

Interim Review of Wholesale Mobile Termination Rate

Consultation and Proposed Decision

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1 Introduction

In August 2011, the Malta Communications Authority (hereafter 'MCA') published a decision entitled "*Review of Wholesale Mobile Termination Rates 2011*" (hereafter 'MTR Decision (2011)'), which set the applicable mobile termination rate (hereafter 'MTR') for all operators having been designated with an SMP status in the mobile termination market at €0.0418.

This rate was based on an average of the lowest 75th percentile of the rates¹ prevailing in the European member states, since the 25% threshold which triggers the shift towards 'pure LRIC' rates was not reached. Following the feedback received during the consultation process, particularly that of the European Commission, the MTR Decision (2011) reserved the right for the MCA, in the event that a Bottom-Up Cost Model on a pure LRIC basis (hereafter 'BU-LRIC') would not have been completed, to base the next interim rate with reference to calculations made by other National Regulatory Authorities (hereafter 'NRAs') emanating from 'pure' LRIC models, even if the 25% threshold would have not be reached in subsequent snapshot reports.

The MTR Decision (2011) also stated that it was to serve as an advance notice that the MCA might change its interim methodology following consultation with stakeholders².

In line with the above, the MCA surveyed the subsequent BEREC Snapshot report³ and it transpired that 5 out of 26 countries, or 19% of the member states, (excluding Malta) reporting to have calculated rates based on a 'pure' LRIC methodology. Accordingly, in line with the advanced notice in the MTR Decision (2011), the MCA is hereby proposing a change in the interim methodology for setting the applicable MTRs so as to be able to comply with the Termination Rates Recommendation⁴ while at the same time avoiding sudden declines in MTRs at the end of 2012 or when the result of the MCA's BU-LRIC model would be applied.

¹ As featured in the BEREC MTR Snapshot Report (as at January 2011).

² See also Decision 2 of the MCA's MTR Decision (2011)

³ BEREC MTR Snapshot report as of July 2011 which is the latest available at the time of writing this Proposed Decision.

⁴ Commission Recommendation of 7.5.2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU

This consultation document is proposing to establish a new applicable interim MTR on a path which is consistent with clear indications emanating from countries which have already calculated rates based on the 'pure' LRIC models.

This document continues with a description of the proposed change in the interim methodology followed the MCA's proposed decision on the resulting mobile termination rates.

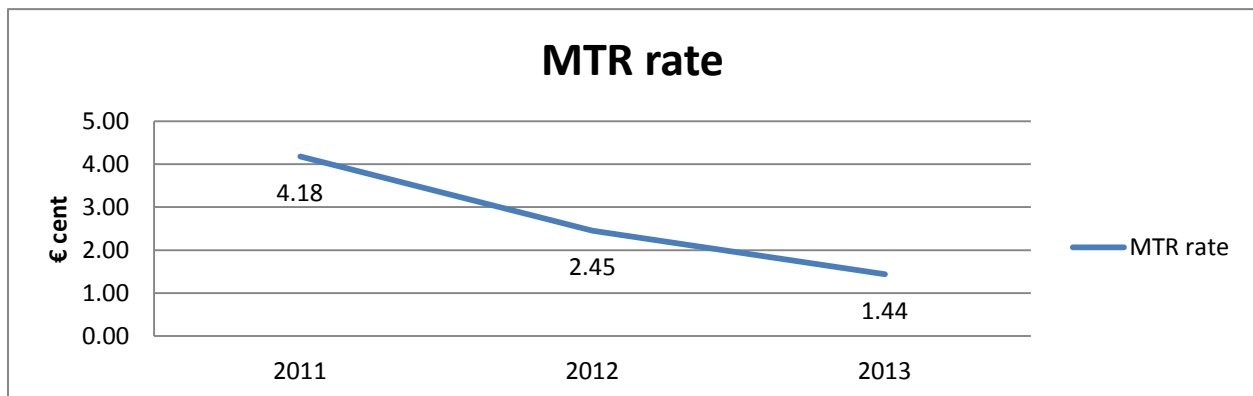
2 Proposed Change in the Interim Methodology

2.1 Proposed Methodology

The MCA is proposing to establish an interim rate which would be on a path towards rates calculated by other Member States using the 'pure' LRIC approach. The indicative target on which the interim rate would be based will be calculated by computing the simple average of the 'pure' LRIC target rates of the Member States as disclosed in the July 2011 BEREC MTR Snapshot report. These 'pure' LRIC target rates are those rates which NRAs have decided will be achieving at the end of their glide path by the end of 2013.

A simple average of the MTR of the Member States using the 'pure' LRIC methodology has resulted in a proposed indicative target mobile termination rate⁵ of €0.0144 (refer to Appendix 1). This target rate is however an indicative rate since on the one hand it is set to change as more and more member states adopt their 'pure' LRIC rates as well as given the fact that this is not the actual modelled Pure LRIC rate for Malta; which remains in turn the ultimate target rate of the MCA.

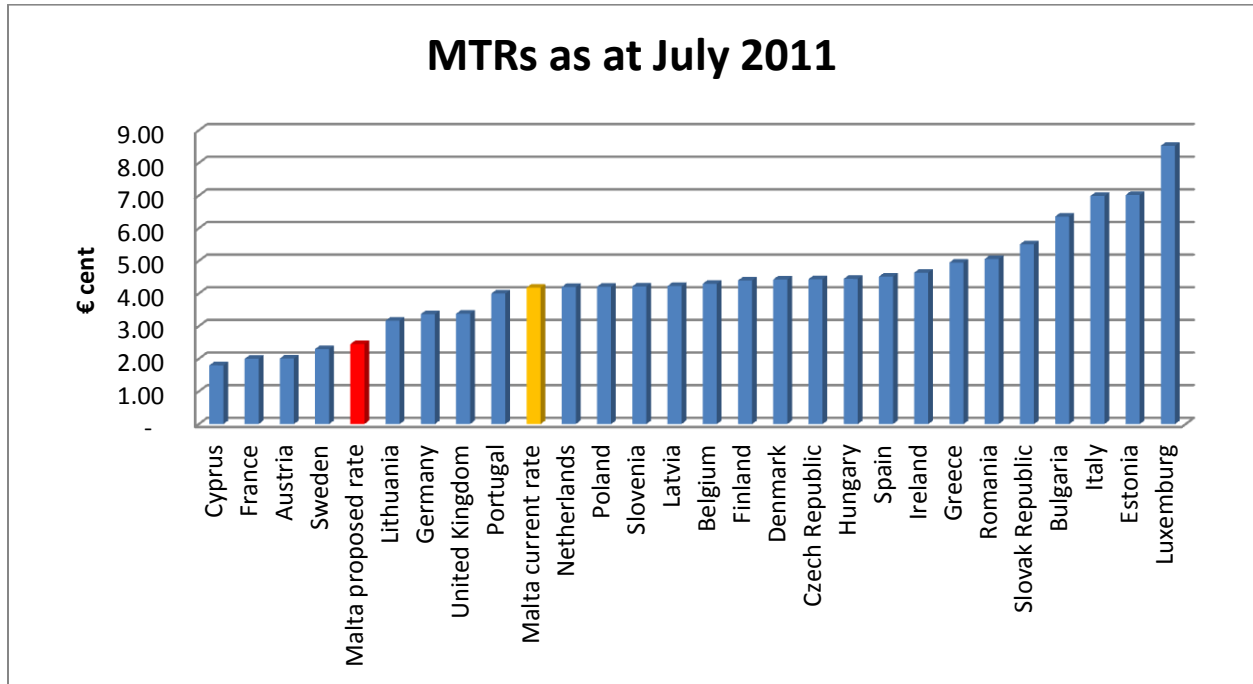
In line with the glide paths of those member states targeting a model-based 'pure' LRIC rate, the MCA is proposing to reach 'pure' LRIC rates in 2013 and therefore proposes setting a glide path to an interim rate of €0.0245 applicable from 1st July 2012 as shown in the graph below. The interim rate represents a constant rate of decline, of approximately 41% between the two glide path points. This notwithstanding the indicative target rate may change subject to the adjustment mechanism described in section 2.2. hereunder.



Graph 1 – Proposed MTR rate and glide path

⁵ The term 'target rate' reflects the average rate being established as benchmarked pure LRIC rates in the interim before finalisation of the Maltese ('pure' LRIC) model-based rate.

The proposed interim rate would compare as follows with the MTRs charged in other EU countries:



Graph 2 – Proposed MTR rate and Current MTR rate as compared to the MTR rates of the member states as at July 2011 disclosed in the BEREC MTR Snapshot Report.

Finally, the MCA has considered that in view of the indicative nature of the target rate and the issues discussed in this section, it is appropriate to enter into a discussion of how the interim would be adjusted going forward.

2.2 Adjustment Mechanism

The MCA would like to reiterate its commitment expressed in its Interconnection Pricing Strategy Decision to be fully compliant with the EC Recommendation. In the said Interconnection Pricing Strategy the MCA stated that it intended to do its utmost to conclude 'pure' LRIC models for both Mobile and Fixed termination rates by December 2012. The Authority had also concluded that, in the eventuality that any one of the required LRIC models would not be completed by the said date, it will nonetheless ensure that the alternative treatment used until the completion of such models would be in line with the principles featured in the Recommendation.

For this reason with respect to the target rate being currently estimated at an indicative level of €0.0144, the MCA is proposing the following adjustment mechanism:

- The MCA will be vigilant for any changes to the MTRs of the other Member States. Depending on such developments the MCA will issue periodic statements following the publication of subsequent BEREC Snapshot reports, to refine the 'pure' LRIC target rate as more and more member states are added to the pure-LRIC model-based average. In any event, the refinement shall give a minimum notice period of one month from the coming into force.
- The MCA should by 2013 have been able to conclude its own Pure LRIC Bottom Up model. In this likely eventuality, following the required consultative process, the MCA will substitute this target rate with its model-based counterpart. In any event this substitution shall be established with a one month notice as a minimum.

3 MCA's proposed decision on Mobile Termination Rates

Following the methodology explained earlier in Section 2 of this document the MCA is proposing the interim rate of €0.0245 to be applicable as from 1st July 2012. This will bridge the gap until the actual target rate is established subject to the proposed adjustment mechanism.

MCA Proposed Decision:

The MCA directs that all operators having been designated with an SMP status in the provision of the mobile termination services market shall apply €0.0245 as their mobile termination rate with effect from 1st July 2012.

Subsequent changes will be carried out as disclosed in the adjustment mechanism featured in Section 2.2.

4 Consultation Framework

The MCA invites comments from interested parties regarding this proposed decision.

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

The consultation period will run until 1200 hrs on 30th April 2012. The MCA believes this period is sufficient to give interested parties the opportunity to comment on the proposed decision.

Comments should be sent to:

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APPENDIX 1: Computation of indicative target MTR according to the 'pure' LRIC methodology

The following rates were decided by NRAs to be implemented on the basis of Pure LRIC methodologies by the end of 2013:

Country	Model	Target rate
Belgium	Pure BU LRIC	1.08
France	Pure BU LRIC	0.80
Hungary	Pure BU LRIC	2.65
Netherlands	Pure BU LRIC	1.20
United Kingdom	Pure LRIC	1.47
Average MTR based on Pure LRIC		1.44

Notes:

- 1) Although the above table was not disclosed in the public version of the BEREC MTR Snapshot Report the same information is in the public domain.