

Fixed Interconnection Pricing Review – 2007

Statement of Proposed Decision

December 2006

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1 INTRODUCTION

1.1 BACKGROUND

In March 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. In this document, the MCA set out its strategy to achieve gradually reduced interconnection rates. This strategy featured a combination of regulatory approaches, such as the use of bottom-up cost modelling in order to achieve efficient cost-based levels, as well as the use of reference rates in order to lower interconnection rates and hence bring them closer to those established in EU countries.

In line with its interconnection strategy, the MCA developed a Bottom-Up Cost Model (BUCM) for the Next Generation Core Network of Maltacom plc ('Maltacom'). In September 2005, the MCA initiated the final stage in the consultation process with Maltacom in connection with the first iteration of this model. During this process, the MCA provided Maltacom with a detailed consultation document that described the approach, methodologies adopted and assumptions made in developing and populating the BUCM.

On its part, during the said consultation process, Maltacom provided detailed explanations with regard to the new core network that is currently being implemented at their end. Maltacom also provided clarifications with regard to a number of assumptions made by the MCA. The outcome of the eventual cost model was the product of several interactions between Maltacom and the MCA, which took many forms and dealt with a wide range of topics covering both the model's technical and financial aspects.

The MCA had carried out a high-level evaluation of Maltacom's submissions during this consultation period, which eventually led to the interconnection rate presently in force.

In its decision entitled 'Fixed Interconnection Pricing Review' (December 2005), the MCA stated that it intended to refine the BUCM following a detailed analysis of

Maltacom's feedback emanating from the said consultation process, as well as factoring additional intervening developments in the market. Furthermore, the MCA reserved the right to review any cost elements deemed necessary during the course of this evaluation.

The present Statement of Proposed Decision reflects the refinements performed on the BUCM to arrive at the new rates being proposed herein. In arriving at these rates the same consultative process outlined above was repeated between Maltacom and the MCA. Indeed, Maltacom was presented with a detailed consultative document on the refinements carried out on the current iteration of the BUCM. Following this, apart from various other interactions, a formal consultative meeting was held between the parties. This led to Maltacom's formal submissions on the refined BUCM. These submissions were in turn evaluated by the MCA and where deemed appropriate, the BUCM was amended to reflect this feedback.

The MCA, however, reserves the right to revisit any assumption made during future iterations of the BUCM.

This Statement of Proposed Decision establishes the fixed wholesale interconnection rates chargeable by Maltacom plc for call origination and call termination. It is proposed that these rates will come into effect on 1 January 2007. The revised interconnection rates prescribed in this document represent further significant reductions from the rates currently charged by Maltacom. These reductions are in line with the MCA's strategy of achieving reasonable downward adjustments to interconnection rates towards more efficient and cost-oriented levels.

1.2 REGULATORY BACKGROUND

The MCA's decision entitled 'Wholesale call origination, call termination and transit services provided over fixed electronic communications networks - Identification and Analysis of Markets, Determination of Market Power and Setting of Remedies' (September 2006), found Maltacom and Melita Cable plc as having SMP in the market for wholesale fixed call termination services and imposed remedies upon them.

This decision imposed an obligation on Maltacom to charge interconnection rates that are cost oriented and that reflect the costs of an efficient operator.

2 FIXED INTERCONNECTION RATES

2.1 CURRENT FIXED INTERCONNECTION RATES

The current interconnection rates, as laid out in the Fixed Interconnection Pricing Review (December 2005), are set out below:

<u>Interconnection Rates</u>				
	Price (Lm cents per minute)			
	<u>Peak</u>	<u>Off-Peak</u>	<u>Night</u>	<u>Average</u>
Call Origination	0.81	0.559	0.214	0.513
National Termination	0.81	0.559	0.214	0.513

Notes:

Time periods indicated are as follows:
 Peak: From 8.00 to 18.00 on Monday to Friday including Public Holidays
 Off-Peak: From 6.00 to 8.00 on Monday to Friday including Public Holidays; 6.00 to 18.00 on Saturday and Sunday
 Night: From 18.00 to 6.00 on Monday to Friday including Public Holidays, Saturday and Sunday

2.2 BASIS OF MCA'S PROPOSED INTERCONNECTION RATES

As was done in the Fixed Interconnection Pricing Review (December 2005), the rates that are being put forward in this Statement of Proposed Decision are based on the MCA's BUCM.

The scope of the BUCM is to calculate the costs of an efficient operator and therefore estimate efficient interconnection charges. Since the inception of this model, the MCA has sought to design an optimal core network using next generation, packet-switched technology on the basis of a modified scorched node

approach. The BUCM captures all the relevant costs associated with building, operating and maintaining an efficiently managed core network. The model calculates the cost per minute of wholesale call origination and call termination services amongst others. The per-minute cost is, in turn, based on an estimated efficient annual cost of the relevant network components. These components have been dimensioned according to the number of minutes and call attempts during the busy hour.

The interconnection rates presented in this Statement of Proposed Decision reflect the refinements done on the BUCM following Maltacom's submission of additional data during the consultative period preceding the Fixed Interconnection Pricing Review (December 2005). In the said decision, the MCA had stated that it intended to perform a detailed evaluation of the Maltacom's original submission in response to the original iteration of the BUCM, as well as reserving the right to factor in further developments that may occur in the market.

Indeed, the MCA concluded its detailed evaluation of these submissions, together with other revisions to the model deemed appropriate by the Authority. This effectively resulted in a number of important technical and economic refinements. Following a private consultation with Maltacom, the MCA revised its original views on various technical parameters, such as the required network components, transmission capacity, as well as the optimal network configuration. On the economic side, the MCA refined the cost estimates of the new network components required for the deployment of Maltacom's NGN, as well as revising the model's deflation and efficiency factors, amongst others.

Going forward, the MCA intends to maintain these interconnection rates under review to ensure a continued drive towards efficient and cost oriented interconnection rates. To this extent, the MCA intends to keep refining the BUCM, as it feels that it is an important tool in achieving the goals of cost orientation and efficiency. However, the MCA reserves the right that, after ensuring that the interconnection rates calculated by the BUCM reach their optimal level, as well as after consulting with all stakeholders, it may use other mechanisms at its disposal which permit the same focus on the goals outlined, but at the same time, pose a lower regulatory burden on Maltacom.

2.3 PROPOSED FIXED INTERCONNECTION RATES

The results of the BUCM show no distinction between call origination and termination rates, since it has been established that similar components with similar usage patterns are used to deliver these services. The MCA's proposed interconnection rates are set out in the table below:

	Price (Lm cents per minute)			
	<u>Peak</u>	<u>Off-Peak</u>	<u>Night</u>	<u>Average</u>
Call Origination	0.544	0.376	0.144	0.345
National Termination	0.544	0.376	0.144	0.345

Notes:

Time periods indicated are as follows:
 Peak: From 8.00 to 18.00 on Monday to Friday including Public Holidays
 Off-Peak: From 6.00 to 8.00 on Monday to Friday including Public Holidays; 6.00 to 18.00 on Saturday and Sunday
 Night: From 18.00 to 6.00 on Monday to Friday including Public Holidays, Saturday and Sunday

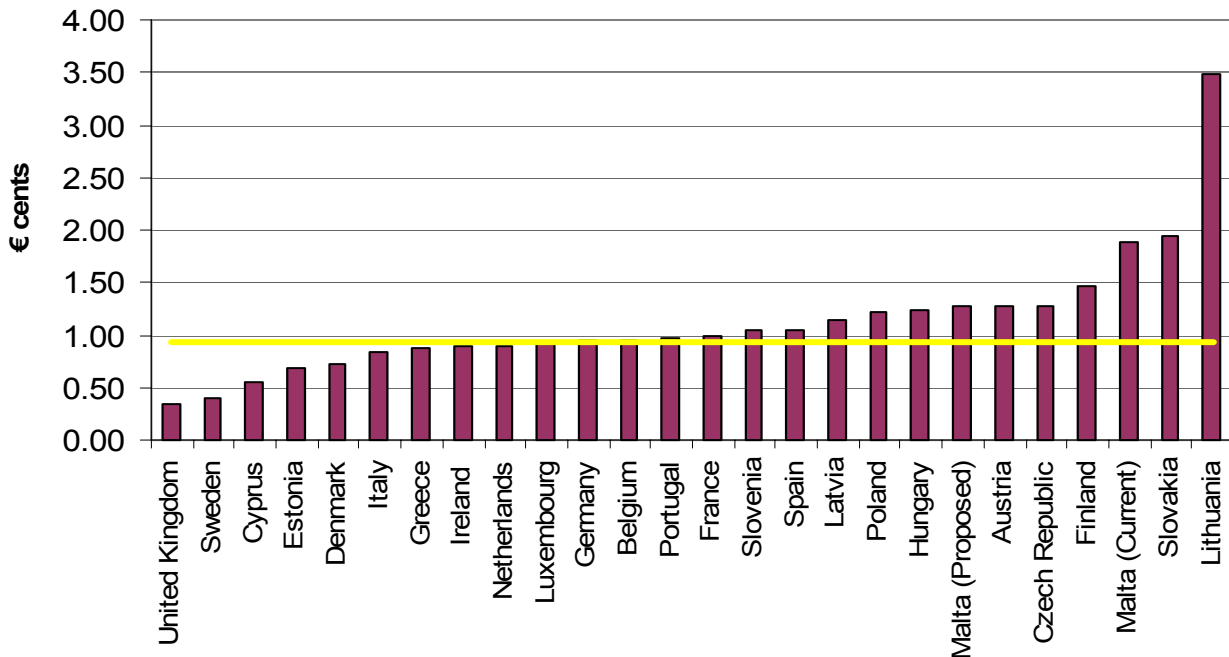
The interconnection charges shown in the table above are proposed to become applicable with effect from 1 January 2007.

The MCA also mandates that any changes to the price lists approved in this Decision will need prior regulatory approval as required by law. The MCA intends to maintain these rates in force until 31 December 2007 without prejudice to:

- a) any specific obligations that may be imposed, removed or amended pursuant to further market analysis undertaken by the Authority in accordance with the Electronic Communications (Regulation) Act,
- b) any revisions to the rates applicable during the different time-bands as may be required consequent to any change in Maltacom's current retail charging system.

2.4 COMPARISON OF FIXED INTERCONNECTION RATES TO REFERENCE RATES

Termination Rates per minute - EU 25



Source: 11th Implementation Report

— EU 25 Weighted Average

The chart shown above compares the fixed-line single-transit termination rates amongst the European countries, as reported in the 11th Implementation Report. With the exception of Malta, these rates pertain to those of October 2005, as these were the most recent when compiling the 11th Implementation Report. For comparative reasons, the above benchmarks contain Malta’s current rate, as well as the proposed rate featured in this Statement of Proposed Decision. Although the comparative rates for the other European countries might have changed, and thus affecting the ranking shown in the chart, the MCA still feels that these benchmarks can shed light on Malta’s standing.

As can be seen from the chart above, Maltacom’s proposed peak interconnection rate is 34.8% higher than the corresponding weighted average rate of the EU 25. When making such comparisons, however, one needs to bear in mind that Maltacom’s peak interconnection rate is influenced by a relatively steep retail

price gradient, which in turn is attributable to the underlying structure of Maltacom's retail tariffs. 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 Maltacom's retail tariffs structure.

Furthermore, as can be also abstracted from the chart above, the proposed rates represent a further 33% drop from the current interconnection rates, after these were reduced by roughly the same rate during the previous year.

Indeed, the MCA feels that the proposed rates strike a more realistic balance between the two major characteristics underpinning Maltacom's interconnection rates; namely, scale disadvantages and technological change stemming from the upgrade to an NGN.

3 SUMMARY OF PROPOSED DECISION

The MCA is proposing the application of the following interconnection rates to come into effect from 1 January 2007. The rates set out below are predominantly based on the refinements and adjustments to the original BUCM.

	Price (Lm cents per minute)			
	<u>Peak</u>	<u>Off-Peak</u>	<u>Night</u>	<u>Average</u>
Call Origination	0.544	0.376	0.144	0.345
National Termination	0.544	0.376	0.144	0.345

As highlighted in Section 2.4, the rates proposed are more in line with EU reference rates and thus reflect a more realistic balance between the two major characteristics underpinning Maltacom's interconnection rates; namely, scale disadvantages and technological change stemming from the upgrade to an NGN.

Going forward, the MCA intends to maintain these interconnection rates under review to ensure a continued drive towards efficient and cost oriented interconnection rates. To this extent, the Authority intends to keep refining the BUCM, as it feels that this is an important tool in achieving these regulatory objectives.

4 CONSULTATION FRAMEWORK

The MCA invites comments from interested parties regarding this Statement of Proposed Decision.

The consultation period will run until 12.00 pm on Wednesday 10 January 2007. Comments should be sent to:

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Written representations may be made public by the MCA subject to the MCA's Internal Guidelines on Confidentiality published on 16 December 2004

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