



Independent Communications Authority of South Africa

350 Witch-Hazel Avenue, Eco Point Office Park

Eco Park, Centurion

Private Bag X10, Highveld Park 0169

TERMS OF REFERENCE FOR A SERVICE PROVIDER TO ASSIST ICASA TO UPDATE TOP-DOWN AND DEVELOP BOTTOM-UP COST MODELS TO DETERMINE SUITABLE MOBILE AND FIXED-LINE TERMINATION RATES FOR SOUTH AFRICA FOR A PERIOD OF ABOUT TWELVE MONTHS

1. Background

- 1.1. The Independent Communications Authority of South Africa ("ICASA/ the Authority") published the 2010 Call Termination Regulations, 2010 in Government Notice No. 1015 (Government Gazette No. 33698 of 29 October 2010), under section 4 read with section 67(4) of the Electronic Communications Act, 2005 (Act No. 36 of 2005).
- 1.2. Regulation 8 of the 2010 Call Termination Regulations obliged the Authority to review "the wholesale voice call termination markets to which [the 2010 Regulations] apply, as well as the effectiveness of competition and the application of pro-competitive measures in those markets, after a minimum period of three (3) years" from the publication of the 2010 Regulations.
- 1.3. The Authority conducted such a review in terms of section 67(8) of the ECA, which resulted in the publication of final Call Termination Regulations, 2014 in the Government Notice 844 (Government Gazette No. 38042 of 30 September 2014) after following the necessary consultation process. A copy of the 2014 Regulations is attached herewith and marked "**Annexure A**".

- 1.4. A second review (of the 2014 Call Termination Regulations) was undertaken by the Authority in 2017 which resulted in a 12-month extension of the call termination rate glide path from 1 October 2017 to 30 September 2018. The Call Termination Amendment Regulations, 2017 was published in the Government Notice No. 729 (Government Gazette No. 41132 of 22 September 2017). A copy of the 2017 Amendment Regulations is attached herewith and marked "**Annexure B**".
- 1.5. On 6 October 2017, the Authority published the Call Termination Second Amendment Regulations, 2017 in Government Notice No. 811 (Government Gazette Notice No. 41167 of 6 October 2017). The 2017 Second Amendment Regulations excluded from the market definitions internationally originated voice traffic terminating on a mobile and/or fixed location within the Republic of South Africa. A copy of the 2017 Second Amendment Regulations is attached herewith and marked "**Annexure C**".
- 1.6. During the extension period, a cost modelling process was undertaken that concluded in September 2018. Employing the results of the cost modelling process in its decision-making process, the Authority published the Call Termination Amendment Regulations, 2018 in the Government Notice No. 10874 (Government Gazette No. 41943 of 28 September 2018), which came into effect on 01 October 2018. A copy of the 2018 Regulations is attached herewith and marked "**Annexure D**".
- 1.7. Regulation 8 of the Call Termination Amendment Regulations, 2018 mandates the Authority to "...review the markets for wholesale voice call termination services...as well as the effectiveness of competition and the application of pro-competitive terms and conditions in those markets...not earlier than three (3) years from the date of publication of the Regulations."
- 1.8. The Authority seeks to appoint a service provider to update top-down and develop bottom-up cost models for the Authority to determine suitable mobile and fixed-line termination rates for South Africa.

2. Specifications/Terms of Reference

- 2.1. The service provider will assist the Authority to update top-down and develop bottom-up cost models for the Authority to determine suitable mobile and fixed-line wholesale voice call termination rates for South Africa.

- 2.2. In undertaking this work, the service provider will be expected to, *inter alia*, undertake the following activities in respect of Top-down cost models:
 - 2.2.1. Assist ICASA team in engaging the stakeholders and licensees during the public consultation process. This includes public hearings, holding meetings with the operators, receiving relevant data and documents from operators for the top-down models, and assisting the Authority to respond to feedback received from the licensees on the top-down models as and when required.
 - 2.2.2. Guide the team on updating of existing operator specific top-down models for mobile and fixed-line networks where necessary or required. This will culminate in delivering draft (and final) versions of top-down models and documentation containing draft (and final) call termination rates.

- 2.3. and the following activities in respect of the Bottom-up cost models:
 - 2.3.1. Develop a questionnaire to be used to collect market and cost information from licensees.
 - 2.3.2. Review the Authority's weighted average cost of capital calculation.
 - 2.3.3. Develop a report on key assumptions to be used for bottom-up modelling of an efficient hypothetical mobile and fixed-line network operators, which will be published for public comments.
 - 2.3.4. Engage the stakeholders and licensees during the public consultation process. This includes public hearings, holding meetings with the operators, receiving relevant data and documents from operators for the Bottom-up models, and assisting the Authority to respond to feedback received from the licensees on the Bottom-up models.
 - 2.3.5. Develop Bottom-up cost model for an efficient hypothetical mobile and fixed-line operators. This will culminate in delivering draft (and

final) versions of Bottom-up models and documentation containing draft (and final) call termination rates

- 2.4. The milestones for Top-down cost models include, *inter alia*,:
 - 2.4.1. Stakeholder consultation workshop report.
 - 2.4.2. Template for collecting market and cost information from stakeholders.
 - 2.4.3. Stakeholder consultation meetings report
 - 2.4.4. Final Mobile and fixed-line top-down cost models, including at least the following sensitivity analysis variables:
 - 2.4.4.1. weighted average cost of capital.
 - 2.4.4.2. depreciation methods.
 - 2.4.4.3. cost standard.
 - 2.4.5. Report including results of the top-down cost model and recommendation of suitable termination rates.

- 2.5. The milestones for Bottom-up cost model include, *inter alia*,:
 - 2.5.1. Project inception report.
 - 2.5.2. Stakeholder consultation workshop report.
 - 2.5.3. Template to request for market and cost information from stakeholders.
 - 2.5.4. Shell bottom-up models.
 - 2.5.5. Explanatory Note on bottom-up modelling which should include comprehensive discussion of the structure of the model, inputs, key modelling assumptions, etc.
 - 2.5.6. Report on the review of weighted average cost of capital.
 - 2.5.7. Stakeholder consultation meetings report.
 - 2.5.8. Final Mobile and fixed-line bottom-up cost models, including at least the following sensitivity analysis variables:
 - 2.5.8.1. weighted average cost of capital.
 - 2.5.8.2. different depreciation methods.
 - 2.5.8.3. cost standard.
 - 2.5.8.4. demand estimation in respect traffic, subscribers, market shares, etc.

2.5.8.5.level of costs of the main network elements.

2.5.9. Report including results of bottom-up cost models and recommendation of suitable termination rates.

3. Training

- 3.1. In conducting the activities covered under paragraph 2 above, it is mandatory for the service provider to transfer knowledge and skills through a formalised training for four (4) employees of ICASA. The training will include but not limited to how to develop top-down cost models and bottom-up cost models.
- 3.2. The service provider will also be expected to work closely with the project team in order to transfer knowledge to the team.
- 3.3. The project manager at the Authority will liaise with the project manager of the service provider to arrange a work programme and to schedule meetings, workshop, and training.

4. Period of Assignment

- 4.1. All work is to be carried out in accordance with the time schedule as agreed with ICASA, but not exceeding a period of twelve (12) months from date of finalisation of the contract with the service provider.

5. Capability and Experience

- 5.1. The proposal shall include, but not limited to:
 - 5.1.1. proof of understanding of mobile and fixed networks, South African telecommunications environment and the relevant legislation(s) or regulations.
 - 5.1.2. proof of practical experience in the development of top-down modelling and bottom-up engineering-economic cost models for providing the termination of voice calls on mobile and fixed-line networks.

- 5.1.3. proof of practical experience in the use of pure LRIC or LRIC+ cost standard for providing the termination of voice calls on mobile and fixed-line networks.

6. Briefing Session

- 6.1. A non-compulsory briefing session will be held after the publication of the tender.

7. Bid Evaluation

- 7.1. Bidders will be evaluated on; a) submission of the required documents, b) functionality and c) price/BB-BEE. Only bidders who meet the cut-off score of 70 out of 100 points for functionality will be considered further for price evaluation.
- 7.2. All bid proposals submitted will be evaluated in accordance with the 80/20 procurement principle as prescribed by National Treasury Regulations.

Table 1 Evaluation criteria

A. Functionality: Prequalification criteria	Weight	Grading
<p>1. Completeness of project plan covering the entire scope of work as defined in Section 2.</p> <p>The Service Provider must provide a detailed project plan for a period not exceeding 12 months, that has a work breakdown structure, milestones, timing, resources, risk etc (with activities including the following):</p> <p>(a) Top-Down Cost Models plan (b) Bottom-Up Cost Models plan</p>	<p>30</p>	<p>5 = Project plan covers all critical aspects of a project plan (WBS, milestones, timing, resources, risk) wherein the WBS provides for top-down and bottom-up milestones.</p> <p>3 = Project plan covers some of the critical aspects of a project plan (WBS, milestones, timing, resources, risk) wherein the WBS provides for top-down and bottom-up milestones</p> <p>1 = Project plan covers less than 2 critical aspects of a project plan (WBS, milestones, timing, resources, risk) and wherein the WBS does not provides for top-down and bottom-up milestones</p>

<p>2. Provide proof of at least one team member with postgraduate qualifications in Finance, Accounting or Economics, and at least one team member with postgraduate qualifications in Electronic Engineering. All members should provide proof of having practical telecoms cost modelling experience for a number of years.</p>	<p>20</p>	<p>5 = Proof of qualifications and combined professional experience of at least 15 years. (written confirmation in CVs)</p> <p>4 = Proof of qualifications and combined professional experience of 8 – 14 years. (written confirmation in CVs)</p> <p>3 = Proof of qualifications and combined professional experience of 4 – 7 years. (written confirmation in CVs)</p> <p>2 = Proof of qualifications and combined professional experience of 2 – 3 years. (written confirmation in CVs)</p> <p>1 = No confirmation of knowledge and proof of practical experience provided.</p>
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<p>3. Provide proof of practical experience through verifiable reference letters with company letterheads from companies/regulatory authorities where similar top-down and bottom-up cost modelling projects were provided for mobile and fixed-line networks.</p>	<p>30</p>	<p>5 = Provide more than three (>3) testimonial reference letters.</p> <p>4 = Provide three (3) testimonial reference letters.</p> <p>3 = Provide two (2) testimonial reference letters.</p> <p>2 = Provide one (1) testimonial reference letter</p> <p>1 = No submission of testimonial reference letters.</p>
<p>4. Provide skills transfer plan for four (4) ICASA staff members with timeframes.</p> <p>A skills transfer plan covering the following skills area:</p> <p>Hands-on training on:</p> <ul style="list-style-type: none"> (a) Top-Down Cost Model engineering (including how to conceptualise, build, design parameters, test and interpret model outputs); (b) Bottom-Up Cost Model engineering (including how to conceptualise, build, design parameters, test and interpret model outputs). 	<p>20</p>	<p>5 = A skills transfer plan covering all the above. Training should involve a mix of on-the-job skills transfer and formal teaching (either physical or virtual).</p> <p>1 = No skills transfer plan provided.</p>

