



AUTORITÀ PER LE
GARANZIE NELLE
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Price control and regulating cost accounting methodologies

Monitoring electronic communications and information
society services in Enlargement Countries - Forum 4

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Outline

- Regulatory Accounting Project Team
- Fixed/Mobile Termination Rate Project Team
- AGCOM's experience on implementation of EC Recommendation on F/MTR

Regulatory Accounting WG

In September 2003 the IRG Regulatory Accounting Working Group (RA WG) started a data gathering process aimed at describing how regulatory accounting systems have been implemented in EC member states in order to determine the price of communication services.

The first results of this process were summarised in the report on Regulatory Accounting in Practice, prepared by the RA WG in April 2005.

The BEREC Regulatory Accounting Project Team continued to gather and report data from National Regulatory Authorities (NRAs) aiming at describing how regulatory accounting systems were implemented in Member States and monitoring the level and trend of harmonization of regulatory accounting systems across Europe.

2010 Report is the sixth annual report.

RA: Countries participating to surveys

- From 2005 Bulgaria, Croatia, Slovakia added
- Turkey did not participate all years

2005	2010
Austria	Austria
Belgium	Belgium
	Bulgaria
	Croatia
Cyprus	Cyprus
Czech Republic	Czech Republic
Denmark	Denmark
Estonia	Estonia
Finland	Finland
France	France
Germany	Germany
Greece	Greece
Hungary	Hungary
Iceland	Iceland
Ireland	Ireland
Italy	Italy
Latvia	Latvia
Lithuania	Lithuania
Malta	Malta
The Netherlands	The Netherlands
Norway	Norway
Poland	Poland
Portugal	Portugal
Romania	Romania
Slovenia	Slovenia
	Slovakia
Spain	Spain
Sweden	Sweden
Switzerland	Switzerland
United Kingdom	United Kingdom

RA: data collection

The data collection process covered the following topics:

- Cost base (*HCA Family, CCA Family, Others*);
- Accounting systems (*LRIC/LRAIC, FDC*);
- Price control method (*Cost orientation, Price cap, Retail minus, Cost orientation & Price Cap, Benchmarking, Others*);
- Auditing process;
- WACC calculation methodology;
- Remedies imposed to SMP operators;
- Approach used to develop cost model (*Top-down, Bottom-up*).

RA Report: general results over time

2005 Report: accounting methodologies used across Europe were not yet harmonised or homogeneous.

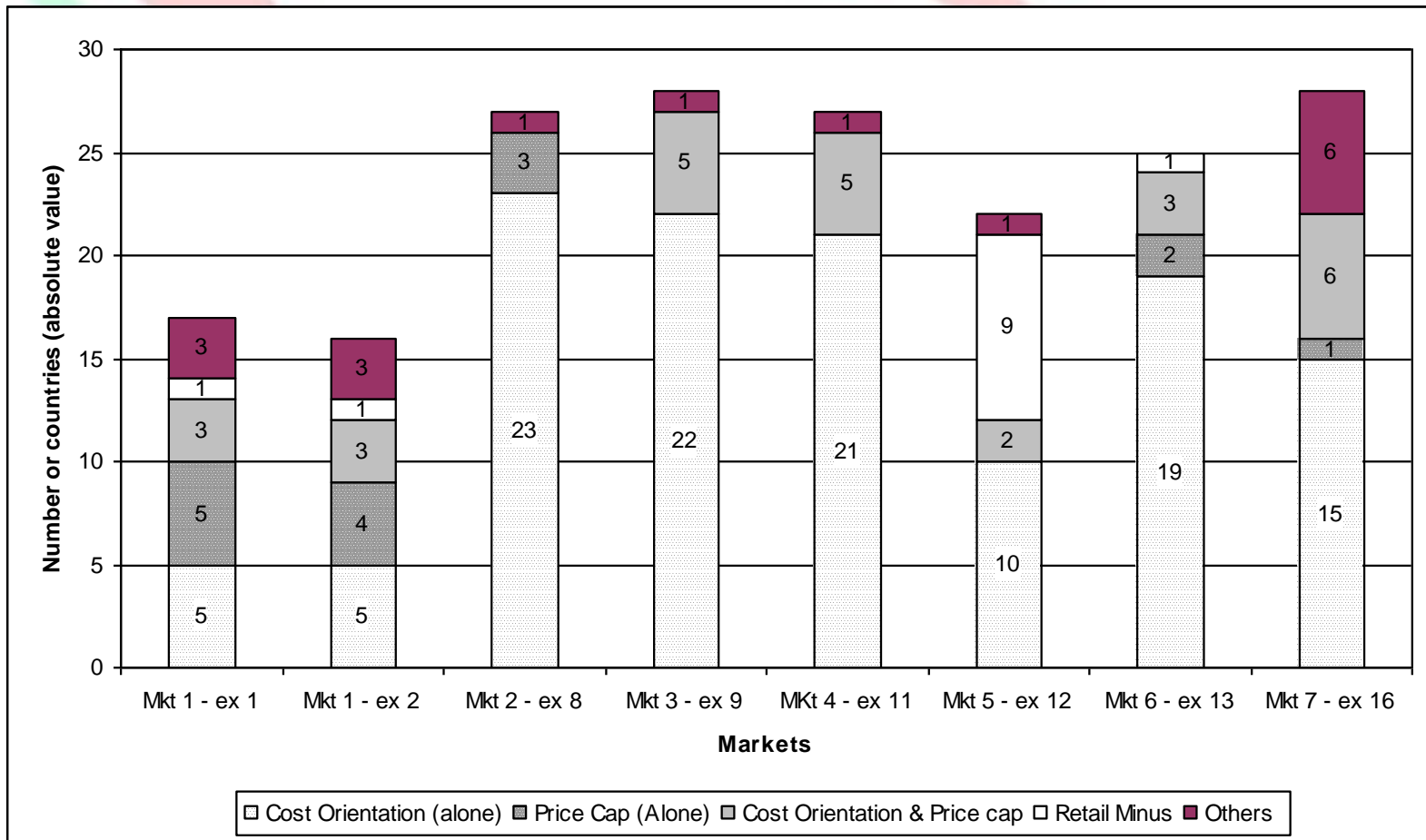
Current Cost Accounting (CCA) and Fully Distributed Cost (FDC) or Long Run Incremental Cost (LRIC) methodologies for fixed networks regulation.

Historical Cost (HC) and Fully Distributed Cost methodologies for mobile networks regulation.

Important trends discernable from the data are the increase of Current Cost Accounting (CCA) as a cost base in the mobile termination market; a further consolidation in the use of CCA as the preferred cost base for the fixed termination market; Long Run Average Incremental Cost (LRIC/LRAIC) methodologies (based on CCA) are being used more extensively in the mobile termination market.

RA: Results from 2010 Report (1/4)

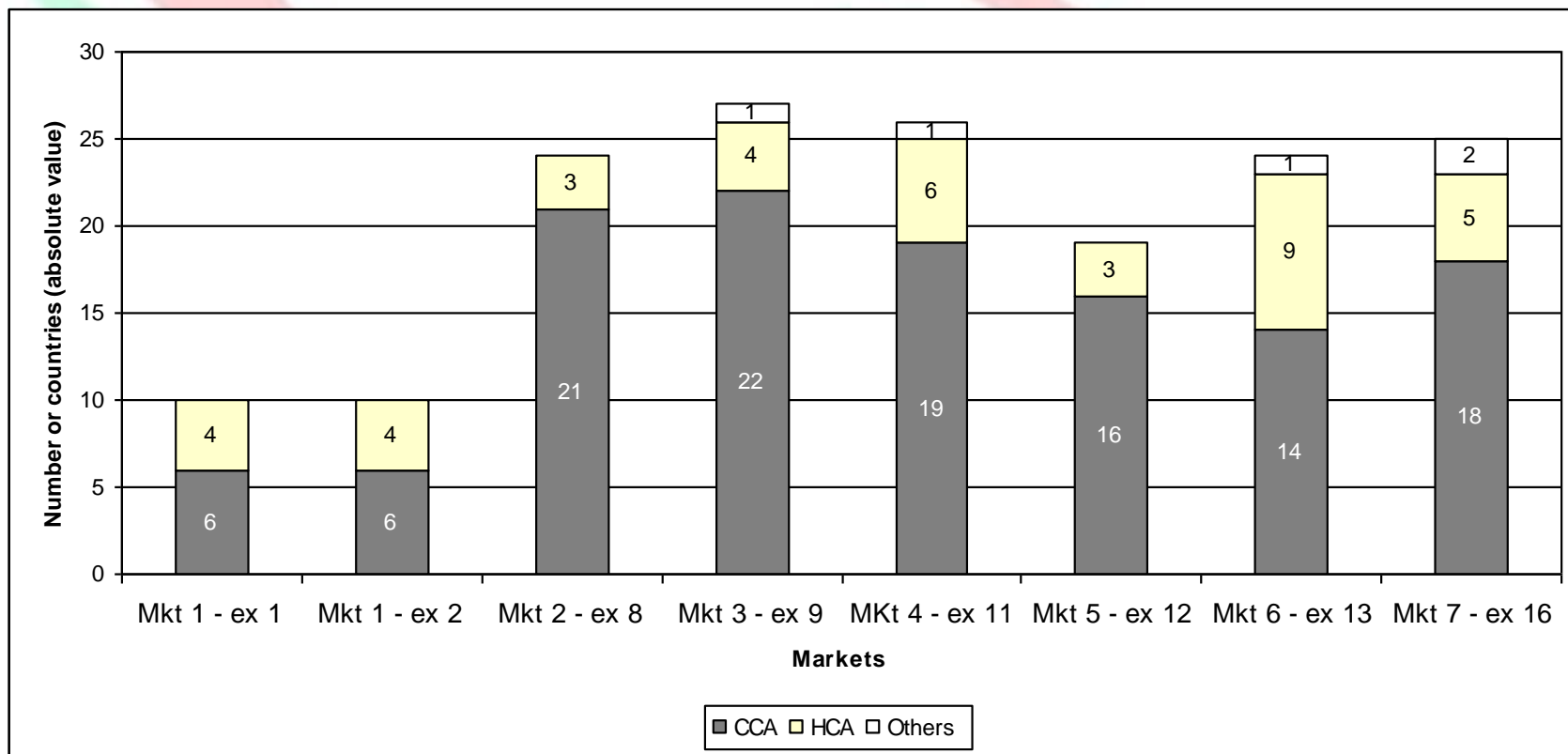
Price control method in 2007 Recommendation's markets



Source: BEREC 2010 Regulatory Accounting Report

RA: Results from 2010 Report (2/4)

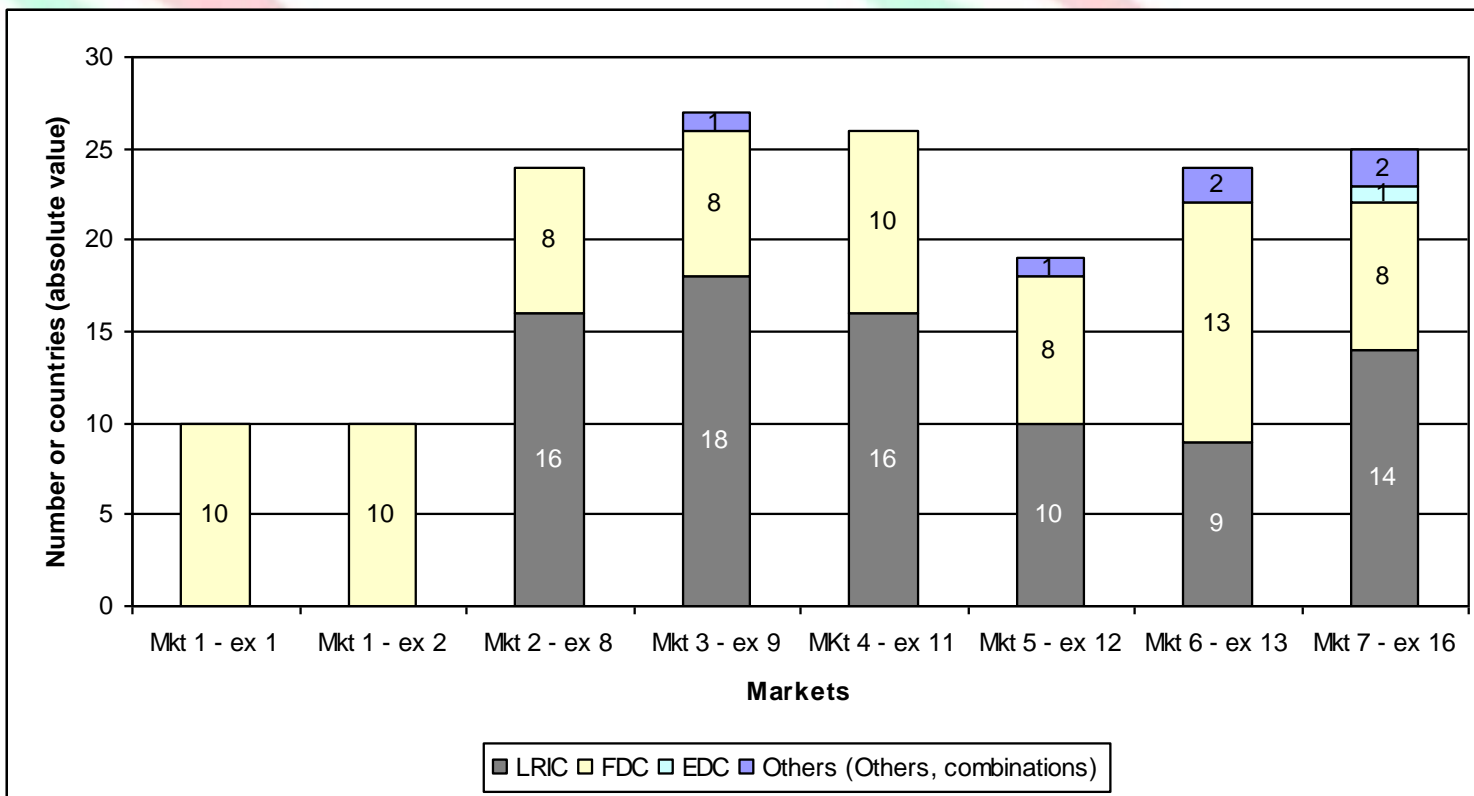
Cost base in 2007 Recommendation's markets



Source: BEREC 2010 Regulatory Accounting Report

RA: Results from 2010 Report (3/4)

Accounting methodology in 2007 Recommendation's markets



Source: BEREC 2010 Regulatory Accounting Report

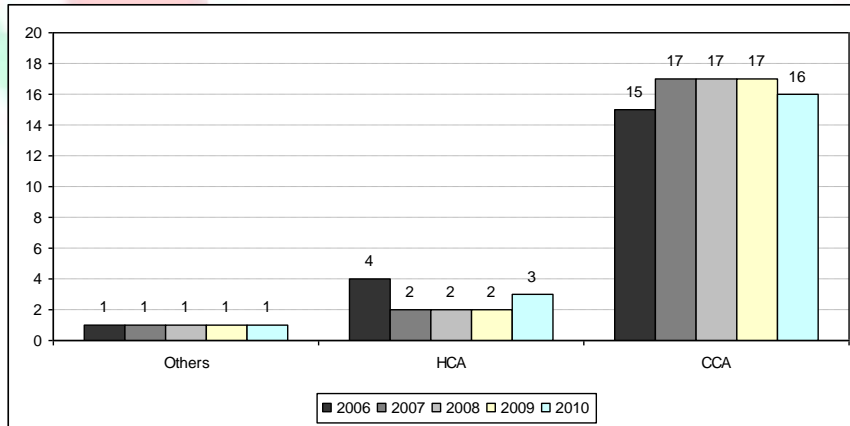
RA: Results from 2010 Report (4/4)

Countries with price control and/or accounting obligation over time

List of Markets susceptible to <i>ex ante</i> regulation according to Recommendation 2003/311/EC	#of countries with price control and/or accounting obligation in 2008	#of countries with price control and/or accounting obligation in 2009	#of countries with price control and/or accounting obligation in 2010
Market 3: National fixed Residential Services	15	15	8
Market 4: International fixed Residential Services	9	9	4
Market 5: National fixed Non-Residential Services	13	11	9
Market 6: International fixed Non-Residential Serv.	10	10	6
Market 7: Leased Lines	17	15	11
Market 10: Fixed Transit Services Wholesale	19	16	12
Market 14: Trunk Segments Wholesale	12	12	11
Market 15: Mob. Access and Origination Services	3	3	3
Market 17: International Roaming	1	1	0
Market 18: Broadcasting Services	13	14	14

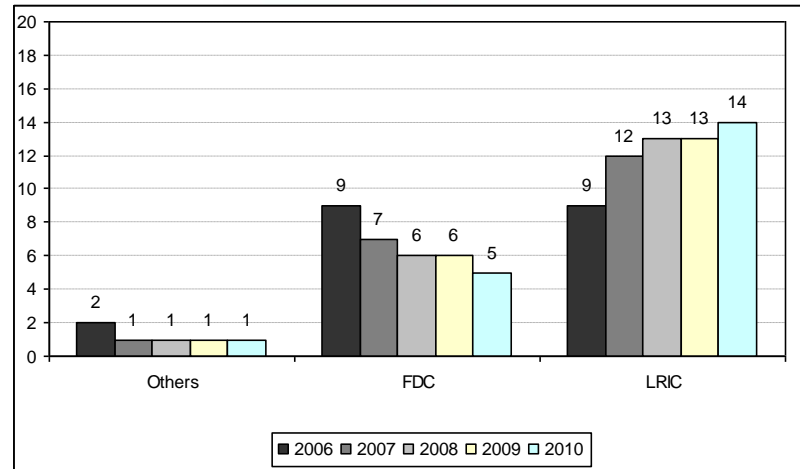
Source: BEREC 2010 Regulatory Accounting Report

RA: Results from 2010 Report for Fixed Call Termination (Mkt 3)



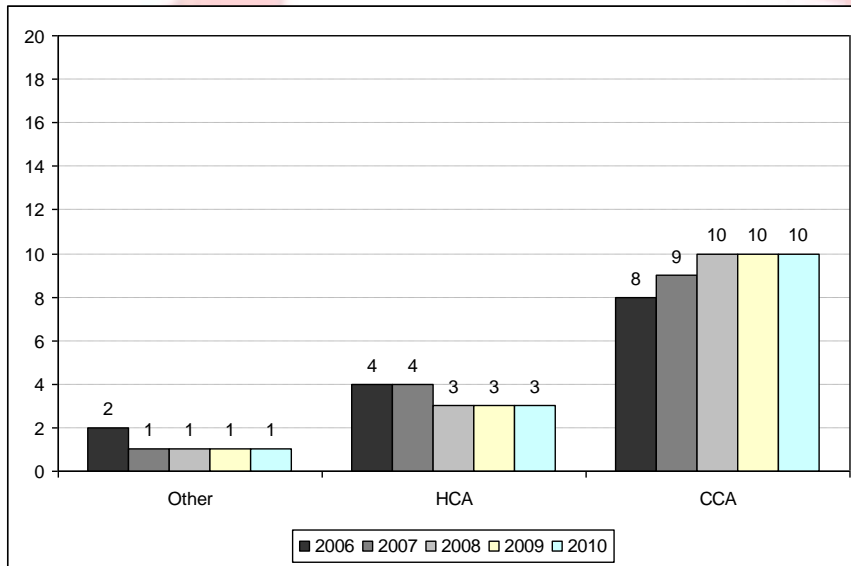
Cost Base

Accounting Methodologies

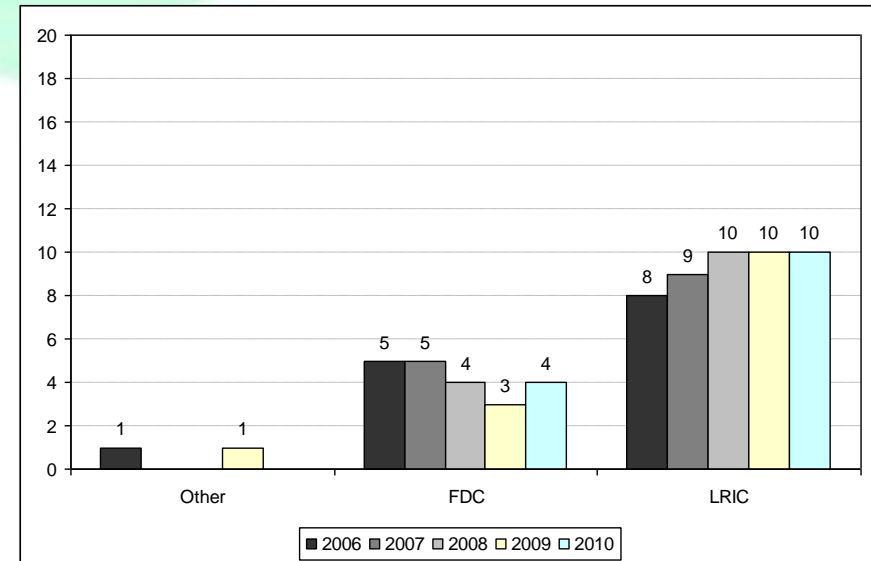


Source: BEREC 2010 Regulatory Accounting Report (Figures based on 20 Countries)

RA: Results from 2010 Report for Mobile call termination (Market 7)



Cost Base



Accounting Methodologies

Source: BEREC 2010 Regulatory Accounting Report (Figures based on 14 Countries)

EC recommendation on F/MTRs

By that date (December 31, 2012):

- NRAs should set rates for voice call termination on fixed and mobile networks (FTRs and MTRs) based on costs incurred by an efficient operator;
- FTRs and MTRs should be symmetric;
- The evaluation of efficient costs should be based on current costs and the use of a bottom-up “pure” long-run incremental cost (BU-LRIC) model following the principles set out in the Recommendation.

Fixed/Mobile TR WG

This group is the forum needed to exchange views, technical discussions and sharing best practice in developing cost models.

Examples:

- **Presentations by NPT (Norway) of its MTR model or OPTA (The Netherlands) of its MTR and FTR models**
- **Presentation by ARCEP (France) of the Excel benchmarking file of TR modelling approaches across countries**

Its goal is to monitor mobile termination rates and fixed termination rates regulation, with particular regard to the implementation of the Commission's Recommendation.

Main results for Fixed TR

Country	Current situation	Firm date set for symmetric rates?	Other action by NRA
Austria	Reciprocity		
Belgium	Asymmetry		Market review in progress
Bulgaria	Some rates symmetric	Yes	
Croatia	Some rates symmetric	Yes (1 Jan 2013)	
Cyprus	Asymmetry	No	
Czech Republic	Full symmetry		
Denmark	Asymmetry	No	
Estonia	Asymmetry	Yes (1 Jan 2011)	
Finland	Asymmetry	No	FICORA has issued guidelines on symmetry/asymmetry
France	Asymmetry	No	
Germany	Full symmetry		
Greece	Full symmetry		
Hungary	Asymmetry	Yes (31 Dec 2011)	
Ireland	Some rates symmetric	No	
Italy	Some rates symmetric	Yes (1 July 2010)	
Latvia	Asymmetry	No	
Lithuania	Full symmetry		
Malta	Full symmetry		
Netherlands	Full symmetry		
Norway	Full symmetry		
Poland	Asymmetry	Yes (1 Jan 2014)	Under review
Portugal	Asymmetry	No	
Romania	Full symmetry		
Slovak Republic	Asymmetry	No	
Spain	Asymmetry	No	
Sweden	Full symmetry		
Switzerland	Asymmetry	No	
Turkey	Asymmetry	No	
UK	Reciprocity		

Source: BoR (10) 31

Main results for Mobile TR

Country	Current situation	Firm date set for symmetric rates?	Other action by NRA
Austria	Full symmetry		
Belgium	Asymmetry	Yes	
Bulgaria	Some symmetric rates	Yes	
Croatia	Some symmetric rates	Yes (1 Jan 2013)	
Cyprus	Asymmetry	Yes (1 Jan 2013)	
Czech Republic	Full symmetry		
Denmark	Some symmetric rates	Yes (2012)	
Estonia	Full symmetry		
Finland	Full symmetry		
France	Some symmetric rates	No	Clear policy intention announced to move to symmetric rates
Germany	Some symmetric rates	No	Clear policy intention announced to move to symmetric rates
Greece	Full symmetry		
Hungary	Full symmetry		
Ireland	Some symmetric rates	Yes (1 Jan 2013)	
Italy	Some symmetric rates	Yes (1 July 2012)	
Latvia	Some symmetric rates		Clear policy intention announced to move to symmetric rates
Lithuania	Full symmetry		
Malta	Full symmetry		
Netherlands	Asymmetry	No	Draft decision to achieve symmetry by September 2010
Norway	Some symmetric rates	No	Clear policy intention announced to move to symmetric rates
Poland	Asymmetry	Yes (1 Jan 2013)	
Portugal	Full symmetry		

Source: BoR (10) 31

AGCOM's experience on implementation of EC Recommendation on FTR

- Decision n. 417/06/CONS

SMP assessment: Telecom Italia and 11 OAOs;
Remedies for OAOS: *delayed reciprocity* respect to TI;

- Decision n. 251/08/CONS

AGCOM developed a Bottom-Up LRAIC model for OAOs.
On the base of the results of the Model, and accounting for EC considerations for Italian case, the “symmetry year” has been fixed at **2010**.

For such year, the model generates a mean FTR of **0.57 €** cents/min.

- Decision n. 179/10/CONS

To be developed a new BU LRIC Model for fixed termination rates for 2012.

AGCOM's experience on implementation of EC Recommendation on MTR

Decision n. 667/08/CONS

Termination prices (2009-2012)

Euro/cent/minut	From 1°/07/2009	From 1°/07/2010	From 1°/07/2011	From 1°/07/2012
H3G	11	9	6,3	4,5
Telecom Italia	7,7	6,6	5,3	4,5
Vodafone	7,7	6,6	5,3	4,5
Wind	8,7	7,2	5,3	4,5

LRIC top down

Currently under consultation new LRIC bottom up cost model and the methodology of reconciliation:

<http://www.agcom.it/default.aspx?DocID=5013>

AGCOM's experience on implementation of EC Recommendation on MTR

The model is based on the following hypotheses:

- Scorched Earth approach, which is considered the most appropriate to describe an “hypothetical operator”;
- 20% market share (in terms of handled traffic) as the minimum efficient scale;
- 6 geo-types, defined on the population density;
- Annualisation of assets based on the Tilted Annuity approach;
- Network technologies assume a combination of 2G and 3G telephony.

References

BoR (10) 48 - BEREC Report Regulatory Accounting in Practice 2010

COMMISSION RECOMMENDATION of 7 May 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU (2009/396/EC)

BoR (10) 31 - BEREC Action Plan to Achieve Conformity with ERG
Common Position on Symmetry of Termination Rates – ERG (07) 83