

# CONSULTATION DOCUMENT


**Review of GO plc's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2020**

## Consultation and Proposed Decision

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## 1 Executive Summary

During 2015, the Malta Communications Authority (hereinafter the "MCA") published a revised decision for the provision of universal services in the electronic communications sector entitled "*Decision on Universal Service Obligations on Electronic Communications Services*" (hereinafter the "2015 USO Decision"). Universal Service Obligations (hereinafter "USOs") are intended to ensure that everyone, irrespective of location and social means can have access to electronic communications services. The universal service components applicable as a result of the 2015 USO Decision are outlined in Section 2 below.

Undertakings responsible for the provision of all or part of the USOs may submit a claim for compensation in relation to any unfair burden they consider to have suffered as a result of providing each respective USO in accordance with the above-mentioned 2015 USO Decision. In this context, the MCA received a written request from GO plc (hereinafter "GO"), as the designated undertaking, claiming compensation for the net costs that GO considers it had incurred during financial year 2020<sup>1</sup> for the provision of some of the components of the universal services in the electronic communications sector. In this regard, the MCA commissioned Ernst & Young Limited (hereinafter "EY") as an independent body to review and verify the various calculations of the net cost claimed by GO whilst taking into account any market benefits.

As established in the 2015 USO Decision, the universal service provider (hereinafter "USP") is required to submit sufficient and detailed information supporting its claim. The information and the evidence of the net costs provided by GO serve as a basis for the evaluation exercise to determine whether the provision of the USOs resulted in an unfair burden. GO's funding application included the following components of the USOs namely: public payphones, social tariffs and a comprehensive electronic directory. As part of its USO funding application, GO also included an intangible benefit in its claim, namely the brand enhancement element.

The evaluation process consisted of two phases, namely:

- a Reasonability Phase to evaluate the reasoning behind GO's claim; and
- a Calculation Accuracy Phase to review and verify the various calculations, including those used to quantify the intangible benefits.

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<sup>1</sup> GO's financial year was from 1<sup>st</sup> January to 31<sup>st</sup> December 2020.

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Following the review and verifications carried out by EY, it was established that GO had incurred an element of unfair burden for providing the specified universal services during financial year 2020 which, after taking into account the intangible benefits, amounted to a net cost of €158,892. The results of the cost calculations and the conclusions of the review on each USO component are being published and are found in Section 4 "Review and Assessment of the Net Cost" and Annex 1 below.

The allocation of the source of USO funding shall be considered and dealt with by means of a separate consultation document and ensuing Decision Notice.

## 2 Introduction

The Electronic Communications (Regulation) Act (Cap. 399 of the Laws of Malta) specifies that one of the objectives of the MCA is to promote the interests and rights of users by ensuring access to universal services<sup>2</sup>. Universal services are defined as a minimum set of services of specified quality which are made available at an affordable price to all end-users irrespective of their geographical location and in the light of specific national conditions<sup>3</sup>.

In April 2010 the MCA published a USO Decision, which was updated in May 2015, establishing a number of universal services that are to be provided, in part or in full, by an entity as the designated undertaking, for a period of time as the MCA may specify. The USO Decision stipulated that the MCA may designate different undertakings or sets of undertakings to provide different elements of universal services and/or to cover different parts of the Maltese islands, and that in default of an expression of interest from third parties, or if the established criteria are not satisfied, the MCA was required to designate an undertaking to be responsible for providing each of the universal services. Given that no undertaking expressed interest to provide one or more of the universal services defined in the 2015 USO Decision, the MCA designated GO to provide the universal services in question.

During 2020, GO provided the following universal services:

### **Access at a fixed location:**

This universal service is only applicable when there are no other public communications networks providers that can provide connection at a fixed location at an affordable price.

### **Comprehensive Electronic Directory:**

In addition to the provision of the comprehensive electronic telephone directory, the designated undertaking is required to make available a free of charge, web-based interface for smartphone users.

### **Public payphones:**

The 2015 USO Decision established a minimum set of parameters to determine the number of payphones to be made available in each locality according to the respective population size.

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<sup>2</sup> Cap. 399, article 4(1)(c)(i).

<sup>3</sup> SL 399.28, regulation 21(1).

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**Specific measures for disabled users including 'Telecare' type of service:**

The 'Telecare' type of service comprises the provision of a service that allows easy access to emergency/assistance services.

**Reduced tariff options:**

The provision of a reduced tariff option to render the universal service affordable to eligible consumers, especially vulnerable users on low incomes or with special social needs.

**Chronology of the current claim:**

As outlined in the Electronic Communications Networks and Services (General) Regulations, as per SL 399.28 of the Laws of Malta (hereinafter the "Regulations") and in the 2015 USO Decision, an undertaking designated to provide universal services has the right to apply to receive funds within eleven months following the end of the previous financial year for any net costs accrued in meeting these obligations. Such a request must be accompanied by supporting detailed documentation to enable the MCA to determine whether or not the provision of the universal service/s resulted in an unfair burden on the designated undertaking<sup>4</sup>.

In November 2021, GO submitted an application for the funding of the net costs it claimed to have incurred in providing universal services during 2020. This application was accompanied by a report on the methodology and calculations for each of the USO components considered in the claim, and also included a cost model.

In this regard, the MCA commissioned EY to review this claim to assist the MCA in assessing the funding application submitted by GO, and whether the information and evidence provided by GO was sufficient and detailed enough to support the claim. In order to expedite the process, the MCA requested GO's approval to make use of and refer to the information, explanations and documents provided by GO for previous USO claim reviews. GO confirmed that the MCA and its consultants EY could make use of the information and documentation provided by GO for the previous USO claims.

The process of the evaluation exercise is based on the one used for the previous USO claims, including two main review phases, namely a Reasonability Phase and a Calculation Accuracy Phase. Further detail and the outcome emanating from these work streams are described below.

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<sup>4</sup> SL 399.28, regulation 30.

## 2.1 Reasonability Phase

The goal of the Reasonability Phase was to analyse the validity of the reasoning GO used to support its claim. As part of this process, EY was asked to thoroughly investigate and assess the following elements on each universal service:

- the grounds on which the claim for funding are based;
- whether the claim is coherent with regulatory principles;
- the extent to which the claimed funding is attributed to universal service obligations; and
- the approach used to quantify the intangible benefit aspect of the claim.

EY finalised the Reasonability Phase in November 2024 and the findings were included in a Report which was sent to GO. The findings emanating from this Phase can be found under Section 4 “Review and Assessment of the Net Cost” below.

## 2.2 Calculation Accuracy Phase

The objective of the Calculation Accuracy Phase was to review and verify the various calculations, including those used to quantify the intangible benefits, that GO provided in its claim. Following a number of information and clarification requests on specific aspects of the claim, GO submitted the final revised cost model in February of 2025. In January 2025, the MCA also reached out to the Ministry for Health and Active Ageing, being the Ministry responsible for social tariffs, regarding the numbers of eligible subscribers who benefitted from social tariffs during 2020. EY finalised the Calculation Accuracy Phase in June 2025.

The MCA requested EY to submit an abridged version of the review report on the cost calculations and conclusions of the review and verification exercise to be made publicly available, without revealing any financial information which could be commercially sensitive. This report is included in Annex 1 of this document and a summary of its findings can also be found under Section 4 “Review and Assessment of the Net Cost” further below in this document.

### 3 Legal Basis

The fundamental aspects of costing and financing of universal services are outlined in the Regulations and in the Directive 2002/22/EC (as amended) of the European Parliament and of the Council (hereinafter the "USO Directive").<sup>5</sup>

Regulation 30 of the Regulations stipulated that an undertaking designated to provide all or parts of the universal service obligations outlined under regulations 21 to 28 of the Regulations, may submit a written request to the MCA for funding of the net costs it claims to have incurred in providing the universal service/s concerned. Such a request must be accompanied with detailed and supporting information to enable the MCA to determine whether the provision of the universal service/s resulted in an unfair burden on the USP<sup>6</sup>.

The MCA, or an independent body approved by the MCA, shall determine if the USO funding application submitted by the designated undertaking represents an unfair burden on that undertaking for providing the claimed USO components. Regulation 30 also stipulated that an audit or verification exercise be carried out on the calculations of any net costs claimed whilst taking into account any market benefit which accrued to the designated undertaking and that the universal service obligations were provided in a cost-effective manner. If it is determined that the provision of the claimed USO components do not represent an unfair burden, the MCA has to inform the designated undertaking accordingly, giving its reasons therefor. Following the audit or verification exercise, the results of the cost calculations and the conclusions shall be made publicly available.

The financing of universal service obligations requires *a priori* that the MCA, or an independent body approved by the MCA, finds that an undertaking has suffered an unfair burden. Regulation 31 of the Regulations<sup>7</sup> stipulated that when it is established that an undertaking is

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<sup>5</sup> As a result of the transposition of the European Electronic Communications Code, Cap. 399 of the Laws of Malta was amended by Act Number LII of 2021, whereas SL 399.28 of the Laws of Malta was repealed by LN 379 of 2021 and replaced by SL 399.48. All these new laws came with effect from 1<sup>st</sup> October 2021. **The references to the legislation prior to the amendments to the applicable laws that came into force as on the 1<sup>st</sup> October 2021 have been retained in this consultation document since the claim is related to a period (2020) which is prior to the coming into force of the amended or new legislation.** The provisions enabling the publication of this consultation document which were previously included in regulation 30 of SL 399.28 have been substantively retained in regulation 76 of SL 399.48.

<sup>6</sup> The provisions in regulation 30 (1) and (2) of SL 399.28 referred to in this consultation document were substantively retained in regulation 76(3) of SL 399.48 which became effective as from 1 October 2021 after SL 399.28 was repealed by LN 379 of 2021.

<sup>7</sup> The provisions in regulation 31 of SL 399.28 referred to in this consultation document were substantively retained in regulation 77 of SL 399.48 which became effective as from 1 October 2021 after SL 399.28 was repealed by LN379 of 2021 and replaced by SL 399.48.



subject to an unfair burden, the MCA shall compensate the designated undertaking from public funds with the approval of the Minister responsible for finance and, or from sharing the net cost between providers of electronic communications networks and services. The identification of the source of the USO funding, which could depend on the nature of the universal service in question, shall be considered and dealt with by the MCA in a separate consultation process and ensuing Decision Notice.

## 4 Review and Assessment of the Net Cost

As mentioned earlier in this document, the MCA commissioned EY to evaluate the reasoning behind GO's claim, and to review and verify the various calculations of the net cost GO claimed it had incurred during 2020 in fulfilling its obligations by providing universal services on electronic communications services beyond normal commercial conditions. The net cost is calculated as the difference between the cost a designated undertaking would incur when operating with universal service obligations and that when operating without such obligations<sup>8</sup>. As cited in Section 2 above, the specific objectives of the evaluation exercise consisted of two main review phases, namely the Reasonability Phase and the Calculation Accuracy Phase. The MCA requested EY to prepare an abridged version of the full report which is sufficient for the purpose of making the results of the cost calculations and conclusions of the review and verification exercise publicly available without revealing financial information of a commercially sensitive nature. The public version of EY's report entitled *"Review of GO plc's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2020"* is available in Annex 1 of this document.

For financial year 2020, GO included the following components in its claim:

- Public Payphones;
- Social Tariffs;
- Comprehensive electronic directory; and
- Intangible Benefits.

GO's original USO claim request for 2020, submitted in 2021, amounted to a total net cost of €176,636. The 2020 USO claim submitted by GO was based on the same cost model developed for its previous USO claims. In particular, GO's cost model and claim for 2020 were based on a current net cost approach considering the actual line rental charged to its subscribers during the financial year under review, in line with MCA's previous decisions on USO claims. Furthermore, as in previous USO claims, GO's 2020 USO claim was based on a fully allocated cost approach by means of a top-down cost model factoring its operational data using a historical cost accounting methodology.

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<sup>8</sup> SL 399.28, the Sixth Schedule thereto.

As part of its analysis during the Calculation Accuracy Phase, EY prepared an information request list to collect additional details from GO. Following feedback and clarifications received on a number of items identified in the cost model, GO submitted its final revised cost model in February 2025, including the following main changes:

- An update to the number of payphones, along with a revised methodology for apportioning local access network (LAN) costs between active copper and fibre lines;
- Updates to the numbers of social tariffs beneficiaries;
- An update to the opening net book value (NBV) for the comprehensive electronic directory to reflect the closing NBV for the previous claim of 2019.

Following the revisions made by GO as outlined above, as well as some other updates carried out during the review work, the total net cost of GO's 2020 USO claim decreased from €176,636 to €158,892. The following sub-sections include a more detailed explanation of the review work carried out on each USO component claimed by GO for funding. Further details are available in Annex 1.

## 4.1 Public Payphones

In accordance with the Regulations and the 2015 USO Decision, public payphones were to be made available to meet the needs of end-users in terms of geographical coverage, quantity, accessibility and quality of service. The 2010 USO Decision established a minimum set of parameters to determine the number of payphones required in each locality, based on the respective population figures. These parameters were maintained in the 2015 USO Decision with the exception that whenever GO intended to remove a public payphone it was required to notify the MCA of such a removal and its exact location, subject that the minimum number of payphones as established in the aforesaid Decision was maintained. The minimum number of payphones in all localities of the Maltese islands according to both the 2010 and 2015 USO Decisions amounted to a total of 184 payphones.

In its cost model, as per previous claims, GO presented two scenarios: one with the total number of existing payphones; and another with the optimal number of payphones as set by the minimum requirements established in the 2015 USO Decision. For the purpose of this claim, GO correctly based its funding request on the current net cost pertaining to the optimal number of payphones, this in line with the MCA's decisions of the previous USO claims.

In its original claim for 2020, GO reported 192 payphones around Malta and Gozo during 2020, out of which 189 were unprofitable according to GO. Taking into account the minimum number of payphones requirement set by the 2015 USO Decision, GO based its claim on 184 payphones, out of which 181 were reported to be unprofitable.

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As in the case of previous USO claims, GO provided revenues and costs information to arrive at the net cost of each unprofitable payphone. The approach taken to calculate the net cost in the case of payphones was based on a net margin derived from revenues less costs per individual payphone, similar to the methodology that had been undertaken in past claims to calculate the geographical component cost on the basis of individual Main Distributor Frames (MDFs).

During the Reasonability Phase, EY confirmed that on the basis of the USO Directive and of international practice, payphones can form part of the USO claim.

During the Calculation Accuracy Phase, the MCA sought clarifications from GO regarding the number of payphones and certain inputs underlying the 2020 USO claim related to the payphones component. Specifically, questions were raised about the original claimed number of payphones, as, through correspondence exchanged with GO during 2020, the MCA was informed that the number of payphones was lower than 192. At the time, GO had informed the MCA that a number of payphones were being dismantled due to infrastructure works. As a result, some localities had fewer payphones than the minimum requirement set by the 2015 USO Decision. Given the year-on-year decline in demand and usage of public payphones, the MCA considered it reasonable not to require the reallocation or reinstallation of these units. The reduced number of payphones was deemed acceptable in view of the gradual phasing out of the service, with a reported 99% decrease in call volumes from 606,665 calls in 2015 to 5,243 calls in 2019.<sup>9</sup> Following the MCA's clarification requests, GO revised the number of claimed payphones to a total of 172 across all localities.

Additionally, GO was requested to verify the number of active lines, as the original value in the cost model was identical to that used in the USO claim of 2019. GO subsequently revised the figure, but it did not match with the fixed subscriber levels previously reported to the MCA for other purposes. Following further clarifications, GO revised the number of active lines and confirmed that direct costs for copper components (e.g. line cards and FMUX) would be allocated based on the number of copper lines, while common costs would be distributed according to the total number of active copper and fibre lines. This change in methodology was deemed acceptable by EY.

Furthermore, it was observed that the overall LAN costs reported for 2020 were lower than those recorded in the previous year. GO was requested to explain the reasons behind the changes observed across the various cost components related to LAN costs. In particular,

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<sup>9</sup> Statistical information sourced from Table 1 of the MCA Decision Notice entitled 'Review of Universal Service Obligations on Electronic Communication Services', published in March 2021. The document is available online at: [https://www.mca.org.mt/sites/default/files/Decision%20on%20Review%20of%20USO%20on%20ECS%202021\\_2.pdf](https://www.mca.org.mt/sites/default/files/Decision%20on%20Review%20of%20USO%20on%20ECS%202021_2.pdf)

clarifications were sought on a specific cost component that included elements linked to fibre rollout, even though payphones do not make use of the fibre network. In response, GO proposed revising the model to split this cost component between copper and fibre on an apportionment basis. The explanations provided and proposed revision were deemed acceptable, resulting in a slight decrease in the payphone cost.

Furthermore, EY noted that the direct operating costs per payphone in GO's USO cost model for 2020 included only the metering cost. GO was requested to review this cost, as the original value was identical to that reported in the USO claim of 2019. GO subsequently revised the metering cost downwards.

During the review of the list of payphones, both EY and MCA noted that the approach adopted in past claims, which involved selecting the least loss-making payphones to meet the minimum number of payphones per locality, was followed by GO except in two localities. The cost model was therefore updated to reflect the optimal number of payphones in all localities. This resulted in a small variance to the cost of the payphone USO component included by GO in its claim.

Following the review of the payphone USO component, EY concluded that the payphone claim should be based, on a per locality basis, on the optimal number of payphones in accordance with the 2015 USO Decision. The public payphones component results in a net cost of €22,128. More information on this USO component is available in Annex 1 of this document.

## 4.2 Social Tariffs

The Social Tariffs USO component is related to the provision of reduced tariffs which render the respective electronic communications service affordable to eligible end-users, and the provision of specific measures for disabled end-users. As specified in the 2015 USO Decision, this component includes the reduced line rental service and the Telecare type of service, which are provided to qualifying low-income earners or to people with special social needs, included in a list specifically provided by the competent Ministry or public entity.

During the Reasonability Phase, EY concluded that based on the USO Directive and international practice, social tariffs could form part of the USO claim since they are social obligations imposed on the designated undertaking. The same methodology as per previous claims was used by GO and was based on a current net cost approach. This ensures that the eventual funding of the social tariffs component is not overstated by including a charge higher than the actual rate applied to conventional GO subscribers during 2020. The net cost for social tariffs has been calculated as the difference between the current retail price in 2020 and the amount actually charged to the eligible subscribers, which in this case was zero.

As in previous years, GO claimed for two types of social tariffs which were provided free of charge during 2020, namely the free Telecare service and the free line rental service. However, it was noted that, for the first time, GO considered two sub-categories of Telecare subscribers, namely those subscribed to Standard Telecare and those subscribed to Telecare Plus. In its calculations, GO then used a weighted average rate based on the number of subscribers using Standard Telecare and Telecare Plus.

During the Calculation Accuracy Phase, clarifications were sought from GO to understand better the inclusion of the Telecare Plus service in its 2020 claim, which GO incorporated for the first time. In response, GO explained that new customers eligible for the Telecare service could be provided with the Telecare Plus service, in line with what is advertised on the website servizz.gov. This approach is also consistent with the agreement between GO and the responsible Ministry.

A request for clarifications was also sent to GO on the number of subscribers included in the calculation of the free Telecare service (Standard Telecare and Telecare Plus) and the free line rental service. Following these clarifications, GO confirmed that it had erroneously included subscribers that were migrated to a bundled product and therefore the number of subscribers benefiting from free line rental service was adjusted accordingly. This adjustment led to a decrease in the social tariffs component to €171,416.

Furthermore, the Ministry for Health and Active Ageing, which is responsible for social tariffs, verified the number of beneficiaries eligible for the free Telecare service (Standard Telecare and Telecare Plus) and free line rental service during 2020. The eligible social tariffs beneficiaries in 2020 were 1,742 free Telecare service users (305 Standard Telecare users; 1,437 Telecare Plus users) and 900 free line rental users.

Consequently, it was concluded that the social tariffs USO component based on the current net cost scenario results in a net cost of €66,253 for specific measures to disabled end-users, and of €105,163 for reduced tariff options, totalling to a net cost of €171,416. More information on this USO component is available in Annex 1 of this document.

### 4.3 Comprehensive Electronic Directory

The universal service obligation for the provision of a comprehensive electronic directory was included in the 2015 USO Decision and the designated undertaking was also required to make available an interface that caters for smartphone users. GO decided to develop a smartphone mobile application and make it available free of charge to end-users to meet its obligations. This was launched by GO in December 2016. In its claim, GO included the net cost incurred for the provision of the smartphone application during 2020.

In the original claim sent by GO, it was observed that the methodology adopted to calculate the net cost for the comprehensive electronic directory in the 2020 USO claim was based on the conclusions of the review outlined in the Decision Notices for the USO claims submitted by GO for the financial years 2016 to 2020.

In the Reasonability Phase, EY considered that the inclusion of the costs associated with the mobile directory app in the USO claim was reasonable and appropriate in view of the 2015 USO Decision provisions. It was concluded that the calculation details would be reviewed in the Calculation Accuracy Phase to further verify the cost.

During the Calculation Accuracy Phase, it was observed that in its claim GO considered a higher opening net book value for 2020 than the closing net book value for 2019. GO was requested to update this figure which resulted in a decrease in the net cost for the comprehensive electronic directory.

The approach adopted for the cost of capital in the 2020 USO claim is consistent with the MCA Guidance on Accounting Methodologies for Regulatory Accounting Purposes. It was also noted that the cost of capital included in GO's 2019 USO claim amounts to 6.98%, and is based on the MCA's Decision entitled "Weighted Average Cost of Capital – Response to Consultation and Decision" which is applicable for regulatory accounting periods ending on or after 31 December 2020.

In its 2020 USO claim, GO had correctly not included any costs related to the updating of the directory in terms of the internal human cost allocated for the updating of customer records. Similarly to the 2018 and 2019 USO claims, GO did not incur any costs for the maintenance agreement associated with the mobile directory app during 2020.

Following the assessment carried out during the Calculation Accuracy Phase, the net cost for the comprehensive electronic directory component decreased to €5,544. EY concluded that this net cost is justifiable. More information on this USO component is available in Annex 1 of this document.

## 4.4 Intangible Benefits

In accordance with regulation 30 and the Sixth Schedule of the Regulations, in its USO claim for funding GO included intangible benefits that arise from the provision of the universal services and are deducted from the net costs<sup>10</sup>. In its claim, GO included the “brand enhancement” element as a component of intangible benefits, which is being defined as the enhancement of the USP brand by offering universal services, and the influence on end-users' perception that might impact the overall profitability.

In the USO cost model submitted by GO as part of its original claim for 2020, the brand enhancement benefit was quantified using a revised methodology relative to previous years. During the Reasonability Phase, EY noted that the estimation approach adopted for this benefit in the 2020 claim was based on a different indicator compared to previous claims. The associated inputs and calculations would be further assessed during the Calculation Accuracy Phase.

In this phase, EY reviewed the underlying methodology and calculations used to estimate the brand enhancement benefit. In particular, GO was requested to clarify the rationale for the methodological change. GO explained that the new methodology was based on the most recent country benchmarks available for other European USPs and that it was revised to show the benefit per inhabitant rather than the benefit as a percentage share of the total fixed line revenues. This revision was based on the report entitled “Assessment of the eir's calculation of intangible benefits for 2015/16 report”, prepared by Oxera in 2021.

Furthermore, GO was requested to clarify the exclusion of BT, the USP in the United Kingdom, from the list of benchmarks. GO explained that the data available for BT was outdated, dating back to 2003. In addition, the benchmark for BT was considered an outlier that would have significantly skewed the calculation of the mean value.

Since the calculation of intangible benefits is not an exact science and there is no single defined methodology or answer, the estimation of intangible benefits is by its very nature a challenging exercise, and a number of different methodologies have been used for assessment purposes by the industry. EY concluded that the approach adopted by GO is based on a comparison with more recent international estimates of various European USPs, specifically, the benchmarks in the above-mentioned Oxera (2021) report, which offers an updated perspective compared to the approaches used in previous years. EY deemed this to be a reasonable driver for a change in methodology.

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<sup>10</sup> SL 399.28, regulation 30(4).



Furthermore, as with other international benchmarking exercises of this nature, the extent to which the subject entity and the market environment in which it operates are comparable to those of the benchmark group is difficult to evaluate. As a result, the final rate selection remains a subjective element. In this regard, the application of the mean value across all benchmarks was considered to reduce this subjectivity.

The mean value of the benefit per inhabitant across the benchmarks of other European USPs was then multiplied by the average population of Malta in 2020 to calculate the brand enhancement benefit for GO.

As in previous claims, the ubiquity, the life cycle and the marketing benefits elements of intangible benefits were not included in the claim.

Following the Calculation Accuracy Phase, the value of the brand enhancement intangible benefit to be deducted from the cost of the total of the other USO components is €40,196. More information on the intangible benefit components is available in Annex 1 to this document.

## 4.5 Summary and Proposed Decision

The table below shows a summary of the reviewed calculated cost for each USO component:

USO Component	Reviewed net cost €
Payphones	( 22,128)
Social tariffs	(171,416)
Comprehensive electronic directory	( 5,544)
Intangible benefits:	
- Brand Enhancement	40,196
<b>Total</b>	<b>( 158,892)</b>

Following the verification exercise of GO's funding application for 2020, the MCA is proposing that GO, as the undertaking designated to provide each of the USOs listed in the table above, should be compensated for the net costs incurred for the provision of these USOs during financial year 2020 which amounted to a total of €158,892.

## 5 Source of Funding

In the assessment process undertaken by EY, it was established that GO, as the USP, has suffered an unfair burden for the provision of the public payphones, social tariffs including free Telecare service and free line rental service, and comprehensive electronic directory during financial year 2020.

In accordance with regulation 31(1) of the Regulations, when the MCA establishes that a designated undertaking has suffered an unfair burden to provide a universal service, it shall be compensated by one of or a combination of the following:

- from public funds with the approval of the government; and/ or
- by means of a sharing mechanism between providers of electronic communications networks and services<sup>11</sup>.

More detail on the allocation of the source of funding on GO's claim for financial year 2020 would be dealt with by means of a separate consultation document earmarked for publishing following the publication of the Decision Notice on the review of GO's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2020.

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<sup>11</sup> SL 399.28, regulation 31(1).

## 6 Submission of Responses

In accordance with its obligations under article 4A of the Malta Communications Authority Act (Cap. 418 of the Laws of Malta), the MCA welcomes written comments and representations from interested parties and stakeholders during the national consultation period which shall run between the 18<sup>th</sup> July 2025 and the 21<sup>st</sup> August 2025.

The MCA appreciates that respondents may provide confidential information in their feedback to this consultation document. Such information is to be included in a separate annex and should be clearly marked as confidential. Respondents are also requested to state the reasons why the information should be treated as confidential. The MCA will take the necessary steps to protect the confidentiality of such material as soon as it is received at the MCA offices in accordance with the MCA's confidentiality guidelines and procedures<sup>12</sup>. Respondents are however encouraged to avoid confidential markings wherever possible.

The MCA will, after taking into consideration the responses received to this Consultation document, publish a Decision Notice on the review of GO's application for funding of the net cost claimed to have been incurred to provide universal service obligations during 2020. For the sake of openness and transparency, the MCA will publish a list of respondents to this consultation in the aforementioned Decision Notice.

All responses should be submitted to the MCA in writing by no later than 12:00 CEST on **21<sup>st</sup> August 2025**, and addressed to:

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Extensions to the consultation deadline will only be permitted in **exceptional circumstances** and then only where the MCA deems fit. The MCA reserves the right to grant or refuse any such request at its discretion. Requests for extensions are to be made in writing within the first ten (10) working days of the consultation period.

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<sup>12</sup> [https://www.mca.org.mt/sites/default/files/articles/confidentialityguidelinesFINAL\\_0.pdf](https://www.mca.org.mt/sites/default/files/articles/confidentialityguidelinesFINAL_0.pdf)



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## Malta Communications Authority

Review of GO plc's application for funding of the net cost claimed to have been incurred to provide Universal Service Obligations during 2020

Calculation Accuracy Phase

Abridged version of full report

June 2025

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# Introduction and background information



# Introduction (1)

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This report relates to the review of GO plc's ("GO") application for funding of the net cost claimed to have been incurred to provide Universal Service Obligations ("USO") during 2020.

The Malta Communications Authority ("MCA"), as the National Regulatory Authority of the electronic communications sector in Malta, is responsible for the regulation of a minimum set of electronic communication services of specified quality which are made available to all end-users in the Maltese islands ("universal services"). As per the provisions of EC Directive 2002/22/EC and EC Directive 2018/1972 (collectively referred to as "EC Directives"), these universal services are to be made available at affordable prices with the objective of promoting social inclusion of electronic communication services. Universal Services Provider/s ("USP") designated by the MCA have USOs to provide a minimum set of services to all end-users, including persons on low income, residents of rural or high installation cost areas, persons with disabilities and other vulnerable groups.

As the entity responsible for the regulation of the local electronic communications sector, the MCA is required to decide which electronic communications services are to be classified as universal services, and which undertaking/s are designated as the USP. The MCA Decision determining the USOs applicable for the year under review (2020) was published by the MCA in May 2015 (MCA-OPS/tf/15-2265) entitled "Universal Service Obligations on Electronic Communication Services" Decision and Response to Consultation which came into effect as from 1<sup>st</sup> July 2015. Any future reference to "MCA USO Decision" in this Report is made with respect to this 2015 Decision. The USO revisions introduced by the MCA USO Decision are explained in further detail on the next page.

Under the MCA USO Decision, GO is designated as the USP for a number of USOs, including:

- ▶ the provision of access at a fixed location and functional internet access in cases of market failure,
- ▶ comprehensive electronic directory,
- ▶ public payphones,
- ▶ specific measures for disabled users,
- ▶ reduced tariff options, and
- ▶ measures ensuring users can control expenditure.

# Introduction (2)

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As per the provisions of the EC Directives and the Electronic Communications Networks and Services (General) Regulations (July 2011<sup>1</sup>; hereafter referred to as “the Regulations”), the USP can submit a claim related to USO funding. The MCA USO Decision delineates the key guiding principles and criteria for the evaluation of USO, the financing options and the designation processes. As per the EC Directives, Article 12 of EC Directive 2002/22/EC and Article 89 of EC Directive 2018/1972, and as per the Regulations (Regulation 30), the MCA or a body independent of the relevant parties appointed by the MCA shall verify the accounts and/ or other information serving as the basis for the calculation of the net cost of USO provided by the designated undertaking(s), with the results of the cost calculation and the conclusions of the review being made publicly available.

In 2012, GO submitted its first written request to the MCA for the funding of the net cost claimed to have been incurred to provide USO for the year 2010. GO has since then submitted a USO claim request annually, including the claim for the year 2020 being reviewed in this Report. The MCA has commissioned EY to review the claims before publishing its final decision with the final refund entitlement.

GO’s claim for the year 2020 was submitted on 30th November 2021, with a funding request of €176,636. Following clarifications requested during this Calculation Accuracy Phase review, GO submitted a revised USO Model on 11<sup>th</sup> February 2025, with a net USO cost claim of €152,014.

The scope of this engagement is to assist the MCA in its assessment of this (revised) funding application, and to assess whether the evidence provided is sufficient and detailed enough to support this claim.

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<sup>1</sup> As a result of the transposition of EC Directive 2018/1972 on 1<sup>st</sup> October 2021, the Electronic Communications Networks and Services (General) Regulations of July 2011 (S.L. 399.28) was repealed by LN379 of 2021 and replaced by S.L. 399.48. The references to the Regulations prior to the amendments to the applicable laws that came into force as on the 1<sup>st</sup> October 2021 have been retained in this Report since this claim relates to a period (2020) which is prior to the coming into force of the amended legislation. The provisions which were previously included in Regulation 30 of S.L. 399.28 have been substantively retained in Regulation 76 of S.L. 399.48.

# Scope of work

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## Scope of our work

The scope of this engagement is to assist the MCA in its assessment of the funding application of the net cost claimed to have been incurred to provide USO during the year 2020 submitted by GO in November 2021 (updated 11<sup>th</sup> February 2025), and whether the evidence provided is sufficient and detailed enough to support this claim (“the Purpose”).

The assignment is split into two phases:

- ▶ **Reasonability Phase:** assessment of the grounds on which the claim is based, whether it is coherent with regulatory principles, the extent to which the claimed funding can be attributed to USO.
- ▶ **Calculation Accuracy Phase:** verify and review the various net cost and intangible benefit calculations GO provided in their USO claim submissions.

This report relates to the Calculation Accuracy Phase only. This Calculation Accuracy Phase follows on the conclusions of the Reasonability Phase which was finalised in November 2024. An overview of the conclusions of the Reasonability Phase is provided on pgs. 11-12 of this Report.

## Use of report

This report provides a summarised overview of the Reasonability Phase and details of the Calculation Accuracy Phase review of GO’s application for funding of the net cost claimed to have been incurred to provide USOs during 2020. This report is an abridged version of the full report addressed to the MCA. This abridged report forms part of a public communication process to be undertaken by the MCA with stakeholders, including a public consultation document which is scheduled to be issued following the completion of both the Reasonability Phase and the Calculation Accuracy Phase. The public consultation document shall provide stakeholders with the opportunity to comment on the conclusions of the Reasonability and Calculation Accuracy Phase.

# Sources of information/ data (1)

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Throughout the course of this engagement, we have been provided with/ referred to a number of information sources/ documents:

## Reasonability Phase

For the Reasonability Phase we have been provided with the following information and documents received in:

- ▶ February 2023: GO's USO claim submission ("GO's USO claim"), comprising:
  - ▶ Covering e-mail related to GO's 2020 USO funding application
  - ▶ Evaluation of Universal Service Obligations costs in Malta in 2020: Methodology and Results ("USO Methodology and Results")
  - ▶ Cost Evaluation of 2020 Universal Service Obligation for GO: Cost Model ("USO Model")
- ▶ October 2023: Email related to GO's confirmation on the validity of the 2013 Telecare agreement for Social tariffs USO component for the period under review
- ▶ September 2024: Email communication related to GO's increase in fixed line rental during 2020.
- ▶ October 2024: Email by GO related to updated list of active Payphones in 2020.

## Calculation Accuracy Phase

During the Calculation Accuracy Phase information and clarifications on the claim components have been requested from GO. Information requests and clarifications were sent on 15<sup>th</sup> November 2024, and 28<sup>th</sup> January 2025 to which GO provided replies and adjusted USO Model calculations on 12<sup>th</sup> December 2024 and 11<sup>th</sup> February 2025.

In the Calculation Accuracy phase review, reference has also been made to a confirmation from the Ministry for Health and Active Ageing (Ministry responsible for social benefits and telecare services) on the number of subscribers that benefitted from social tariffs over 2020, obtained by the MCA on 16<sup>th</sup> January 2025.

# Sources of information/ data (2)

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During the compilation of this Report, reference has and will be made to information, discussions, principles and decisions related to previous USO claims. The MCA has requested the approval of GO to make use of such information discussions, principles and decisions related to the previous claims for the exercise being undertaken and GO has found no objection to such a request. The MCA decisions in connection with these previous USO claims are:

- ▶ MCA-OPS/tf/14-2006 related to the 2010 claim
- ▶ MCA-OPS/tf/15-2450 related to the 2012 claim
- ▶ MCA-OPS/tf/16-2719 related to the 2013 claim
- ▶ MCA/D/18-3076 related to the 2014 claim
- ▶ MCA/D/19-3540 related to the 2015 claim
- ▶ MCA-OPS/tf/20-3991 related to the 2016 claim ("2016 USO Claim Decision Notice")
- ▶ MCA/D/21-4414 related to the 2017 claim ("2017 USO Claim Decision Notice")
- ▶ MCA/D/23-5114 related to the 2018 claim ("2018 USO Claim Decision Notice")
- ▶ MCA/D/24-5417 related to the 2019 claim ("2019 USO Claim Decision Notice")

The key conclusions of the above decisions (including those impacting the calculation of USO net costs based on the USOs delineated in the applicable MCA USO Decision and EC Directives) are referred to in this Report's respective claim component reviews.

# Overview of GO's 2020 USO claim

- ▶ GO's 2020 claim includes the same components included in the previous 2019 claim. The net USO cost for 2020 has been calculated on the basis of the following cost-benefit components: *Payphones, Social Tariffs, Comprehensive Electronic Directory, less Intangible Benefits*.
- ▶ The table below compares the funding request by USO claim component for the:
  - ▶ GO's original claim for 2020, provided in November 2021
  - ▶ GO's revised claim, dated February 2025
  - ▶ The final review outcome following the conclusions of this Calculation Accuracy phase review - more information on the rationale behind these changes is provided over the next Report sections.

(in €)	2020		
	GO's Original Claim (November 2021)	GO's revised Claim (February 2025)	Final review outcome
Payphones	(18,934)	(22,293)	(22,128)
Social tariffs	(191,981)	(171,416)	(171,416)
Comprehensive electronic directory	(5,918)	(5,544)	(5,544)
Intangible benefits	40,196	47,238	40,196
<b>Total</b>	<b>(176,636)</b>	<b>(152,014)</b>	<b>(158,892)</b>

# Reasonability Phase: Conclusions (1)

The Reasonability Phase dealt with the following areas:

- ▶ the grounds on which the claims for funding are based;
- ▶ whether the claim/s is/are coherent with regulatory principles;
- ▶ the extent to which the claimed funding can be attributed to USO; and
- ▶ the approach used to quantify the intangible benefit aspect.

The following tables present the summarised conclusions for each claimed USO components and intangible benefits from the Reasonability Phase review, based upon GO's claim submission (USO claim and Model received in November 2021) as at this phase's review. During the Calculation Accuracy Phase, further information and clarification questions were requested from GO on USO components.

Component	Initial reasonability assessment
Public payphones	<ul style="list-style-type: none"><li>• On the basis of the EC Directives, the 2015 MCA USO Decision and international practice, payphones can form part of the USO claim.</li><li>• The 2015 MCA USO Decision and previous USO claim decision notices concluded that the claim for public payphones should be based on the optimal number of payphones, and not the existing number of payphones. The parameters for the calculation of the optimal/ minimum number of payphones per locality depends on locality population figures, as established by the 2010 MCA USO Decision (2011 update) and confirmed by the 2015 MCA USO Decision.</li><li>• GO's 2020 submission has been based on the optimal number of payphones and is considered as reasonable.</li></ul>
Social tariffs	<ul style="list-style-type: none"><li>• Based on the EC Directives and the 2015 MCA USO Decision, social tariffs can form part of the USO claim given that they represent a social obligation imposed on GO by the regulator.</li><li>• In line with previous MCA USO Claim Decision Notices, the social tariff computation should be based on standard tariffs to ensure that those funding the social benefits are not burdened by higher cost than "normal" consumers.</li><li>• GO have based their claim on standard tariffs and the claim for this component is considered as reasonable. The next review phase will assess the accuracy of the social tariff component calculation and cross-check the number of users claimed by GO to have benefited from social tariffs in 2020 against figures held by the responsible Ministry.</li></ul>

# Reasonability Phase: Conclusions (2)

Component	Initial reasonability assessment
Comprehensive Electronic Directory (CED)	<ul style="list-style-type: none"><li>• The 2015 MCA USO Decision established that the universal service shall include the provision of a free electronic telephone directory which is web-based and includes an interface that allows smartphone users to look up directory related data. This obligation replaced the withdrawn obligations for the provision of a printed telephone directory and a telephone directory enquiry service (with the exception of telephone directory enquiry service for visually impaired persons).</li><li>• In connection with the above obligation, GO has launched a directory smartphone app in December 2016. The 2020 CED component (like previous claims) claims funding for the operating costs of servicing this directory app.</li><li>• The inclusion of the costs connected to the operation of the smartphone directory app in the USO claim is considered reasonable and appropriate in view of the MCA USO Decision provisions. In the Calculation Accuracy phase, further calculation details will be requested from GO and reviewed to verify the claimed cost components to USO.</li></ul>
Intangible benefits	<ul style="list-style-type: none"><li>• Intangible benefits should form part of the USO computation. Though inherently difficult to quantify, international research shows that a number of claims in other countries have also included intangible benefits, with the main benefits relating to ubiquity, brand enhancement, life-cycle and marketing.</li><li>• In their USO application for funding, GO have claimed to have insufficient data to estimate the lifecycle benefit, and they claim that the marketing benefit is irrelevant locally since payphones are not commonly used by consumers or utilized to advertise. GO also claim that the ubiquity benefit is no longer relevant given the withdrawal of the fixed line access obligation (except for cases of market failure) in the 2015 MCA USO Decision and given that all geographical areas are economically profitable.</li><li>• The methodology employed by GO for the estimation of this benefit for the 2020 claim is based upon a benchmark comparison with the benefit estimation results of a number of other European USPs. It is noted that the methodology employed for the 2020 claim is based on a different indicator from previous claims which will be further assessed in the next phase.</li></ul>



# GO's USO claim approach and methodology

# Methodology and approach (1)

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GO has submitted a written request to receive funding for the net costs claimed to have been incurred in providing USO for the year 2020. The claim is based on a methodology previously developed for GO by a third party.

## Cost accounting basis

- ▶ The 2020 claim follows the same approach used in previous claims and is based on historic cost accounting (HCA), taking a fully allocated cost (FAC) approach

## Approach and data sources

- ▶ Net costs have been calculated on the basis of a top-down model based on GO operational data. Specifically, the following sources have been used:
  - ▶ Accounting data: GO's management accounts and regulatory accounts
  - ▶ Technical data: GO's Technical Department reporting
  - ▶ Revenues and traffic: IT data warehouse

## Data approximation

- ▶ GO's management systems are aimed at providing information for their statutory financial statements and the regulatory accounts. In previous claims, GO indicated that a certain element of data approximation needs to be undertaken for the purposes of the USO claim. Main areas of approximation relate to particular points in time chosen to determine:
  - ▶ Data from GO's billing systems as at June to work out revenue / traffic per subscriber
  - ▶ If a service was inactive as at June, GO identified the earliest service active between 30<sup>th</sup> March and 31<sup>st</sup> December
  - ▶ Technical data (tel. number/ active lines/ local loop length)

# Methodology and approach (2)

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## Data approximation (cont.)

- ▶ For the first 2010 claim, GO had also explained that since customers can change their tariff plan at any time during the year, theoretically GO should have based their computation on monthly data (in terms of number of subscribers and tariff plans). For practical reasons, however, GO opted for the mid-year (i.e. June referred to previously) as an approximation.
- ▶ Given the nature of the exercise and the various data sources used, it is inevitably difficult to reconcile revenues and costs included in the USO claim to the audited regulatory accounts and statutory financial statements. Where possible, however, reconciliations have been sought (against regulatory account workings extracts included in USO Model) to verify the accuracy of the claim's cost calculations.

## Efficiency factor

- ▶ When asked whether an efficiency factor has been included in the USO calculations, GO confirmed that similar to previous claims, no efficiency factor has been included in the 2020 claim. In previous claims GO had explained that "GO is subject to intense competition in the markets that encompass USO and as such cannot afford not to be efficient. In fact, in the past years it shed a considerable number of employees and has revised many of its procedures and operational practices. All these have for a time been at levels commensurate to a company subject to competition in the market".
  - ▶ Had an efficiency factor been included, this could have possibly resulted in a lower cost and a lower claim, particularly in the payphones components.
  - ▶ Furthermore, certain revenues and costs are estimated on the basis of traffic volumes. In particular, interconnection costs included in the USO Model are based on traffic volume data, and origination/ termination rates for 2020 as set by the MCA decision notice MCA/D/12-1420 on the Bottom-up Cost Model (BUCM2) for fixed networks and fixed interconnection prices, dated 21<sup>st</sup> December 2012. The origination and termination rates set by the decision are based on long-run incremental cost and are modelled on "the services of a hypothetical efficient operator with a view to set efficient regulated wholesale charges for fixed interconnection".

# Methodology and approach (3)

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## Return on Capital Employed (ROCE)

- ▶ The calculation includes a Return on Capital Employed ("ROCE"), which is based on the MCA's Decision (MCA/D/19-3697) on the Weighted Average Cost of Capital ("WACC") of 6.98% (fixed market) for regulatory accounting periods ending on or after 31<sup>st</sup> December 2019. As of the date of this review, this remains the most recent MCA Decision on the WACC rates applicable to periods ending on or after 31<sup>st</sup> December 2019.

## Access deficit

- ▶ The USO Model and the formal claim put forward by GO do not take into account access deficit, in line with MCA Decisions on previous claims.

# Analysis by component

## Public payphones

# Public payphones (1)

## *GO's methodology*

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- ▶ The 2015 MCA USO Decision confirmed that the public payphones claim should not be based on the total number of existing payphones but rather on the minimum number of payphones per locality based on the parameters established in the 2010 MCA USO Decision (based upon locality population).
- ▶ The optimal number of payphones, based on the minimum payphone requirement set by the MCA USO Decision in each locality, is of 184 payphones across the Maltese islands. In terms of GO's USO claim and model, we note the following:
  - ▶ GO's USO Model presents the net payphone cost based on both the total existing number of payphones, and the optimal number of payphones as set by the minimum requirements as established in the MCA USO Decision.
  - ▶ GO's funding request for 2020 is based on the optimal number of payphones, in line with the MCA USO Decision and previous MCA USO Decision Notices. However, it is noted that in GO's original funding request for 2020, the total quantity of payphones was 192. There were also some localities with a lower number of payphones than the minimum payphone requirement set by the MCA USO Decision. Such a lower number of payphones is deemed acceptable given that payphones are a service which is in the process of being phased out. GO had kept the MCA informed on the removal of payphones in different localities.
- ▶ After taking into consideration, on a per locality basis, the lower of (a) the minimum payphone requirement as set by the MCA USO Decision and (b) the actual number of payphones as per GO's original claim, the payphones within scope generate a negative margin, leading to a net cost of €18,934 according to GO's original claim.
- ▶ The methodology employed by GO to arrive at the net payphone USO costs is presented on the next page.

# Public payphones (2)

## GO's methodology

- The following table summarises the key assumptions used by GO to arrive at the payphone net cost in the original claim.

Revenue and costs	Assumption
Revenue	<ul style="list-style-type: none"> <li>Billing data for on-net calls, outgoing international, mobile calls, and off-net calls sourced from GO's Data warehouse.</li> </ul>
Technical Line costs	<ul style="list-style-type: none"> <li>Number of active lines x sum of operating cost/line and cost of capital/ line + line length x sum of operating cost/line length and cost of capital/line length</li> <li>The operating cost per active line relates to the cost of line cards, FMUX transmitting equipment, other activities, corporate costs and the licence fee, and is divided by the total number of active lines. We understand that this data has been obtained by GO from their regulatory accounts model (not provided).</li> <li>The cost of capital per active line is typically based on the product of (a) a WACC rate of 6.98% (MCA Decision on WACC for regulatory accounting periods ending on or after 31 Dec 2019); and (b) the Net Book Value of line cards, FMUX transmitting equipment, and other assets. This would then be divided by the total number of active lines. This data has been obtained from the regulatory accounts model.</li> <li>The operating cost per copper line length relates to the cost of the copper only, and is divided by the total copper line length.</li> <li>The cost of capital per copper line was determined by multiplying the 6.98% WACC by the NBV of the copper line, and subsequently divided by the total copper line length. Again, this was obtained from the regulatory accounts model.</li> <li>Similarly to the 2019 claim, in the 2020 claim all assets related to the payphones' equipment were fully depreciated, leading to no cost of capital inclusion, and no depreciation, for these assets.</li> </ul>
Traffic costs	<ul style="list-style-type: none"> <li>Traffic volumes (on-net, outgoing international, fixed-to-mobile, and off-net) x unitary cost/minute.</li> <li>Traffic volumes were extracted from billing data.</li> <li>Unitary costs/ minute have been based on origination and termination rates, and the commercial cost/ minute.</li> <li>The commercial cost has been derived from the regulatory accounts model.</li> </ul>
Direct OPEX	<ul style="list-style-type: none"> <li>Equal allocation (per payphone) of operating costs (derived from actual invoices), which for the 2020 claim included only metering costs.</li> </ul>
Cost of Capital	<ul style="list-style-type: none"> <li>Cost of capital of 6.98%</li> </ul>

# Public payphones (3)

## *Review Work*

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During the Calculation Accuracy phase of this review, clarifications have been requested from GO regarding certain inputs underlying the 2020 claim calculation.

The clarifications by GO with respect to the cost inputs included in the payphone calculation are presented below, together with our review work performed upon the final USO Model submitted by GO.

### Amount of payphones

- ▶ The amount of payphones was overstated in the original claim with a count of 192 total payphones. After clarifications requested, the number of payphones was revised downwards to 172 payphones. Although this is below the minimum requirement of 184 payphones, during 2020 the MCA was informed by GO that some of the payphones were being dismantled due to infrastructure work or embellishment of the pavements and the MCA deemed it to be reasonable not to reallocate/re-install the payphones given that the use and demand was decreasing steadily year-on-year.

### Direct OPEX per payphone

- ▶ In this year's claim, direct operating costs per payphone only included metering cost.
- ▶ In the original claim, there was no change to metering cost from 2019 which, upon enquiry, figure was revised downwards.

### Chosen Payphones

- ▶ With regard to public payphones (PPs) EY/MCA reviewed the list of payphones provided by GO to confirm that as per previous years, the minimum number of PPs per locality is being considered (as per the USO requirements) and the PPs which are least loss-making are being selected. It is noted that in Valletta and Mellieħa, this approach was not followed, leading to a small variance from the original claim when the least loss-making payphones were selected.



# Public payphones (4)

## Review Work

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### LAN costs (line costs)

- ▶ As part of the review process, it was noted that the original quantity of active lines was identical to that in the 2019 claim. In response to this, GO was asked to verify this number, leading to a revision of the figure, which did not tally with the fixed subscriber levels reported by GO to the MCA for other purposes. Following further clarifications, GO modified the methodology, establishing that direct costs for copper components (e.g. line cards and FMUX) would be allocated based on the quantity of copper lines, while common costs would be distributed according to the total number of active lines, for both copper and fibre lines. This change in methodology was deemed acceptable.
- ▶ The overall GO LAN costs recorded in the 2020 USO Model were lower compared to prior year values. Reasons/ explanations for observed cost changes over prior year values were requested from GO. In this regard, GO have provided their explanation on the alignment of overall costs for 2019 and 2020. Furthermore, given the concern raised regarding a specific cost component that included elements related to the fibre rollout, despite payphones not making use of the fibre network, GO proposed a revision of the model to split this cost component on an apportionment basis, using the NBV of copper and fibre as a basis and allocating the costs on the % copper in the total NBV. The explanations provided and proposal were deemed acceptable, resulting in a small decrease in the payphone cost.

### Conclusion

- ▶ In line with previous MCA Decision Notices, following the update to the payphone calculations, the public payphones component is based, on a per locality basis, on the optimal number of payphones as calculated through the 2010 Decision Notice's mechanism.
- ▶ On the basis of our review work described above, the public payphone claim results in a total net cost of €22,128.

# Analysis by component

## Social tariffs

# Social tariffs (1)

## *GO's methodology*

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- ▶ Under its current USP status, GO provides social tariff options to a number of users identified by the responsible Ministry (the Ministry for Health and Active Ageing). In turn, GO can claim back the net cost of providing such services, similar to what is done in a number of other European countries.
- ▶ As the designated USP, GO provides two types of social services free of charge to the end user: free line rental and free Telecare service (Standard Telecare or Telecare Plus).

### Findings

- ▶ Since a number of users under the free telecare service are being provided with Telecare Plus (as per the agreement between GO and the responsible Ministry), in their claim, GO has used a weighted average based on the number of subscribers using the Standard Telecare and Telecare Plus rates respectively. Clarifications were sought from GO since the Telecare Plus service was included in the USO claim for the first time. In this regard, GO explained that new customers could be provided with the Telecare Plus services in line with what is being advertised on the website servizz.gov.
- ▶ As part of the review, the MCA has obtained confirmation from the Ministry for Health and Active Ageing on the number of subscribers that benefited from free line rental service, Standard Telecare service and Telecare Plus service during 2020. The social tariff claim, on the basis of current costs and subscriber numbers, results in a net cost of €171,416 based on 900 free line rental users (2019: 1,942) and 1,742 free Telecare service users (2019: 1,360) used by GO in the calculation.

# Social tariffs (2)

## *GO's methodology and conclusion*

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### Conclusion

- ▶ Following Calculation Accuracy clarification requests made to GO and confirmations from the Ministry, subscriber numbers included in the USO Model calculations were confirmed.
- ▶ The social tariff component has been calculated by GO as the difference between the current retail tariffs and the amount actually charged to subscribers, which in this case is free. This net cost calculation, based on the current net cost scenario, is aligned with the MCA's decisions of previous claims that access deficit should not form part of the USO claim.
- ▶ The social tariff claim, on the basis of current costs and updated subscriber numbers, results in a net cost of €171,416 (i.e. €105,163 for reduced tariff options; and €66,253 for specific disability measures).

Final review outcome	Reduced Tariff Options for Users	Specific Measures for Disabled Users
Total number of users	900	1,742
Line rental per user per month (€; excl. VAT)	€9.74	€3.17
Total annual cost (€)	€105,163	€66,253

# Analysis by component

## Comprehensive electronic directory (CED)

# Comprehensive electronic directory (1)

## *GO's methodology*

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- ▶ This USO claim component relates to the net cost of providing this service to all end-users at an affordable rate. Regulation 24 of the Regulations establishes that the designated USP shall ensure that a comprehensive directory of subscribers to publicly available telephony services is made available to all end-users in a form approved by the MCA, and is updated on a regular basis at least once a year.
- ▶ In relation to the above obligation, the 2015 MCA USO Decision concluded that the universal service shall include the provision of a comprehensive electronic directory ("CED") which is web-based and includes an interface that caters specifically for smartphone-based users. This directory is to be free of charge and updated in real-time whenever technically possible.
  - ▶ In relation to the above obligation, GO launched a free telephone directory app in December 2016.
- ▶ In view of the above USO revisions, as from the 2016 claim, GO's USO Model now claims the costs incurred by GO in the provision of directory enquiry services through the launched smartphone app.
- ▶ The related cost components claimed by GO in the model are summarised in the below table.

Comprehensive electronic directory (directory app) - operating expenses
Depreciation
Cost of capital @ 6.98% WACC

# Comprehensive electronic directory (2)

## Review work

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For the 2020 claim, it was found that GO considered a higher opening NBV in their original claim. GO revised this calculation, resulting in a decrease in the expense claimed.

The net cost calculations in GO's USO Model were assessed with the review adjustments and conclusions made in the 2016 USO Claim Decision Notice, and found to be consistent. The rest of this section presents an overview of the operating expenditures making up GO's 2020 CED claim, in relation to the information provided by GO and the review conclusions of the 2016 USO Claim Decision Notice.

<b>Depreciation</b>
<b>Cost of Capital</b>

- ▶ Depreciation cost and cost of capital have been calculated on the basis of the capital expenditure costs. In view that these costs had been incurred in 2016 prior to the smartphone app launch (launched in December 2016), the costs reported in the 2020 USO Model are the same costs which had been reported also in the models from 2016 to 2019. These relate to:
  - ▶ The charges invoiced by a third-party software development company for the works on the design and development of the smartphone app.
  - ▶ GO's internal human resources cost in connection with the development of the CED application.
- ▶ The depreciation on capital expenditure is being calculated on the basis of a straight-line depreciation method with an estimated useful life for the app of 5 years, starting from the year 2016 (year of app launch). Given GO's applied accounting policy of taking a full-year depreciation in the first year of acquisition (2016), no capital depreciation would have to be charged on the final year of the capital's estimated useful life (Jan-Nov 2021).

# Comprehensive electronic directory (3)

## *Review work and conclusion*

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### Cost of Capital

- ▶ Cost of capital has been estimated by GO based on the application based on the MCA's Decision (MCA/D/19-3697) on the Weighted Average Cost of Capital ("WACC") of 6.98% for regulatory accounting periods ending on or after 31 December 2019.
  - ▶ In line with the MCA USO Decisions from 2016 to 2019, the rate is applied upon the average capital employed over the year, which has been calculated based on the mean of the assets' net book values as at beginning and end of 2020.
  - ▶ The approach adopted in the 2020 USO Model is consistent with the MCA Guidance on the accounting methodologies and treatments to be applied in the preparation of separated accounts for telecommunications sectors in Malta ("Guidance on Accounting Methodologies for Regulatory Accounting Purposes", dated March 2003). The Guidance outlines that the average capital employed during any period should be referred to for cost of capital calculations.
  - ▶ The Guidance also notes that there must be consistency between the measure of capital employed on which the cost of capital is based and the measure of capital employed reported in the regulatory accounts. It is also noted that this is consistent with GO's regulatory accounts' reporting, where 'mean capital employed' is used for financial reporting purposes. The mean is calculated as the mathematical average of the start and end values of the financial reporting period.

### Conclusion

- ▶ Based upon this assessment, the net CED costs for 2020 amount to €5,544.



# Analysis by component

## Intangible benefits

# Intangible benefits (1)

## *GO's methodology*

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- ▶ Revenues related to intangible benefits that the operator derives from the provision of the USO need to be deducted from the costs of the USO components in order to arrive at the final net USO cost.
- ▶ Despite the difficulty in monetising such benefits due to their 'intangible' nature, USPs in other European countries still include them in their USO calculation.
- ▶ A number of intangible benefits could apply. The following were not considered applicable/ quantified by GO (as in previous claims):
  - ▶ **Life cycle:** evaluation in terms of the evolution of the average telephone bill, and the increase of the telephone bill through the evolution of the familial structure.
  - ▶ **Marketing/ access to customers' database:** benefit associated with the savings in acquisition costs and operational costs of a customer's database.
  - ▶ **Ubiquity benefit:** benefits associated with the extended network of customers gained by the USP as a result of its USOs, for example comparatively lower costs (compared to competitors) in extending its customer network or profit gains as a result of customer moves from uneconomic to economic geographical areas. In the 2016 claim review process GO had argued that such benefit is no longer relevant from 2016 onwards given the withdrawal of the fixed line access obligation (except in the case of market failure) in the 2015 MCA USO Decision and given that all geographical areas are economically profitable. On the basis of the obligations set out by the 2015 MCA USO Decision and observed international practice, the 2016 USO Claim Decision Notice had deemed the exclusion of the ubiquity benefit from the USO claim to be reasonable.

# Intangible benefits (2)

## *GO's methodology, and review work*

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### Brand enhancement

- ▶ The brand enhancement benefit relates to any improvement in the USP brand image that results from the provision of USOs. There is no standard methodology to estimate this benefit, with varying approaches being used to estimate the enhanced brand benefit across different jurisdictions.
- ▶ GO annually revises the estimate based on the most recent country benchmarks available for other European USPs. It was noted that the Oxera (2021), *Assessment of eir's calculation of intangible benefits for 2015/16* report ("*2021 Oxera Report*") was revised to show the benefit per inhabitant rather than the benefit as a percentage share of total fixed-line revenues. Utilising this approach using the updated country benchmarks, GO estimated a brand enhancement benefit of €40,196 in their original claim.

### *Review work*

- ▶ Given that the 2021 Oxera Report's benchmarks differ from those provided in previous reports, to use the most recent benchmarks, a change in the methodology employed by GO was required and adopted for the first time in the 2020 USO claim. This methodology is based on the benefit per inhabitant of other European USPs as published the 2021 Oxera Report, and in their original claim, GO excluded BT, the UK USP on the basis that the UK data in the 2021 Oxera report was from 2003. Further to that, the methodology applied by BT UK differs from its peers and relative to the population it is an outlier which skews the result of the mean value. As an alternative, given the lack of more recent data, GO proposed an updated claim which used the value provided for eir, the Irish USP as a proxy for BT. Based on this proposal, the value of the brand enhancement benefit would increase to €47,238.
  - ▶ In principle, the approach adopted by GO for the estimation of the brand enhancement benefit in the original USO Model is deemed acceptable. It is acknowledged that the approach adopted bases itself on the comparison with a wider European benchmarking group and includes international estimates (obtained via different quantification methods). The methodology used in the 2020 claim is also based on a more recent Oxera report than the methodology employed in previous years which is considered to be a reasonable driver for a change in methodology.

# Intangible benefits (3)

## *Review work and conclusion*

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### *Review work (cont.)*

- ▶ As in other international benchmarking exercises of this form, the extent to which the subject entity and the market environment in which it operates are comparable to those of the benchmark group is difficult to evaluate, and hence the final rate selection remains a subjective element. In this regard, the application of the mean value across all benchmarks reduces the subjective element.
- ▶ During the final review, it was decided that excluding the data for BT in its entirety, without replacing it, is the preferred approach. Although the UK and Ireland are neighbouring countries, one cannot assume that the customer preferences in the telecommunications market are fully aligned. Additionally, the figure provided for BT is outdated and based on a simplified approach when compared to the other benchmarks provided in Oxera's 2021 report thus it is more appropriate to be excluded in its entirety.
- ▶ In our review, we have also cross-checked the data for the benefit per inhabitant to the original source to confirm that this is the most relevant data available and is taken from the Oxera 2021 report almost in its entirety as well as confirming the mean population to that published by the National Statistics Office.

### *Conclusion*

- ▶ We note that the calculation of intangible benefits is not an exact science and therefore there is no one defined estimation methodology or correct answer.
- ▶ Even though the methodology employed in the 2020 claim differs from that employed in previous claims, it was deemed that the updated methodology is acceptable, mainly given that this is an established methodology used in other EU countries and is based on the mean value across all benchmarks, which is then multiplied by the average population in Malta in 2020.
- ▶ Based on the analysis and reasoning presented in the previous slides, the value of the brand enhancement benefit to be deducted from the cost of the other components is estimated at **€40,196**.

## Summary of conclusions

# Calculation Phase: summary of conclusions

Based on the review assessments contained in this report, the following table summarises the conclusions of the Calculation Accuracy Phase. Following review adjustments, the resulting net USO cost amounts to **€158,892**.

Component	€	Summary of review work/conclusion
Payphones	(22,128)	Clarifications about observed changes in certain underlying costs (LAN costs) have been requested and obtained from GO. In line with previous MCA Decision Notices, following the update to the payphone calculations, the public payphones component is based, on a per locality basis, on the optimal number of payphones as calculated through the 2010 Decision Notice's mechanism.
Social tariffs	(171,416)	As per GO's latest updated USO Model. This component has been adjusted to reflect the eligible subscriber numbers for the free line rental service and the free Telecare service and the use of the weighted average price of the Standard Telecare and Telecare Plus rates respectively after clarifications from GO. The Ministry for Health and Active Ageing has confirmed the number of eligible subscribers. As a result, the total net cost decreased.
Comprehensive electronic directory (CED)	(5,544)	As per GO's latest updated USO Model. The net cost components and calculations included in GO's latest updated 2020 USO Model are consistent with the review conclusions established in USO Claim Decision Notices for 2016 to 2019.
Brand enhancement benefit	40,196	A revised approach which refers to the latest benchmarks from other European operators, as published by Oxera in 2021, was adopted. This is considered reasonable to align GO's methodology with the more recent data reported by other USPs, leading to a more harmonised and representative metric.
<b>Total</b>	<b>(158,892)</b>	

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