Local Leased Lines Pricing Review – 2008: Report on Consultation and Decision

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1 BACKGROUND

In line with the European regulatory framework for electronic communications services, the MCA, in August 2006, published a decision on Retail Leased Lines, Wholesale Terminating Segments & Wholesale Trunk Segments of Leased Lines.

In its Leased Lines Market Analysis, the MCA delineated a number of distinct relevant markets namely:

- Retail national traditional interface leased lines (minimum set up to and including 2Mbps);
- Retail international traditional interface leased lines (minimum set up to and including 2Mbps);
- Wholesale terminating segments of leased lines;
- Wholesale national trunk segments of leased lines;
- Wholesale international trunk segments of leased lines.

As a result of this Decision, GO plc ('GO') was designated as having Significant Market Power in the above markets. Accordingly, the MCA imposed a number of retail and wholesale remedies, including cost orientation, price control, and access to specific network facilities on a wholesale level amongst others.

In its Leased Lines Market Analysis, the MCA stated that leased lines prices should reflect only efficiently incurred costs. In keeping with this objective, the MCA adopted a bottom-up cost modelling approach to calculate leased line prices to be charged by GO.

Instead of developing from scratch a bottom-up cost model for leased lines, the MCA extended the scope of its already existent bottom-up model (BUCM) which was, in turn, developed to calculate fixed-line interconnection rates. This is because the provision of leased lines and call termination and origination services are characterised by joint and common costs in their use of the core network.

In view of the fact that the objective of the original BUCM was to calculate the efficient cost of fixed-line interconnection services, the project had already focused on the analysis and dimensioning of the switching network elements as these form the bulk of the network elements required for the provision of fixed termination. The extension of the BUCM to incorporate leased lines involved, amongst others, the following major workstreams:

- Analysis of GO's fibre network as well as its ducts and trenches;
- Dimensioning the various transmission network elements involved;
- Allocation of the network costs (including fibre, duct and trenches) across the different services making use of these elements;
- Analysis of the demand volumes by type of service;
- Assessing the efficient level of operating expenditure required.

In line with the distinct relevant wholesale trunk and terminating markets as determined in the Leased Lines Market Analysis, the model was also designed to disaggregate costs in the following cost segments:

- Terminating segments – comprising mainly of the customer premises equipment and underground infrastructure which includes copper, fibre, ducting and trenching; and
- Trunk segments – comprising of the transmission network.

This split in prices is aimed at allowing alternative operators more flexibility in purchasing the required components in a more granular manner. This is in contrast with the current price scheme that aggregates the total costs of both segments in one single price. In order to carry out the extension to the BUCM, the MCA collated all the necessary information from GO, as well as conducted various meetings that allowed the Authority to gain a better understanding of the underlying network infrastructure required. The MCA also undertook research on the leased lines prices currently deployed by other EU Member States.

Following the extensive workstreams carried out, the MCA provided GO with direct extracts from the model, a detailed description of the attribution methodologies, as well as all the assumptions made in developing and populating the BUCM. On its part, during the said consultation process, GO provided valuable feedback as well as explanations relating to the network elements involved in leased lines service provisioning. The outcome of the eventual BUCM was therefore the product of several interactions and correspondence between MCA and GO. The MCA would like to acknowledge GO's cooperation in satisfying the extensive data requirements that such a project entails.

In February 2008, the MCA published a Statement of Proposed Decision entitled 'Local Leased Lines Pricing Review – 2008' (hereafter 'Proposed Decision'). This document puts forward the proposed prices of local leased lines for public consultation that elapsed on 3 March 2008. Three operators submitted their formal feedback namely GO, Vodafone Malta Limited and Melita Cable plc.

This Report on Consultation and Decision contains a summary of the feedback received from the respondents; the MCA's position in relation to these comments; and subsequently, the Authority's decision on the proposed local Leased Lines prices.

The MCA takes the opportunity to thank all the respondents for their contributions.

2 ANALYSIS OF RESPONSES

One of the operators claimed that the proposals create a perverse result where no competitor will be interested in entering the market, leading in turn to the SMP undertaking being subjected to perpetual heavy regulatory oversight. It urged the MCA to give a clear signal to the market that the prices proposed in the Consultation and Proposed Decision will hold for a 3-year period.

In response to the above comments, the MCA would like to reiterate that the Authority has to monitor take-up and any possible changes in demand patterns following the deployment of the proposed prices whilst also keeping track of the developments occurring in other European countries. Consequently the MCA cannot bind itself to a 3-year price freeze and thereby ignoring developments in the market that may occur following the new proposed prices.

The same operator in its response disagreed with the retroactive application of prices in view of the logistical disruptions and added administrative costs that this entails. The MCA is cognisant of the fact that the retroactive application of prices may cause certain operational disruption and hence, in order to minimise as much as possible such adverse effects, it is directing that prices shall be applied with effect from 1 April 2008.

Another operator welcomed the reductions in wholesale leased lines prices. This operator suggested that the price for the terminating segments should be further split into a price per segment to address the situation where operators have different technical set-ups.

The MCA would like to note that the Proposed Decision was designed to address a general technical set-up of a leased line. At the same time, the MCA recognises that there could be variants to this generic set-up and feels that such specific arrangements should be addressed in good faith via bilateral negotiations between the parties involved and in conformance with any decisions taken in the Market Analysis on Leased Lines. However, the MCA remains amenable to assist the operators in the eventuality that such negotiations fail.

The same operator also asked for a clarification as to those instances when the wholesale and the retail rates become applicable.

The MCA wishes to clarify that wholesale rates are eligible to those undertakings having a general authorisation notified with the Authority to provide publicly available electronic communications services.

One respondent acknowledged the highly commercial sensitivity of certain data submitted by GO. However, it argued that it is not in a position to comment in any meaningful way on the outputs of the modelling process unless the MCA gives further details of such process

After considering this response, the MCA is of the view that the strict relationship between the assumptions made in the model and the highly commercial sensitivity of the data limits the possibility of divulging further information on the model. Examples of areas in the model affected by these relationships are the usage and costs of GO's fibre network and GO's transmission equipment.

3 CURRENT AND PROPOSED LOCAL LEASED LINES PRICES

3.1 CURRENT LOCAL LEASED LINES PRICES

The current prices for local leased lines offered by GO consist of a connection fee and an annual fee as detailed in Table 1 hereunder:

Table 1: Current Local Leased Lines Prices Offered by GO plc

National Leased Lines Services Types	Connection Fee		Annual Rental Wholesale		Annual Rental Retail	
	EUR	(MTL)	EUR	(MTL)	EUR	(MTL)
Analogue - 2 Wire*	N/A	N/A	N/A	N/A	540	(232)
Analogue - 4 Wire*	N/A	N/A	N/A	N/A	738	(317)
Semi-Digital - 2 Wire	140	(60)	759	(326)	1,104	(474)
Semi-Digital - 4 Wire	140	(60)	1,153	(495)	1,495	(642)
64kb/s (includes circuits up to 64Kbit/s)	280	(120)	1,565	(672)	1,910	(820)
128 To 768kbit/s	280	(120)	2,746	(1,179)	3,091	(1,327)
832 To 1024kbit/s	280	(120)	5,884	(2,526)	6,229	(2,674)
1088 To 1536kbit/s	280	(120)	8,237	(3,536)	8,237	(3,536)
1600 To 1984kbit/s	280	(120)	10,981	(4,714)	11,328	(4,863)
2 Mbit/s	280	(120)	12,544	(5,385)	12,830	(5,508)
Standard I/C Path (to GO plc)	2,078	(892)	3,156	(1,355)	N/A	N/A
Protected I/C Path (to Go plc) additional to Standard I/C Path	2,078	(892)	2,998	(1,287)	N/A	N/A

* *Applicable only for existent clients*

4 MCA'S DECISION ON THE PROPOSED LOCAL WHOLESALE AND RETAIL LEASED LINES

Following the work conducted by the MCA in reviewing the local wholesale and retail leased lines prices summarised in its Proposed Decision, and after taking into consideration the feedback from the respondents; the MCA is confirming the prices consulted upon in the said Proposed Decision. These are shown in Table 2 hereunder.

Table 2: Final Wholesale and Retail Local Leased Lines Prices

National Leased Lines Services Types	Connection Fee		Annual Rental Wholesale		Annual Rental Wholesale		Annual Rental Wholesale		Annual Rental Retail	
			Trunk		Terminating (Two Segments Except for I/C Paths)		End-to-End			
	EUR	(MTL)	EUR	(MTL)	EUR	(MTL)	EUR	(MTL)	EUR	(MTL)
Analogue - 2 Wire*	N/A	N/A	N/A	N/A	280	(120)	280	(120)	433	(186)
Analogue - 4 Wire*	N/A	N/A	N/A	N/A	559	(240)	559	(240)	713	(306)
Semi-Digital - 2 Wire	140	(60)	615	(264)	210	(90)	825	(354)	915	(393)
Semi-Digital - 4 Wire	140	(60)	615	(264)	419	(180)	1,034	(444)	1,148	(493)
64kb/s (includes circuits up to 64Kbit/s)	280	(120)	631	(271)	643	(276)	1,274	(547)	1,414	(607)
128 To 768kbit/s	280	(120)	869	(373)	885	(380)	1,754	(753)	1,945	(835)
832 To 1024kbit/s	280	(120)	1,500	(644)	1,530	(657)	3,031	(1,301)	3,361	(1,443)
1088 To 1536kbit/s	280	(120)	1,973	(847)	2,015	(865)	3,988	(1,712)	4,421	(1,898)
1600 To 1984kbit/s	280	(120)	2,527	(1,085)	2,579	(1,107)	5,106	(2,192)	5,663	(2,431)
2 Mbit/s	280	(120)	2,842	(1,220)	2,900	(1,245)	5,742	(2,465)	6,369	(2,734)
I/C Path (to GO plc)	2,078	(892)	2,089	(897)	1,067	(458)	3,156	(1,355)	N/A	N/A
Protected I/C Path (to Go plc) additional to Standard I/C Path	2,078	(892)	1,985	(852)	1,013	(435)	2,998	(1,287)	N/A	N/A

* *Applicable only for existent clients*

These prices are to become applicable from 1 April 2008. Prices quoted are exclusive of VAT.

Going forward, the MCA intends to keep the prices under review by keeping under scrutiny any market developments in the area such as service take-up, any changing demand patterns that may occur following the deployment of these revised prices, as well as keeping track of any developments occurring at the international level. The above is without prejudice to any specific obligations that may be imposed, removed or amended pursuant to further market analysis undertaken by the Authority in accordance with the Electronic Communications (Regulation) Act.

Joseph V. Tabone
Chairman
Malta Communications Authority

3 April 2008