Local Leased Lines Pricing Review – 2008: Consultation and Proposed Decision

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1 INTRODUCTION

Leased lines represent important pillars in making available dedicated capacity to a wide variety of users, including the providers of electronic communications services as well as the business community at large. The underlying network infrastructure of leased lines permits an effective and efficient transfer of data between different locations, a crucial prerequisite for an information-based economy. Such a service is characterised by dedicated and secure point-to-point transfer of data hence allowing an efficient conduct of every day business. In the absence of effective competition in the provision of such an important service, regulation plays a pivotal role in ensuring that prices are fair and reasonable.

In August 2006, the Malta Communications Authority ('MCA') published a decision on Retail Leased Lines, Wholesale Terminating Segments & Wholesale Trunk Segments of Leased Lines (hereafter referred to as the 'Leased Lines Market Analysis') where it found GO plc[1] (at the time Maltacom plc) to have Significant Market Power ('SMP'). In its Leased Lines Market Analysis, the MCA stated *inter alia* that leased lines prices should reflect only efficiently incurred costs.

In keeping with this objective, the MCA adopted a bottom-up cost modelling approach to calculate leased line prices to be charged by GO. The purpose of this document is to put to public consultation the proposed prices of local leased lines resulting from this work stream.

[1] Hereinafter referred to as GO.

2 BACKGROUND

In line with the European regulatory framework for electronic communications services, the MCA, in August 2006, published a decision on Retail Leased Lines, Wholesale Terminating Segments & Wholesale Trunk Segments of Leased Lines.

In its Leased Lines Market Analysis, the MCA delineated a number of distinct relevant markets namely:

- Retail national traditional interface leased lines (minimum set up to and including 2Mbps);
- Retail international traditional interface leased lines (minimum set up to and including 2Mbps);
- Wholesale terminating segments of leased lines;
- Wholesale national trunk segments of leased lines;
- Wholesale international trunk segments of leased lines.

As a result of this Decision, GO was designated as having Significant Market Power in the above markets. Accordingly, the MCA imposed a number of retail and wholesale remedies, including cost orientation, price control, and access to specific network facilities on a wholesale level amongst others.

2.1 APPROACH USED TO CALCULATE PRICES

In its Leased Lines Market Analysis, the MCA stated that leased lines prices should reflect only efficiently incurred costs. In keeping with this objective, the MCA adopted a bottom-up cost modelling approach to calculate leased line prices to be charged by GO.

In theory a bottom-up cost model essentially assumes an efficient operator deploying its network today. In this methodology, the required network elements as well as the resulting operational and capital costs are all modelled from first principles, hence ensuring that only the efficiently incurred costs are taken into account when calculating the price of a given service.

Instead of developing from scratch a bottom-up cost model for leased lines, the MCA extended the scope of its already existent bottom-up model (BUCM) which was, in turn, developed to calculate fixed-line interconnection rates. This is because the provision of leased lines and call termination and origination services are characterised by joint and common costs in their use of the core network.

In view of the fact that the objective of the original BUCM was to calculate the efficient cost of fixed-line interconnection services, the project had already focused on the analysis and dimensioning of the switching network elements as these form the bulk of the network elements required for the provision of fixed termination. The extension of the BUCM to incorporate leased lines involved, amongst others, the following major workstreams:

- Analysis of GO's fibre network as well as its ducts and trenches;
- Dimensioning the various transmission network elements involved;
- Allocation of the network costs (including fibre, duct and trenches) across the different services making use of these elements;
- Analysis of the demand volumes by type of service;
- Assessing the efficient level of operating expenditure required.

In line with the distinct relevant wholesale trunk and terminating markets as determined in the Leased Lines Market Analysis, the model was also designed to disaggregate costs in the following cost segments:

- Terminating segments – comprising mainly of the customer premises equipment and underground infrastructure which includes copper, fibre, ducting and trenching; and
- Trunk segments – comprising of the transmission network.

This split in prices is aimed at allowing alternative operators more flexibility in purchasing the required components in a more granular manner. This is in contrast with the current price scheme that aggregates the total costs of both segments in one single price. In order to carry out the extension to the BUCM, the MCA collated all the necessary information from GO, as well as conducted various meetings that allowed the Authority to gain a better understanding of the underlying network infrastructure required. The MCA also conducted research on the leased lines prices currently deployed by other EU Member States.

Following the extensive workstreams carried out, the MCA provided GO with a detailed private consultation document which featured direct extracts from the model, a detailed description of the attribution methodologies, as well as all the assumptions made in developing and populating the BUCM. On its part, during the said consultation process, GO provided valuable feedback as well as explanations relating to the network elements involved in leased lines service provisioning. The outcome of the eventual BUCM was therefore the product of several interactions and correspondence between MCA and GO. The MCA would like to acknowledge GO's cooperation in satisfying the extensive data requirements that such a project entails.

The objective of this document is to put to public consultation the proposed prices of local leased lines. With respect to international leased lines prices, the MCA is also conducting a private consultative process with GO. This shall be followed by a corresponding public consultation on the resulting proposed international leased lines prices.

3 CURRENT AND PROPOSED LOCAL LEASED LINES PRICES

3.1 CURRENT LOCAL LEASED LINES PRICES

The current prices for local leased lines offered by GO consist of a connection fee and an annual fee as detailed in Table 1 hereunder:

Table 1: Current Local Leased Lines Prices Offered by GO plc

National Leased Lines Services Types	Connection Fee		Annual Rental Wholesale		Annual Rental Retail	
	EUR	(MTL)	EUR	(MTL)	EUR	(MTL)
Analogue - 2 Wire*	N/A	N/A	N/A	N/A	540	(232)
Analogue - 4 Wire*	N/A	N/A	N/A	N/A	738	(317)
Semi-Digital - 2 Wire	140	(60)	759	(326)	1,104	(474)
Semi-Digital - 4 Wire	140	(60)	1,153	(495)	1,495	(642)
64kb/s (includes circuits up to 64Kbit/s)	280	(120)	1,565	(672)	1,910	(820)
128 To 768kbit/s	280	(120)	2,746	(1,179)	3,091	(1,327)
832 To 1024kbit/s	280	(120)	5,884	(2,526)	6,229	(2,674)
1088 To 1536kbit/s	280	(120)	8,237	(3,536)	8,237	(3,536)
1600 To 1984kbit/s	280	(120)	10,981	(4,714)	11,328	(4,863)
2 Mbit/s	280	(120)	12,544	(5,385)	12,830	(5,508)
Standard I/C Path (to GO plc)	2,078	(892)	3,156	(1,355)	N/A	N/A
Protected I/C Path (to Go plc) additional to Standard I/C Path	2,078	(892)	2,998	(1,287)	N/A	N/A

** Applicable only for existent clients*

3.2 PROPOSED LOCAL LEASED LINES PRICES

The results of the MCA's analysis point to a drop in prices for the majority of the leased lines provided by GO. Table 2 hereunder shows the proposed prices for both wholesale and retail leased lines.

It is the intention of the MCA to keep the prices under review by keeping under scrutiny any market developments in the area such as service take-up, any changing demand patterns that may occur following the deployment of these revised prices, as well as keeping track of any developments occurring at the international level.

The MCA is furthermore proposing that the following prices should apply from 1 March 2008. Prices quoted are exclusive of VAT.

Table 2: Proposed Wholesale and Retail Local Leased Lines Prices

National Leased Lines Services Types	Connection Fee		Annual Rental Wholesale		Annual Rental Wholesale		Annual Rental Wholesale		Annual Rental Retail	
			Trunk		Terminating (Two Segments Except for I/C Paths)		End-to-End			
	EUR (MTL)		EUR (MTL)		EUR (MTL)		EUR (MTL)		EUR (MTL)	
Analogue - 2 Wire*	N/A	N/A	N/A	N/A	280	(120)	280	(120)	433	(186)
Analogue - 4 Wire*	N/A	N/A	N/A	N/A	559	(240)	559	(240)	713	(306)
Semi-Digital - 2 Wire	140	(60)	615	(264)	210	(90)	825	(354)	915	(393)
Semi-Digital - 4 Wire	140	(60)	615	(264)	419	(180)	1,034	(444)	1,148	(493)
64kb/s (includes circuits up to 64Kbit/s)	280	(120)	631	(271)	643	(276)	1,274	(547)	1,414	(607)
128 To 768kbit/s	280	(120)	869	(373)	885	(380)	1,754	(753)	1,945	(835)
832 To 1024kbit/s	280	(120)	1,500	(644)	1,530	(657)	3,031	(1,301)	3,361	(1,443)
1088 To 1536kbit/s	280	(120)	1,973	(847)	2,015	(865)	3,988	(1,712)	4,421	(1,898)
1600 To 1984kbit/s	280	(120)	2,527	(1,085)	2,579	(1,107)	5,106	(2,192)	5,663	(2,431)
2 Mbit/s	280	(120)	2,842	(1,220)	2,900	(1,245)	5,742	(2,465)	6,369	(2,734)
I/C Path (to GO plc)	2,078	(892)	2,089	(897)	1,067	(458)	3,156	(1,355)	N/A	N/A
Protected I/C Path (to Go plc) additional to Standard I/C Path	2,078	(892)	1,985	(852)	1,013	(435)	2,998	(1,287)	N/A	N/A

* *Applicable only for existent clients*

4 CONSULTATION FRAMEWORK

The MCA invites comments from interested parties regarding this Statement of Proposed Decision. Written representations may be made public by the MCA subject to the MCA's Internal Guidelines on Confidentiality published on 16 December 2004.

The consultation period will run until noon of Monday 3 March 2008. Comments should be sent to:

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