Fixed Interconnection Pricing Review - 2010

Response to Consultation and Decision

24 August 2010

Malta Communications Authority
Valletta Waterfront, Pinto Wharf,
Floriana FRN 1913, Malta
Tel: (+356) 2133 6840
Fax: (+356) 2133 6846
Email: info@mca.org.mt
Web: www.mca.org.mt

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1 INTRODUCTION

1.1 BACKGROUND

For the past years, the Malta Communications Authority (hereafter 'MCA') has been establishing fixed interconnection rates based on its Bottom-Up Cost Model (hereafter '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 2005[1]. This Strategy was subsequently updated in 2010 to take into account the European Commission's '*Recommendation on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU*' (hereafter 'Recommendation') published in 2009.

In May 2010, the MCA, following a public consultation, published the decision entitled '*Interconnection Pricing Strategy for the Electronic Communications Sector*' (hereafter 'Interconnection Strategy'). In this Interconnection Strategy the Authority had decided that as a primary target it will ensure that by December 2012 it will be fully compliant with the Recommendation, primarily by doing its utmost to conclude a 'Pure' LRIC model for wholesale voice Fixed Termination Rates (hereafter 'FTRs').

The MCA had also observed that at the time of writing, there was no indication of the possibility of having a report highlighting the member states' regulated FTRs emanating from pure LRIC models built in line with the Recommendation. Accordingly, the MCA had concluded that it will continue to base the FTR on the existing Bottom-Up Cost Model (which is already based on a traditional LRIC model of a Next Generation core technology) in the interim period leading to an eventual development of a new model in line with the principles of the Recommendation. These rates will continue to be time differentiated using GO's data as a proxy for the traffic and pricing characteristics of a hypothetical efficient fixed network.

In June 2010, the MCA published a Consultation and Proposed Decision entitled '*Fixed Interconnection Pricing Review – 2010*' (hereafter 'Proposed Decision'). This document proposed a downward revision to the average FTR based on the MCA's

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

current BUCM taking into account the revised WACC rate. This together with GO's revised time of day gradients translated into revised peak, off-peak and night tariffs.

The Consultation period ended on 1 July 2010, with one operator, Melita plc ('Melita') submitting its formal feedback.

This Report on Consultation and Decision contains a summary of the feedback received from the respondent followed by the MCA's position in relation to these comments; and subsequently, the MCA's decision on the proposed interconnection charges.

The MCA takes the opportunity to thank the respondent for its contribution.

2 SUMMARY OF RESPONSE

The feedback from the respondent is being analysed hereunder:

2.1 Proposed Interconnection Rates

In its response, Melita stated that it underwent a comparison of the MCA's proposed new peak FTR with peak rates as published in the latest Implementation Report wherein one finds cross-country comparison for local, single transit and double transit peak fixed call termination rates.

Melita noted that the proposed new peak FTR in Malta (i.e. 0.802 €-cent per minute) is very close to the EU average peak rate for single transit of 0.79 €-cent per minute. However it also noted that the proposed peak rate is well in excess of the EU average peak rate for local call delivery which is stated at 0.52 €-cent per minute whilst the proposed rate is well below the EU average peak rate for double transit which is reported at 1.09 €-cents per minute. Melita stated that the above figures provide only an incomplete view of how the proposed new FTRs in Malta compare with rates in other EU member states. However, Melita acknowledged the fact that the proposed rates do indicate that single transit rates are closely aligned with the EU average.

Melita opined that the MCA should be aiming to ensure that the level at which FTRs in Malta are set should mirror best practice within the EU and so expects to see further reductions in these rates in the coming years particularly with the coming into force of the rates from a 'pure' LRIC Model.

2.2 MCA's Response and Decision

In carrying out a cross comparison of the proposed peak rate with the graphs as reproduced in the Implementation Report, the MCA has always sought to make the most technically sound cross comparison in order for such an analysis to yield reliable and meaningful results. The distinction between single transit and local call delivery within Malta is not warranted due to Malta's limited geographical size. This is also reflected by the NGN set-up modelled in the BUCM, which is in turn based on GO's NGN Core network, where interconnection is only possible at the Media Gateway level with the role of traditional RSSs being limited to aggregation, hence making the distinction between single transit and local call delivery inadequate. Consequently MCA firmly believes that a meaningful cross comparison can only be done with the graph depicting the EU average peak single transit rate.

This notwithstanding, one should always bear in mind that in view of the limitations in data availability, cross comparison is being made with the EU average *peak* single transit rate. When one considers the divergence between the time of day gradients in Malta, one expects that Malta's ranking against other EU member states would differ if one had to undergo a comparison of the *average* single transit rates between member states.

Insofar as Melita's comments that the MCA should be aiming to ensure that the level at which FTRs in Malta are set should mirror best practice within the EU, the MCA reiterates what it stipulated in its Interconnection Strategy Decision and referenced earlier in this Document that it is the Authority's intention that as a primary target it will ensure that by December 2012 it will be fully compliant with the Recommendation, primarily by doing its utmost to conclude a 'Pure' LRIC model for FTR.

3 MCA'S DECISION ON FIXED-LINE WHOLESALE ORIGINATION AND TERMINATION RATES

MCA Decision:

After taking into account the feedback from respondents, the MCA is hereby mandating the prices featured in Table 1 below. These prices will be made applicable from 1 September 2010.

The charges shall be applicable to all those operators having an SMP in the wholesale fixed call origination and/or termination markets. These charges shall also be considered as the cost-oriented rates stemming from an efficient operator basis until the new LRIC Model comes into play. The rates shall remain applicable, as a minimum, until 31 July 2011.

Table 1:

	Peak	Off-Peak	Night	*Average*
		€ cents per minute (excl. VAT)		
Call origination	0.802	0.638	0.573	*0.7163*
Call termination	0.802	0.638	0.573	*0.7163*

<u>Time periods indicated are as follows:</u>

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*

Ing. Philip Micallef

Chairman
Malta Communications Authority