
- Cable operators will be **1 to 2 years behind in**

Share of Investment in Wireline Plant & Equipment 2012-2016  
(100% = \$38.6 Billion)



Incumbent Telephone Service Providers (TSPs) are companies that provided local telephone services prior to the introduction of competition in the wireline voice sector (i.e. Telus & Bell). They are currently replacing their copper phone networks with fibre.

Growth Rate of Investment in Wireline Plant & Equipment 2012-2016



And the the rate of growth of what little they invest is shrinking

Source: CRTC Communications Monitoring Report 2017, Table 5.0.5



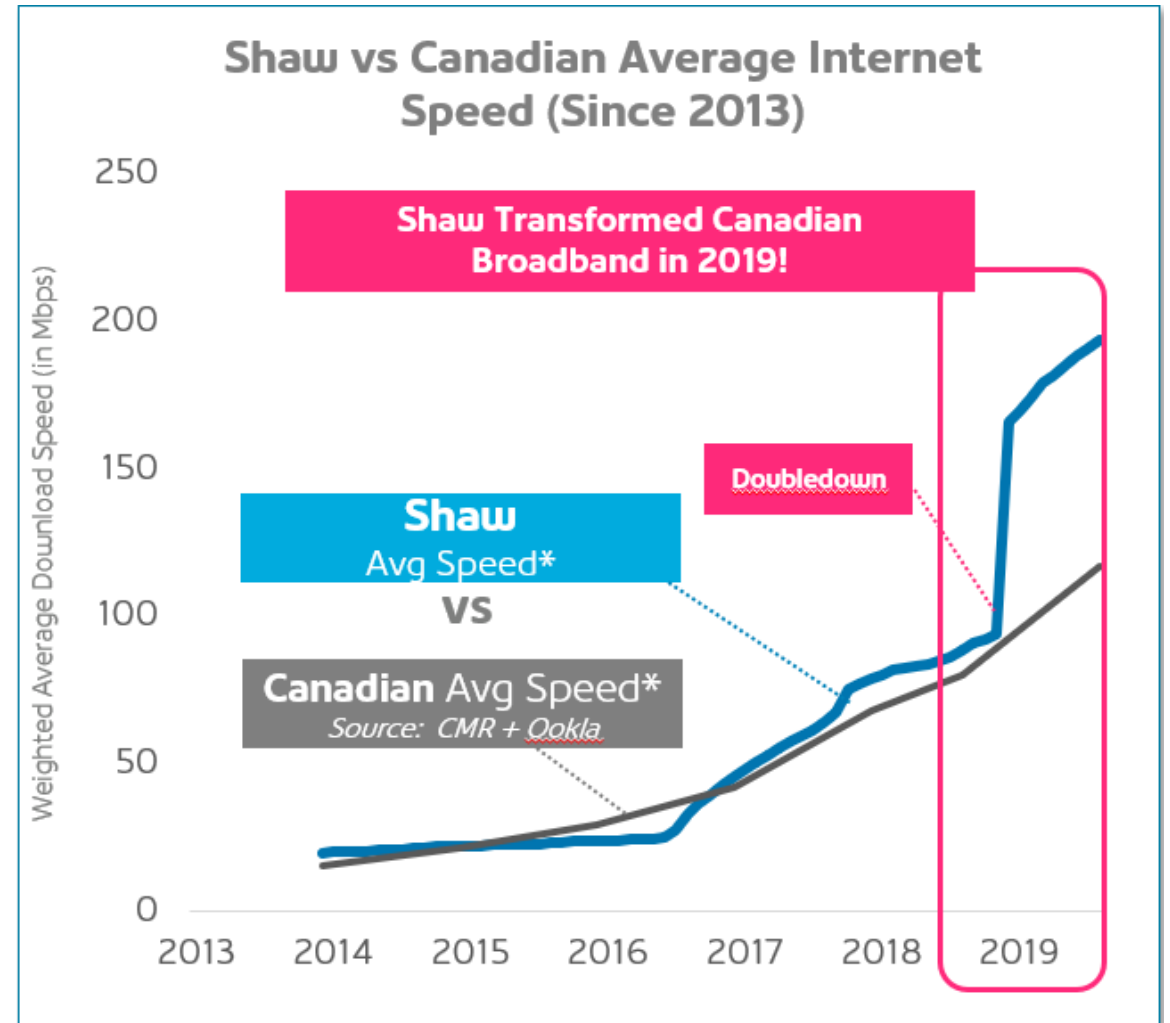
# Impact on Investment | Speed

Canada's ambitions of being a leader in the digital economy will require significant investment to achieve higher internet speeds and build 5G networks.

The CRTC decision establishes a flat rate of \$11.47 for wholesale resellers accessing the Shaw network, regardless of internet speed. **600 Mbps service is now priced the same as 10 Mbps service.**

Had the new TPIA rates been in effect in 2018, the business case to support Shaw's investments would not have existed.

**This decision will cause Canadian cities to fall behind due to lower investment – putting our small businesses, entrepreneurs and academics at a disadvantage to those in other jurisdictions.**



In 2018, **Shaw doubled our internet speeds twice, which moved Canada to the 7<sup>th</sup> fastest network speeds on the world speed index – an increase of 9 points.**

# Impact on Investment | Digital Economy

"Since the announcements on the wireless MVNO hearings and the reduced TPIA rates, we have already altered our plans with respect to launching new, higher speed internet tiers and additional wireless expansion beyond our current footprint."

- B. Shaw, F19 Q 4 Analyst Call, October 25, 2019

- **Canadian businesses will struggle to compete with foreign competitors** who will have access to more advanced networks due to the reduction in investment caused by the CRTC Decision.
- The CRTC decision will have a **material negative impact on the deployment of 5G** across Canada, including in our large urban centres.
  - Deployment of 5G requires fast and high capacity broadband networks.
  - The CRTC Decision will reduce investment in broadband networks, which will have a direct and negative effect on 5G deployment.
  - Investment will concentrate in urban centres, leaving rural areas further behind.
- Slower networks will **discourage investment in innovation in Canada by Canadian business.**
  - Business and entrepreneurs will focus their investments in higher speed jurisdictions.
  - Business may struggle to recruit and retain talent without access to the best networks.
- The CRTC Decision **does not support innovation by the telecom industry** as Resellers only repackage existing products and do not bring any new technology or differentiated products to the market.

## Impact on Investment | Rural Connectivity

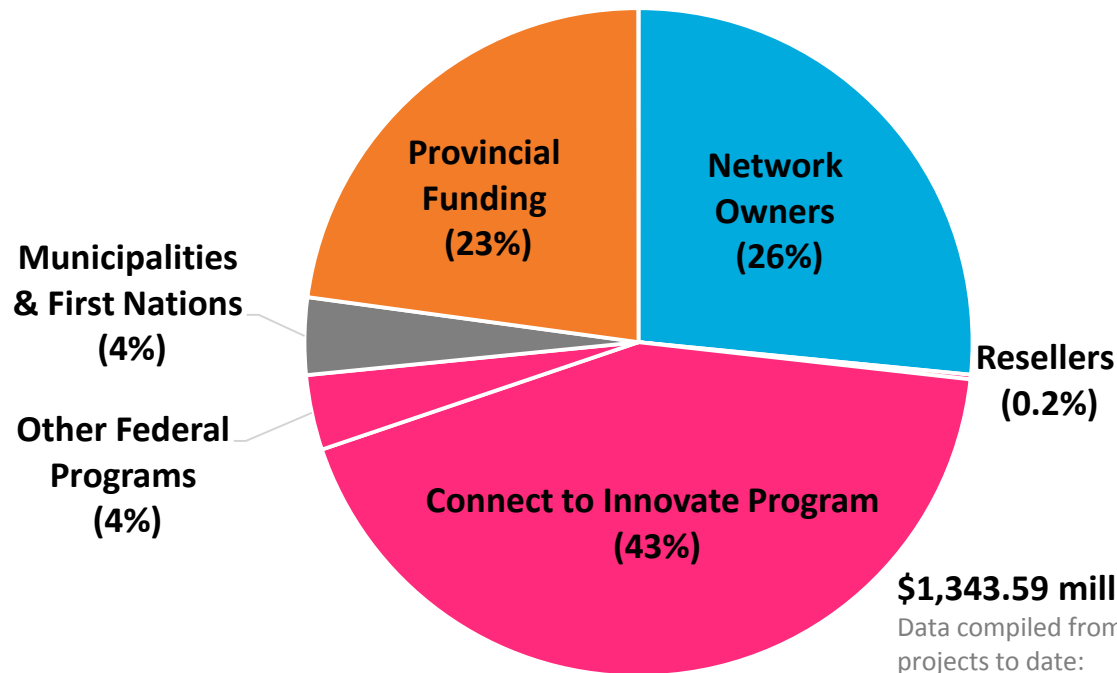
- The CRTC decision will specifically undermine the federal government's objective of increasing rural and remote connectivity by reducing investment in expansions to rural communities. It will be more difficult for Canadians living and working in rural and remote communities to participate in the digital economy.
- The Competition Bureau warned in *Delivering Choice, A Study of Competition in Canada's Broadband Industry*, that rural and remote communities will be adversely affected by an aggressive decision on wholesale rates:

*“...this negative effect on investment incentives will most likely be felt at the fringes of a network. Some areas may be so densely populated, strategically important, or otherwise relatively cheap to deploy that investment will occur except under the most onerous conditions. That means that the strongest reduction in investment is most likely to be felt in areas where population is relatively sparser. This has significant implications for rural and remote customers, who tend to have fewer and less advanced internet access options in Canada.”*

# Impact on Investment | Rural Connectivity

- With capital expenditures expected to go down by at least 38% per year by Network Owners, the success of the Universal Broadband Fund (and other funding programs, such as the CRTC's broadband fund) is at risk due to the CRTC Decision.
- 99% of private funding delivered through the Connect to Innovate (CTI) program was from Network Owners.

Overall Investment in Connect to Innovate Projects (millions)

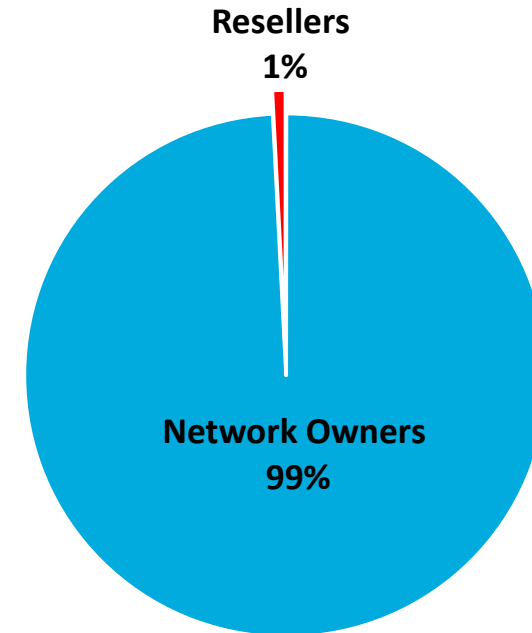


**\$1,343.59 million total investment**

Data compiled from ISED news releases announcing CTI projects to date:

<https://www.ic.gc.ca/eic/site/119.nsf/eng/00009.html>

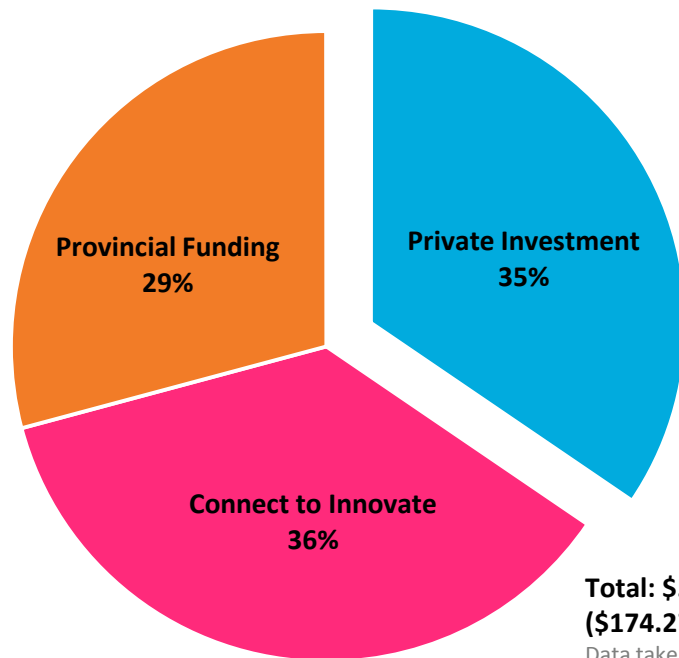
Private Investment in Connect to Innovate Projects



# Impact on Investment | Rural Connectivity

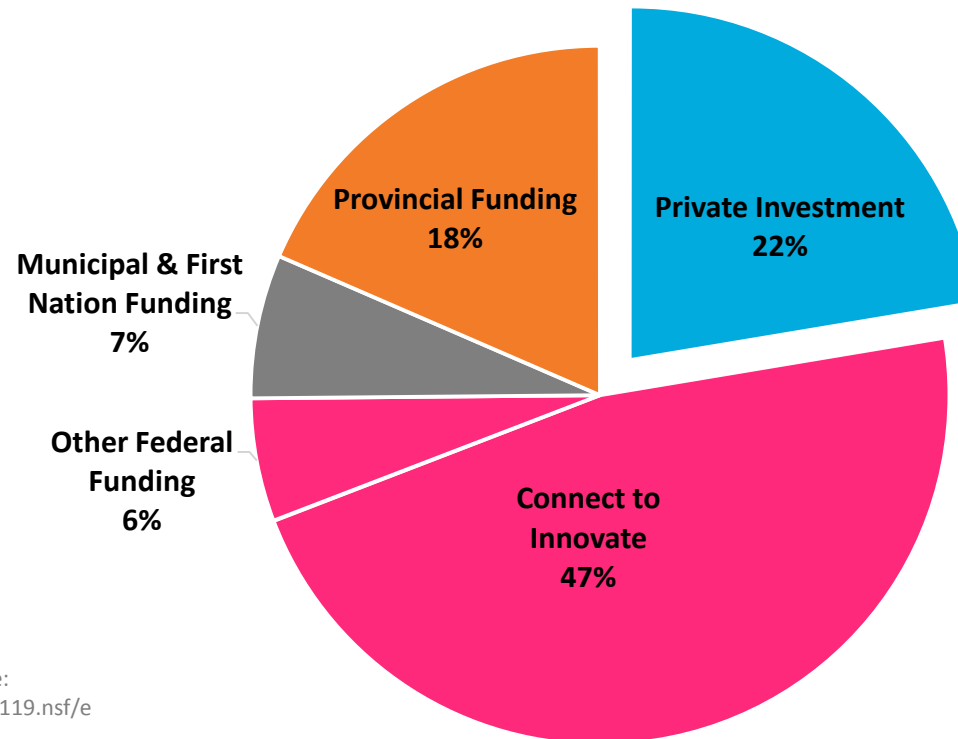
- The Universal Broadband Fund, like CTI, is based on federal funds leveraging additional private sector support to achieve broadband expansion targets. **Without significant support from Canada's publicly traded telecommunications companies, federal and CRTC targets will not be achieved.**
- This is because projects funded by publicly traded telecommunications companies have a higher share of private investment as both a percentage and in terms of total project spend. **If publicly traded telecoms cut wireline capex, Federal funding will have to increase significantly to achieve the same targets.**

CTI Projects by Publicly-Traded Telecoms



Data taken from ISED CTI table:  
<https://www.ic.gc.ca/eic/site/119.nsf/eng/00009.html>

Other CTI Projects



Data taken from ISED CTI table:  
<https://www.ic.gc.ca/eic/site/119.nsf/eng/00009.html>

## Impact on Investment | Conclusion

1. The CRTC Decision has **jeopardized the balance** among all the government's public policy objectives: affordability, competition, investment, innovation, growing the digital economy and rural and remote connectivity.
2. The CRTC Decision **does not support growth and innovation in Canada's digital economy**, as it will leave Canada's businesses with access to slower broadband networks.
3. The CRTC Decision **reduces the ability to invest in rural, remote and Indigenous communities** by the Cablecos, leaving residents in these communities further behind.
4. The CRTC Decision **does not support innovation by the telecom industry**.
5. The CRTC Decision essentially **confiscates the tools** Shaw and the other Cablecos need to continue building and upgrading our network for Canadians.

# The Solution

1

Require the CRTC to factor-in the investment requirements needed to upgrade and expand facilities-based networks to keep Canada within the top 10 fastest networks in the world in order to compete in the digital economy.

2

Require the CRTC to apply a 'rural lens' on the impact wholesale rates will have on investment to improve and expand connectivity to rural and remote communities

**With your support we can restore the balance between affordability and ensuring Canada meets our targets for rural broadband expansion and world-leading speeds.**

# Our Ask

- Shaw and the other Cablecos have appealed this decision to the federal cabinet.
- A letter from the Comox Valley Regional District supporting a review of the decision will be very influential in the appeals process.
- The formal consultation process has been initiated by the federal government where comments may be submitted by February 14<sup>th</sup>

We are asking stakeholders to consider taking the following steps to support our appeal to the Federal Cabinet:

1. Write a letter to the Minister of Innovation, Science and Industry requesting that Cabinet direct the CRTC to reconsider its decision on wholesale resale rates by:
  - a. **Applying an economic development lens** to ensure that revised wholesale rates do not adversely impact investments required to keep Canada in the top ten internet speeds on world indices, thus preserving our ability to compete in the digital economy;
  - b. **Applying a rural lens** to ensure that revised wholesale rates do not adversely impact investment by Network Owners in the expansion of networks in rural and remote communities; and
  - c. **Balancing all the government's policy objectives**, namely affordability, competition, investment, innovation, growing the digital economy and rural and remote connectivity.
2. Raise awareness with your members about this issue and encourage them to send a similar letter to the Minister of Innovation, Science and Industry.