Price control and regulating cost accounting methodologies: Albania

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Cullen International. Forum 4
Sarajevo 4-5TH November 2010

Content

- Tariff regulation 2008-2010
- BULRAIC process
- BULRAIC results: mobile and fixed
- Cost orientation: Way forward

Methodologies for Tariff Regulation (2008-2010)

CoM decisions on 18.06.2008:

- AKEP proposal (after public consultation)
- Old law: tariff regulation approved by Council of Ministers

Albtelecom (fixed incumbent):

- Wholesale: termination/origination and transit
- Retail: installation, monthly rental, local, national and international calls (Residential and Business)

AMC (SMP Mobile)

- Wholesale: termination
- Retail: most used prepaid tariff plan

Vodafone Albania (SMP Mobile)

- Wholesale: termination
- Retail: most used prepaid tariff plan

Methodologies for Interconnection Tariff Regulation (2008-2010)

Objective: reduction of termination charges towards EU average levels

Services:

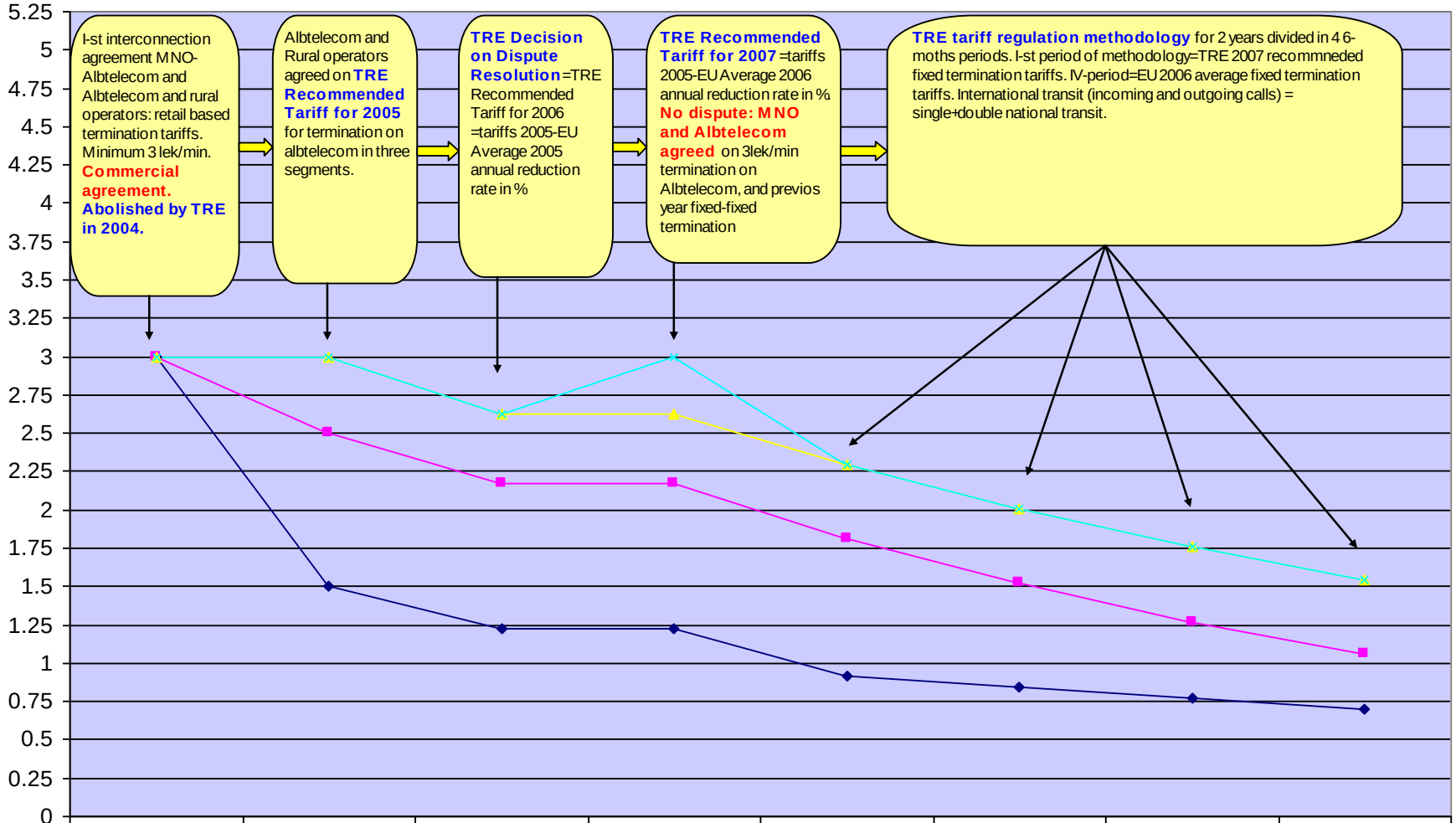
- AMC and Vodafone Albania: Mobile termination
- Albtelecom:
  - Local, single and double termination;
  - National and international transit;

SMP operators obliged to apply the same termination tariff for national and international incoming calls handed in by operators licensed from TRE.

Methodologies for Interconnection Tariff Regulation (2008-2010)

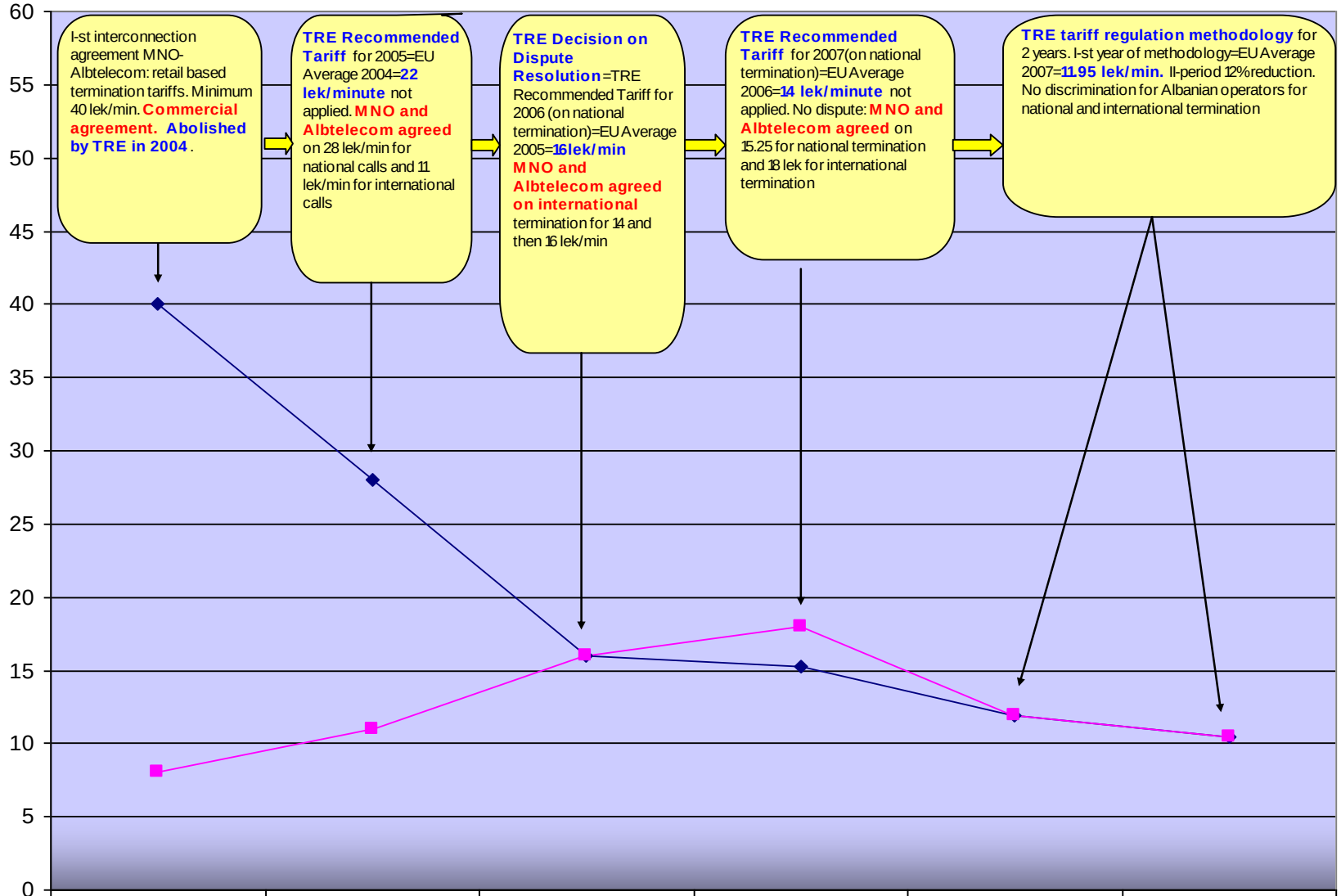
- Reducing glide path by determination of maximum charges for 2 years:
  - 4x6 months for Albtelecom, and
  - 2x1 year for 2 SMP mobile operators.
- Objective:
  - Mobile: First period=EU 2007 average (13th EC implementation report)=11.95 lek/min
  - Albtelecom: Forth period=EU 2006 average (12th EC implementation report)
- Methodologies: short-medium term solution
- Long Term: LRIC cost based charges (procurements for international consultancy for BULRAIC mobile and fixed in 2008)

Albtelecom Termination Tariffs (Lek/Min) and TRE Interventions



	2000-Nov 2004	Dec 2004-July 2006	Aug 2006-Oct 2007	Nov 2007-Current	Ist Period= TRE Recommended tariffs 2007	II-nd Period	III-rd Period	IV-th Period=EU 2006 Average
Local	3	1.5	1.23	1.23	0.92	0.84	0.77	0.7
Single	3	2.5	2.17	2.17	1.81	1.52	1.27	1.06
Double	3	3	2.63	2.63	2.3	2.01	1.76	1.54
MNO-Fixed	3	3	2.63	3	2.3	2.01	1.76	1.54

Mobile termination tariffs (Lek/min) and TRE Intervention



	2000-Nov 2004	Dec 2004-July 2006	Aug 2006-Oct 2007	Nov 2007-Current	Ist Period (2008-2009)	II-nd Period (2009-2010)
National calls	40	28	16	15.25	11.95	10.5
International calls	8	11	16	18	11.95	10.5

Mobile retail tariff regulation methodology

- Methodology: Price cap (RPI-X) for two years: 2x1 year
- RPI-X:
  - Whole basket: X=23%
  - Sub-basket: Retention rate for off-net calls X=28%
  - Sub-Basket: Retention rate for calls to fixed X=28%
- Reduction of minimum charging time: from 30 sec to 15 seconds.
- SMP MNO-s not allowed to increase any tariff of any package (under regulation or not)

Albtelecom: Rebalancing process

- Started in 2001: price cap
- 2003: a new methodology for immediate rebalancing-high increase of tariffs had a political and social backlash and it was replaced by a more gradual change.
- 2004-2008: tariffs for international calls and to mobiles have been decreased by Albtelecom (state owned company) but no increase for monthly rental or local calls
- Retail tariffs unbalanced:
  - Monthly rental for residential 7-8 times lower than EU average;
  - Local calls charges very low and unit based charging
  - National calls higher than EU average

2008-2010 Methodology for Albtelecom retail tariff regulation

- Price cap for 2 years: 4x6 months
- Services: retail services, residential plus business, and retail leased lines
- RPI-X:
  - Whole basket: X=RPI
  - Residential monthly rental: X= -15%
  - Local calls: X=-4.2% (residential peak: RPI-X≤8%)
  - Residential national calls: X=+15%
  - Retantion rate calls to mobile: X=+20%
  - Retention rate international calls: X=+15%

Results 2008-2010

- Significant increase for monthly rental and local calls by more than 100%;
- Significant decreases for national and international calls;
- Move from pulse based (2 minutes unit charging) to per second charging
- Alignment of business and residential tariffs
- Fourth phase not implemented in full: social reasons.

BU-LRAIC process

2007: Procurement procedure for International Consultancy for Mobile BULRAIC

Procedure Failed

2008: 2 Procurement procedures for International Consultancy for Mobile BULRAIC and fixed incumbent BULRAIC

June 2009: start of projects

ICC for Mobile BULRAIC	PWCP for Albtelecom BULRAIC

Mobile BULRAIC: TOR

- **Objective:**

  The design, development and implementation of the BU-LRAIC (Bottom-Up Long Run Average Incremental Cost) model for the estimation (calculation) of costs of services of public mobile telephony operators efficiently operating in a competitive market.
- **Outputs of BULRAIC model:**
  - call termination;
  - call origination;
  - SMS/MMS.
- Based on the model results, the Bidder will make recommendations on cost-oriented tariffs for interconnection services with mobile networks as well as implications for tariffs of mobile retail services
- Duration: 24 weeks

Albtelecom BULRAIC: TOR

- **Object:**

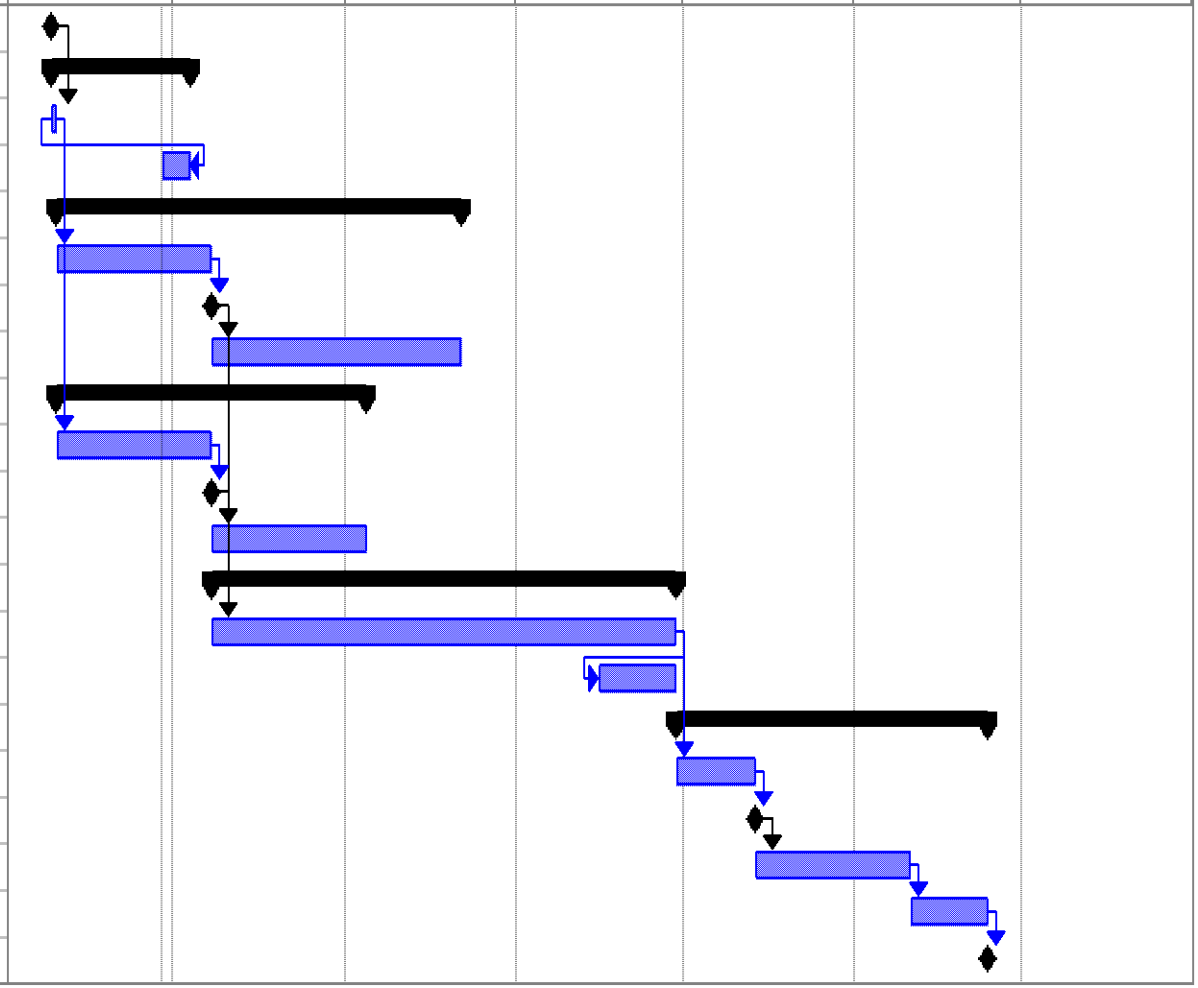
  The design, development and implementation of a BU-LRAIC (Bottom-Up Long Run Average Incremental Cost) model for the calculation of costs of specific services provided by Albtelecom.
- **Outputs of BULRAIC model:**
  - call termination;
  - call origination;
  - transit calls;
  - leased lines;
  - access for LLU (full unbundled and shared access)
- Based on the model (models) results, the Bidder shall make recommendations on cost-oriented tariffs for access and interconnection services of Albtelecom as well as implications for Albtelecom retail tariff regulation.
- Duration: 30 weeks

BULRAIC projects outline

- Meeting with market players
- Data collection: Publication of Questionnaires
- Model Reference Paper: Public Consultation
- WACC calculations
- Preliminary Model:
  - Consultation with concerned operators i.e. Mobile BULRAIC with each MNO, Albtelecom BULRAIC with Albtelecom
- Final Model and results: Public consultation

Mobile preliminary project outline 2009

ID	Task Name
1	Contract Signature
2	**Project Initiation**
3	Kick Off Meeting
4	Meeting with Market Players
5	**Preparation of Data Requests**
6	Preparation of Data Requests
7	Issue Data Requests to Operators
8	Operators Gather Data
9	**Preparation of Model Reference Paper**
10	Preparation of Model Reference Paper
11	Submission of Model Reference Paper
12	Consultation on Model with Industry
13	**Development of Model**
14	Development of Model
15	Consultation with industry
16	**Finalisation of Model Results and Training**
17	Model testing
18	Presentation of model results
19	Consultation with Industry on Final Results
20	AKEP training on model
21	Submission of model and recommendations



Problems for BULRAIC process

- MNO-s and Albtelecom didn't provide data at required deadlines;
- Data provided: not complete
- Delays in Public consultations:
  - AKEP board approval
  - AKEP board dismissal in November 2009
- No comments from OAO in public consulatations
- Deadline for both projects extended to 20.07.2010

Mobile Model Reference Paper (MRP)

- Model structure: top-down or bottom-up;
- Scope: which operators, which services, which technology;
- Network structure: scorched earth, scorched node, modified scorched node;
- The increment: narrow versus broad increments;
- Treatment of costs:
  - The cost causation principle
  - Separating coverage and traffic costs
  - Allocation of common costs
  - Allocation of costs to services
  - Network externality charges
  - Treatment of license and spectrum fees;
- Annualisation methods: Economic Depreciation and its proxies
- Cost of capital
- Symmetric versus asymmetric rates.

Albtelecom BULRAIC MRP

- Bottom-up vs. Top-down
- Scorched node vs. scorched earth
- Capital costs
- Efficiency adjustments
- Mark-up
- Model structure
- Demand analysis and forecasting
- Network dimensioning
- Dimensioning of the access network; switching network; transmission network; cables network; power plant
- Annualisation
- Cost allocation to services

Summary of the broad direction of MNO responses for MRP

Question	MNO 1	MNO 2	MNO 3
Q2: Single efficient operator			
Q3: 2G or 2G/3Gmodel			
Q4: Scorched node/scorched earch			
Q5: Broad or narrow increment			
Q6: Cost causation principle			
Q7: Single network increment			
Q8: EPMU markups for common costs			
Q9: Externality charge			(no response)
Q12: Capital costs methodology			
Q14: Modelling of small operators and asymmetry			

Mobile BULRAIC: Results and recommendation

Service	Unit	Modelled cost (Lek in 2013)	Current tariff (lek)
Call termination	minute	4.57 (3.36 eurocent)	10.5 12.92 19.00
Call origination	minute	4.51	10.5
Own-network calls	minute	7.17	
International Transit	minute	1.13	
National transit	minute	1.13	
SMS on net	message	0.60	
SMS outgoing	message	0.58	
SMS incoming	message	0.58	4
MMS on net	message	*0.27*	
MMS outgoing	message	*0.16*	
MMS incoming	message	*0.17*	
GPRS downloads	megabit	5.14	

Model results for public consultation: www.akep.al

Consultants recommendation on Glide path and asymmetry

	2009-2010	From the date decided by AKEP Decision	From September 2011	From September 2012	From September 2013	From September 2014
AMC, Vodafone	10.5	9.03	7.57	6.10	4.57	4.57
Eagle	12.92	10.31	8.42	6.52	4.57	4.57
Mobile 4 Al		13.32	10.31	8.42	6.52	4.57

Albtelecom BULRAIC results

Service	Unit	Result	March-August 2010	1.09.2010-AKEP decision on Cost Orientation
Full access to local loop	ALL per month	801 (5.88 euro)	358: retail residential	442: retail residential
Shared access to local loop	ALL per month	468 (3.44 euro)		
Full access to local sub-loop	ALL per month	678		
Shared access to local sub-loop	ALL per month	407		
Local termination	ALL per min	0,89	0.7	1.5
Regional termination (single)	ALL per min	1,64	1.06	2.5
National termination (double)	ALL per min	1,84	1.54	3.5
Call set-up	ALL per call	0,24	0.021-0.046	0.83

Albtelecom termination rates 1.09.2010

- Significant increase:
  - Termination rates applied till September 2010 lower than BULRAIC cost results (June-July 2010);
  - Monthly rental significantly lower than BULRAIC network cost;
  - Albtelecom ROCE very low: < 5%
  - Law and EU directives/recommendations: price regulation to allow for reasonable return on investment;
- Impact on competition not significant:
  - OAO focused on transit of international incoming traffic
  - Termination rates of OAO will also increase
  - Retail tariffs of OAO and Mobile for calls towards Albtelecom very high.
- Termination charges increase: temporary

Way forward

Publication of BULRAIC final results

Public consultation on:

Cost orientation of mobile interconnection charges	Cost orientation and full rebalancing of Albtelecom tariffs (interconnection and retail)

AKEP decisions:

Glidepath for mobile termination charges (4 operators) and deadline for asymmetric rates	Glidepath for Albtelecom interconnection charges and retail tariffs(in parallel).

CA/AS

2011: International consultancy

2012:

Regulation on CA/AS (current cost/(BU)LRIC)	New market analysis and remedies

2013:

Operators submit data based on CA/AS regulation	Auditing process	Reconciliation with BULRAIC models (update if necessary)

Thank You for Your Attention

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