

Fixed Interconnection Pricing Review - 2009

Consultation and Proposed Decision

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1 INTRODUCTION

1.1 BACKGROUND

For the past four years, the Malta Communications Authority ('MCA') has been establishing fixed interconnection rates based on its Bottom-Up Cost Model ('BUCM'). This Model was developed in order to achieve the objective of gradually reducing the interconnection rates at efficient levels as outlined in the Interconnection Strategy for the Electronic Communications Sector published by the MCA in 2005¹.

1.2 Regulatory Developments

In July 2008 the European Commission (hereinafter the 'Commission') issued, for public consultation, its first Draft of a Recommendation on the regulatory treatment of fixed and mobile termination rates in the EU. On 7 May 2009, the Commission published its Final Recommendation on the Regulatory Treatment of Fixed and Mobile Terminations in the EU (hereafter 'Recommendation'). The objective of the Recommendation is to define and set out clear common principles when designing applicable remedies within the current regulatory framework. Amongst others, the principles relate to concepts of an efficient operator and symmetric regulation as well as the identification and calculation of efficient costs consistent with those incurred in a competitive market.

In short the Recommendation spells out that by 31 December 2012:

- National Regulatory Authorities (hereinafter 'NRAs') should set rates for voice call termination on fixed and mobile networks (Fixed Termination Rates (hereinafter 'FTRs') and Mobile Termination Rates (hereinafter 'MTRs')) based on costs incurred by an efficient operator.
- FTRs and MTRs should in general be symmetric amongst operators.
- The evaluation of efficient costs should be based on current costs and the use of a bottom-up "pure" long-run increment cost (BU-LRIC) model following the principles set out in the Recommendation.

¹ 'Report on Consultation – Interconnection Strategy for the Electronic Communications Sector in Malta' published on 22 March 2005

2 IMPACT OF THE EU RECOMMENDATION ON THE INTERCONNECTION STRATEGY

Cognizant of the workstreams being undertaken by the Commission to draw up the Recommendation, and the likely impact this might have on the regulation of FTRs in Malta, the MCA has not undertaken further adjustments to the BUCM.

For this reason the MCA is effectively proposing to maintain the average FTR at its current level within the context explained further below. However, the MCA is also proposing to make this rate more reflective of the current traffic patterns by updating the model's retail price gradients that underpin the wholesale peak, off-peak and /night tariffs. To do this the MCA used GO's retail price gradients.

Going forward, it is the MCA's intention to revisit the Interconnection Strategy for the Electronic Communications Sector to bring it in line with the principles and objectives set forth in the Recommendation.

3 RETAIL PRICE GRADIENTS

3.1 Retail Price Gradients currently in force for the fixed termination rates

The interconnection rates currently in force are based on the following Retail Price Gradients:

	Peak	Off-Peak	Night
Gradients	1.58	1.09	0.42

Time periods indicated are as follows:

Peak: from 08:00 to 18:00 from Monday to Friday including public holidays

Off-peak: from 06:00 to 08:00 from Monday to Friday including public holidays

from 06:00 to 18:00 on Saturdays and Sundays

Night: from 18:00 to 06:00 all week including public holidays

Retail Price Gradients (hereafter 'RPGs') are used to convert the average interconnection rate calculated by the BUCM into the respective wholesale charge for each time band featured in GO plc's retail tariffs' structure.

3.2 Proposed Retail Price Gradients for the revised fixed termination rates

Following a request by the MCA, GO plc submitted revised RPGs reflecting the latest gradients deployed at the retail level by the company:

	Peak	Off-Peak	Night
Gradients	1.14	0.92	0.68

Time periods indicated are as follows:

Peak: from 08:00 to 18:00 from Monday to Friday including public holidays

Off-peak: from 06:00 to 08:00 from Monday to Friday including public holidays

from 06:00 to 18:00 on Saturdays and Sundays

Night: from 18:00 to 06:00 all week including public holidays

The revised gradients translate into flatter gradients which close the disparity between the peak and night charging. The MCA shall keep close scrutiny on the trends appearing in the retail tariff charging of GO plc in view that these in turn impact the gradients deployed at the fixed interconnection level.

Furthermore, the MCA has been observing new trends employed by the market players at the Retail level whereby “one simple tariff” plans are gradually replacing differential time charging tariffs. These observed trends at the Retail Level pose an interesting question as to the future relevance of peak/off-peak/night time differential charging at the fixed interconnection level.

4 CURRENT AND PROPOSED FIXED INTERCONNECTION RATES

4.1 Definitions

For the purpose of this Proposed Decision:

- 'current rates' refer to the rates that came in force on 1 July 2008 and which rates are under review in this Proposed Decision;
- 'proposed rates' refer to the rates set out in Section 4.3 of this Proposed Decision.

4.2 Current fixed interconnection rates

The interconnection rates currently in force are shown in the table below:

	Peak	Off-Peak	Night	Average
	€ cents per minute (excl. VAT)			
Call origination	1.155	0.797	0.305	0.731
Call termination	1.155	0.797	0.305	0.731

Time periods indicated are as follows:

Peak: from 08:00 to 18:00 from Monday to Friday including public holidays

Off-peak: from 06:00 to 08:00 from Monday to Friday including public holidays
from 06:00 to 18:00 on Saturdays and Sundays

Night: from 18:00 to 06:00 all week including public holidays

4.3 Proposed fixed interconnection rates

The MCA is proposing the application of the following interconnection rates to come into effect from 1 July 2009. The rates set out below take into account the revised retail price gradients spelt out in Section 3.2 above:

	Peak	Off-Peak	Night	Average
	€ cents per minute (excl. VAT)			
Call origination	0.833	0.673	0.497	0.731
Call termination	0.833	0.673	0.497	0.731

Time periods indicated are as follows:

Peak: from 08:00 to 18:00 from Monday to Friday including public holidays

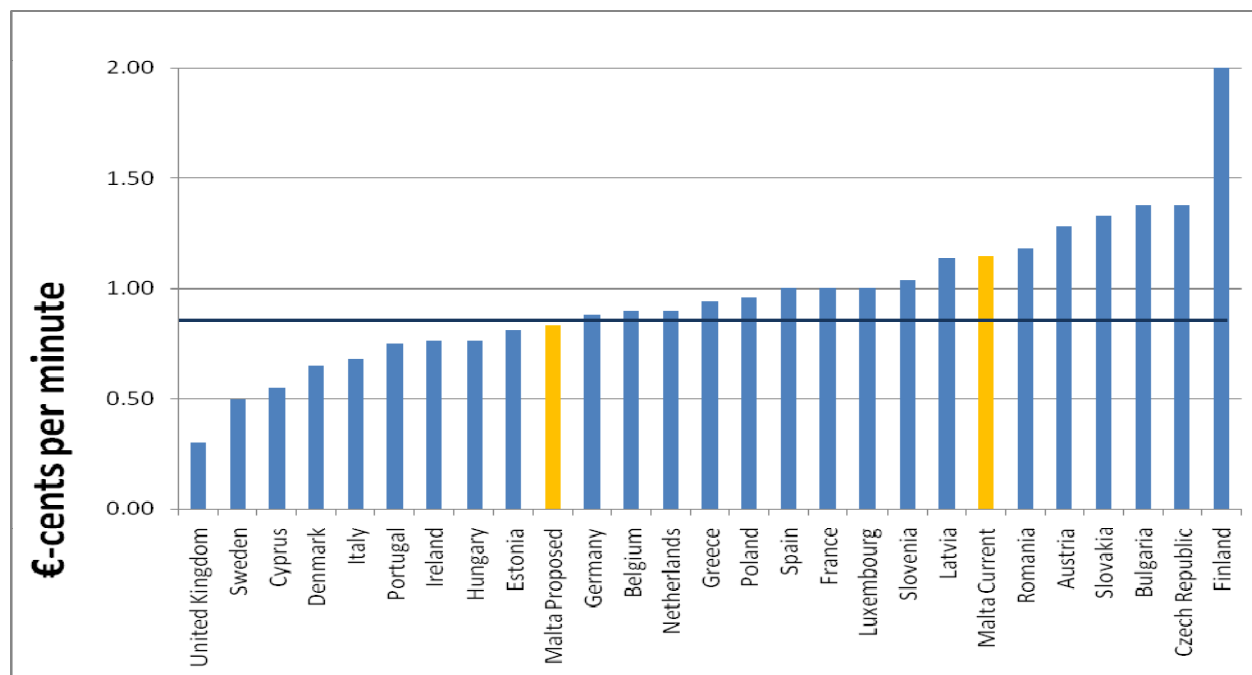
*Off-peak: from 06:00 to 08:00 from Monday to Friday including public holidays
from 06:00 to 18:00 on Saturdays and Sundays*

Night: from 18:00 to 06:00 all week including public holidays

The above proposed rates shall apply to all operators whose wholesale rates are pegged with GO's interconnection rates in line with the corresponding decisions published by the MCA regulating these arrangements.

Going forward following a public consultation, the MCA intends to revise its Interconnection Strategy to bring it in line with the principles set forth in the EU Recommendation. The rates proposed above would remain in force until such time as reviewed by the MCA.

5 COMPARISON OF FIXED INTERCONNECTION RATES TO REFERENCE RATES



— EU Average: €0.86cents
Source: 14th Implementation Report

The chart shown above compares the fixed-line single-transit peak termination rates amongst the EU Countries, as reported in Figure 88 of the 14th Implementation Report. The 14th Implementation Report was issued in March 2009 and the data is at October 2008.

The MCA has made two representative amendments to Figure 88 reported in the Implementation Report:

1. the first relates to the Malta current rate (wherein the Report had erroneously depicted the rate prevailing in October 2007) and;
2. the second amendment relates to the proposed rate which was inserted for the purpose of this document to facilitate cross-country comparison.

As can be seen from the chart above, the fixed termination proposed peak interconnection rate is 3% lower than the corresponding EU weighted average rate. This is basically attributable to the revised gradients.

6 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 Thursday 2 July 2009. Comments should be sent to:

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