

Fixed-line Interconnection Pricing Review - 2008

Consultation and Proposed Decision

April 2008

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1 INTRODUCTION

1.1 BACKGROUND

In 2005, the Malta Communications Authority ('MCA') published a report on consultation and way forward in connection with the Interconnection Strategy for the Electronic Communications Sector in Malta. The objective behind this Document was to lay out the MCA's strategy for the gradual reduction of interconnection rates to their efficient levels.

In line with its interconnection strategy, the MCA developed a Bottom-Up Cost Model (BUCM) for the Next Generation Core Network of GO plc¹ (then Maltacom plc). The development of this model was the result of a series of consultations with GO to enable the MCA to understand better the underlying network elements required for the provision of fixed interconnection services. The development and consequent refinements to the BUCM led to two decisions being published by the MCA. The first decision was published in December 2005 while the second Decision was published in January 2007.

1.2 EXTENSION TO THE BUCM

In January 2008, the MCA issued a statement on its review of fixed interconnection pricing for 2008 in which it announced that such review will be delayed until the work underway on the extension of its Bottom-up cost model (BUCM) to incorporate leased lines was finalised. This is because, as highlighted in the said statement, leased lines and voice services are characterised by common and joint costs in their use of the core network and, hence, in order to ensure a consistent treatment of the interdependencies between these services, the underlying cost model had to reflect the outcomes of the consultative process on leased lines.

On its part, the extension of the BUCM follows a decision published in August 2006 by the Authority entitled 'Retail Leased Lines, Wholesale Terminating Segments & Wholesale Trunk Segments of Leased Lines' (hereafter referred to as the 'Leased Lines Market Analysis'). This decision found GO (then Maltacom plc) as having Significant Market Power ('SMP') and imposed adequate remedies, particularly those related to price control obligations.

Furthermore, in its statement on the 2008 fixed-interconnection pricing review, the MCA stated that in accordance with normal practice, it was proposing to adopt the revised rates retrospectively with effect from 1 January 2008.

¹ Hereafter referred to as GO.

2 IMPACT ON THE FIXED INTERCONNECTION RATES

In view of the fact that the objective of the original BUCM was to calculate the efficient cost of fixed-line interconnection services, the model focused on the analysis and dimensioning of the switching network elements as these form the bulk of the network activity required for the provision of fixed interconnection. On the other hand, the extension of the BUCM to incorporate leased lines involved, amongst others, the following major work streams:

- 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.

As highlighted in Section 1.2 above, there are various network elements that are joint or common across such services as fixed-line interconnection and leased lines. The extension of the BUCM to incorporate the efficient costs of the various leased lines services entailed further analysis and dimensioning in order to model the effective usage of the various network elements by leased lines. These changes and refinements, resulting from this particular work stream, have impacted directly on the fixed interconnection rates. The proposed fixed interconnection rates resulting from these changes are shown in Section 3 hereunder.

3 CURRENT AND PROPOSED FIXED INTERCONNECTION RATES

3.1 DEFINITIONS

For the purpose of this Proposed Decision, 'current rates' refer to the rates that came in force on 1 January 2007, whilst the 'proposed rates' refer to those set out in Section 3.3 of this Proposed Decision.

3.2 CURRENT FIXED INTERCONNECTION RATES

The interconnection rates in force, and hence the subject of this Decision's review, are shown in the table below:

CURRENT	Peak	Off-Peak	Night	Average
	€ (Lm) cents per minute			
Origination	1.267 (0.544)	0.876 (0.376)	0.335 (0.144)	0.804 (0.345)
Termination	1.267 (0.544)	0.876 (0.376)	0.335 (0.144)	0.804 (0.345)

Time periods indicated are as follows:

Peak: from 8:00 to 18:00 from Monday to Friday including public holidays

Off-peak: from 06:00 to 8:00 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

3.3 PROPOSED FIXED INTERCONNECTION RATES

The MCA is proposing the application of the following interconnection rates to come into effect from 1 January 2008. The rates set out below are predominantly based on the refinements and adjustments following the extension of the original BUCM to incorporate leased lines tariffs.

PROPOSED	Peak	Off-Peak	Night	Average
	€ (Lm) cents per minute			
Origination	1.155 (0.496)	0.797 (0.342)	0.305 (0.131)	0.731 (0.314)
Termination	1.155 (0.496)	0.797 (0.342)	0.305 (0.131)	0.731 (0.314)

Time periods indicated are as follows:

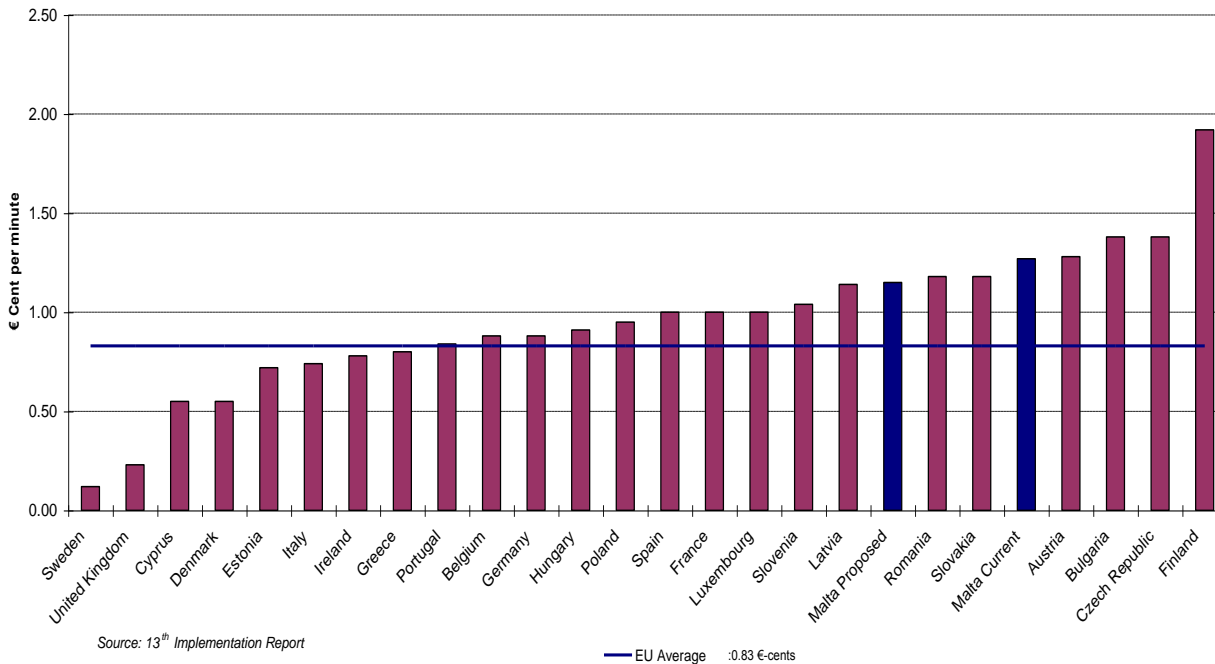
Peak: from 8:00 to 18:00 from Monday to Friday including public holidays

Off-peak: from 06:00 to 8:00 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

Going forward, the MCA intends to maintain these interconnection rates under review through refinements in the BUCM so as to ensure a continued drive towards efficient and cost oriented interconnection rates.

4 COMPARISON OF FIXED INTERCONNECTION RATES TO REFERENCE RATES



The chart shown above compares the Peak fixed-line single-transit termination rates amongst the European countries including the corresponding proposed and current rates for Malta. Data for the European countries were taken from the 13th Implementation Report which was issued in March 2008.

As can be seen from the chart above, the proposed rates will move Malta’s current standing by two places following Latvia. This improvement has to be seen against a backdrop of a general tendency of declining interconnection rates across European countries, as well as GO’s retail price gradient for the Peak time band. Indeed, GO’s peak interconnection rate is influenced by a relatively steep retail price gradient which, in turn, is attributable to GO’s underlying retail tariffs structure. Retail price gradients are used to convert the average interconnection rate calculated by the BUCM into the respective wholesale charge for each time band featured in GO’s retail tariffs structure.

Furthermore, as can be clearly observed from the chart above, the proposed rates represent a further 9% drop from the current interconnection rates.

5 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 Friday 2 May 2008. Comments should be sent to:

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