



Source of Funding for the net cost incurred in providing universal service obligations during 2010

Decision

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Malta Communications Authority
Valletta Waterfront,
Pinto Wharf, Floriana,
FRN 1913, Malta

T + 356 2133 6840

F + 356 2133 6846

E info@mca.org.mt

W www.mca.org.mt

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1. BACKGROUND

In accordance with the provisions established in the *Electronic Communications Networks and Services (General) Regulations*¹ (hereafter the Regulations), in March 2012 the Malta Communications Authority (hereafter MCA) received from GO plc (hereafter GO) a final detailed application for USO funding in relation to the net costs it claimed to have incurred in providing universal services during 2010.

Following a tendering and adjudication process that took place in line with public procurement regulations, in December 2012 the MCA commissioned EY as an expert consultant to evaluate the reasoning behind this claim, and to audit and verify the various calculations that were used in order to enable the Authority determine if the claimed net costs found in the USO funding application actually resulted in an unfair burden on GO.

In April 2014 the MCA published a proposed decision for consultation entitled '*Review of GO plc's application for funding of the net costs claimed to have been incurred to provide universal service obligations during 2010*'. A subsequent decision notice with the same title was published in October 2014. Both documents included an annex with an abridged version of a report on the findings of this exercise.

The final assessment of the calculated cost and audited results for each element of the USO were established as depicted in table 1 below totalling €359,967:

USO COMPONENTS	AUDITED NET COST (€)
Geographic component	(14,010)
Payphones	(94,860)
Social tariffs	(372,877)
Directory enquiry service	(79,646)
Intangible benefits	201,426
Total	(359,967)

Table 1

¹ subsidiary legislation 399.28 of the laws of Malta

On the 14th November 2014, the MCA published the proposed decision entitled '*Source of Funding for the net cost incurred in providing universal service obligations during 2010*'. Interested parties and stakeholders were invited to submit any comments and representations in writing by the 12th January 2015. Information on the feedback received from interested parties on this proposed decision can be found later on in this document.

2. SOURCE OF FUNDING

Regulation 31(1) of the Regulations states that when the Authority establishes that a designated undertaking has suffered an unfair burden to provide a universal service, it shall:

- introduce a mechanism to compensate the Universal Service Provider from public funds with the approval of the government; and/ or
- establish a sharing mechanism between providers of electronic communications networks and services.

Following an analysis on the final assessment of the claim for funding in relation to the USOs provided by GO during 2010, the Government of Malta has decided that the established total amount of €359,967 shall be financed from public funds. The Government of Malta declared that this decision solely refers to the USO claim for 2010 and is without prejudice to any position it may take on any future USO financing related claims.

3. FEEDBACK RECEIVED ON THE PROPOSED DECISION

The MCA received feedback on the proposed decision from two entities, namely GO plc (GO) and Melita plc (Melita).

Whilst one of the respondents expressed its satisfaction that public funding is the most socially just and economically efficient mechanism to sustain continued universal service provision in the telecoms sector, it expects that continued application of public funding will maintain interest in the private sector to continue providing USOs, and also promote innovation in services such as 'Telecare' and others.

The other respondent supports the Authority's decision to source such claim from the public funds. It does not agree that the decision to finance the USO claim for 2010 is without prejudice to any position it may take on any future USO financing related claims. It claims that a funding mechanism financed by taxes or fees levied on undertakings is complex and can be a disincentive and deter competition in the market in view of further costs which are a burden on market participants. It is also of the view that any funding mechanism should not include expenses incurred for the provision of public payphones in view of the increased accessibility of prepaid telephony service and IP based means of communication.

Although the MCA appreciates potential complexities involved if the USO funding mechanism is financed by the undertakings, it is not in a position to decide on the source of such funding for future claims. It shall consult on this issue on a case by case basis.

4. DECISION

As decided by the Government of Malta, the established total amount of €359,967 pertaining to the net cost incurred by GO to provide universal service obligations during 2010 shall be financed from public funds.
