Lower prices no shoo-in as telcos near deregulation

Catherine McLean, Telecom Reporter
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Fort McMurray -- the epicentre of Alberta's oil boom -- may soon be ground zero for another economic transformation, as one of the first Canadian cities where the telephone giants would be free to set local phone prices. But not quite yet.

The federal communications regulator said yesterday that **Telus Corp.** has lost enough market share to technically qualify for deregulation as competitors have at least a 25-per-cent share in the city.

But the Canadian Radio-television and Telecommunications Commission (CRTC) said the telco still won't be allowed to set its own prices in Fort McMurray because it hasn't met "quality of service" standards for rivals using its network.

"We want to see competition," said CRTC boss Konrad von Finckenstein. "But we want competition that has a fair chance of succeeding."

The local phone market has undergone a remarkable transformation. There was scant competition until the cable operators showed up in 2005 with new phone services.

And the cable operators have proven themselves capable competitors, attracting hundreds of thousands of clients.

Amid this industry shakeup, the CRTC last April set out the criteria to set the carriers free.

Industry Minister Maxime Bernier has since said he will alter and speed up the CRTC process that **Bell Canada** yesterday called "flawed." He has until April 6, one year after the commission's ruling, to do so.

The big phone carriers are counting down the days until their pricing and marketing shackles are removed on local phone services, but people who follow the industry are split over whether it will lead to slimmer or heftier bills.

"Consumers may benefit through lower overall prices for service and increasing competition among competitors," according to the Department of Industry.

But others aren't convinced that's what is in store.

"If you're a consumer looking for a big price break because of local deregulation, forget it," said Keven Restivo, an analyst at telecom consultancy SeaBoard Group.

"They're not looking to get into any kind of price war," he explained. "It's not the Canadian service provider way."

Under Mr. Bernier's proposed changes, which require cabinet approval, carriers could apply for deregulation in residential markets where there are at least three phone providers with their own networks, and business markets with at least two phone carriers. Competitors would not have to capture a 25-per-cent share in those markets first.

Carriers would also have to meet nine quality of service standards governing rivals' access to their networks. That's less than the 14 under the CRTC's guidelines, which include fulfilling requests for phone number transfers and dealing with out-of-service reports in a timely manner.

Telus, based in Vancouver, believes deregulation would be further off if the CRTC rules stay in place, said Janet Yale, Telus's executive vice-president of corporate affairs.

Both Telus and archrival Bell Canada criticized the CRTC's ruling yesterday to hold up deregulation in Fort McMurray on quality of service grounds.

In contrast, Telus expects to be deregulated in all of its major markets by the end of June if Mr. Bernier's changes go through.

However, Mr. von Finckenstein said Telus wouldn't have met even the minister's looser conditions for deregulation.

He said quality of service standards are relevant to ensure there is healthy competition, and it is up to the carriers to meet that "hurdle."

While competition is growing, the big carriers including **Bell Aliant,** Bell Canada, **Manitoba Telecom Services Inc.** and **Saskatchewan Telecommunications** still held 90 per cent of residential and business local phone lines in 2005. Nevertheless, some analysts believe there is ample competition to keep prices in check after deregulation, including new Internet-based phone companies.

"They're offering [plans for] $25 a month, and $30 a month," said Mihkel Tombak, a professor at the University of Toronto's Rotman School of Management. "That leaves a fair bit of room there for it to go down."

Rates fell in the crowded long-distance market after price controls for the big carriers were removed in 1998. The industry's long-distance revenue plunged to $5.1-billion in 2005 from $8.5-billion in 1999.

In contrast, cable firms such as **Cogeco Cable Inc.** and **Shaw Communications Inc.** have pushed through price increases each year since they were deregulated in 2002. Their main competition, satellite providers, have made limited inroads in certain areas.

"You have all sorts of outsiders who can discipline the pricing from the incumbent phone companies," said Mark Goldberg of telecom consulting firm Mark H. Goldberg and Associates Inc. "That's a very different situation from cable TV.

"That's why I think we're going to see local phone service move a lot more similarly to the long-distance market," Mr. Goldberg said.

Still, some observers believe the only discounts consumers will find is if they sign up for bundles of products. The carriers, after all, don't want to hurt their bottom line.

Prices could even increase.

"The experience of cable and satellite, coupled with the price discipline exhibited in the wireless industry . . . give credence to our assertion that the deregulation of the fixed-line network will have a beneficial effect on the industry," **Veritas Investment research** analyst **Neeraj Monga** wrote in a note to clients earlier this year. "We expect prices to go up, not down."

A key influence as far as rates go will be the number and strength of competitors, according to Guy Holburn, an assistant professor at the Richard Ivey School of Business. Some observers have referred to the Canadian communications market as an oligopoly.

"It's a fairly concentrated industry," Mr. Holburn said. "It's just not obvious rates are going to go down."