



Presentation to ICASA Draft Call Termination Amendment Regulations, 2018

10 September 2018



Overview

Findings and determinations

- Support
 - market definition and failures
 - SMP
 - cost based with target informed by BULRIC+ efficient operator model
- Against
 - Justification and qualification criteria for asymmetry
 - Costs deemed relevant to inform asymmetry

Draft outcomes

- Support
 - glide path principle
 - FTR/MTR differential
- Against
 - Level and static nature of asymmetry
 - Established licensees qualifying for asymmetry



Asymmetry (1)

Process

- Briefing note inadequate
- Material increase in asymmetry without consultation

Findings and determinations

- Objectives, scenarios and criteria irreconcilable with market definition
- Certain considerations are not relevant
 - Negative network effects and LRIC+
 - Economies of scale
 - Voice market share not reliable
- Determined for 3 years without visibility on cost differences
 - Moved from symmetry in year 3 to asymmetry in all 3 years
 - Small FNO BU Model to give effect but aborted
 - Material changes to BU Mobile Model



Asymmetry (2)

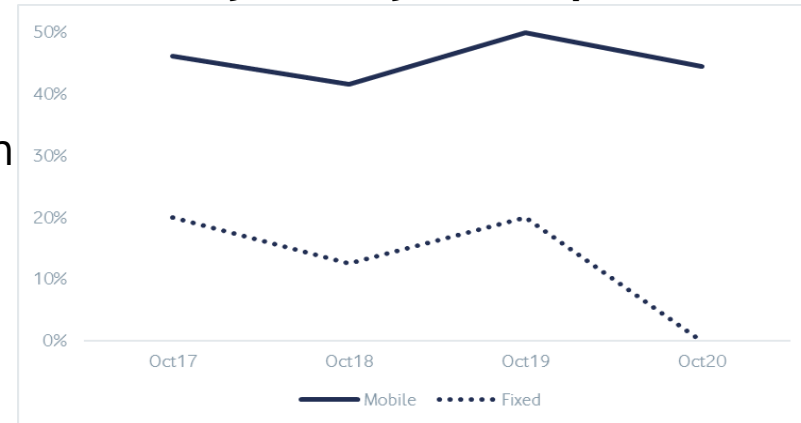
MTR outcome

- High and static level of asymmetry throughout period
 - Ranges between low of 42% and high of 50%
 - Ends at level (44%) where it started (46%)
- Objective to gradually move towards asymmetry not achieved
- Built in circularity

FTR outcome

- Symmetry in year 3 by accident
 - No small FNO cost model
 - No option but to deviate from determination and principles applied for mobile
 - Symmetry on a 90% scale

Asymmetry mark-up

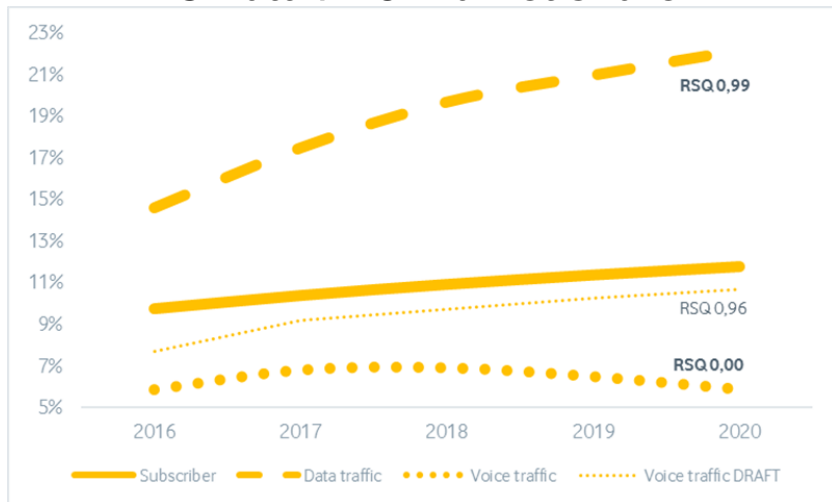


Mobile asymmetry (1)

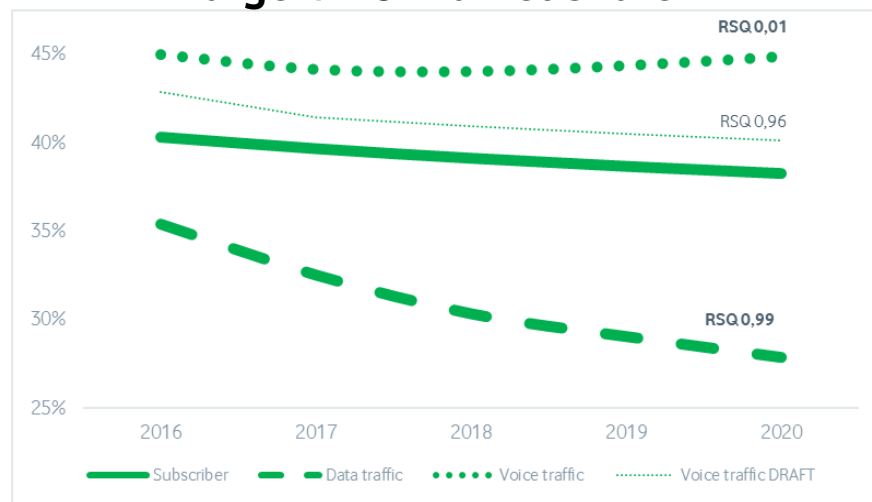
Material increase in asymmetry between Draft Final & Final stage

- Material and numerous changes between Final Draft & Final stage
- Small MNO results increased by 19% whilst Large MNO decreased by 1%
- Limited review – voice market adjustments appear most material
- Final Model effectively assumes the opposite of Draft Final Model

Small MNO market share



Large MNO market share



Mobile asymmetry (2)

Recurrent model errors

- National Roaming commercial rate 2020/2021
- Revised routing factors

Inconsistent approach and assumptions

- Hypothetical efficient operator assumptions applied selectively
- Different cell radii assumption in rural geo-type

Broadened cost scope

- National roaming
- RAN equipment uplift
- Common cost mark-up
- Economies of scale



Mobile BU Model – other concerns

- Spectrum valuation
- Common cost mark-up
- Numerous changes with adequate time to review
 - 8% reduction in total annual cost of Large MNO
 - Sites reduced by 2000 and # of transmission links and kms reduced significantly
 - 2G throughput assumption increased materially
 - Numerous changes to service demand inputs



Draft regulations

- **Regulation 3** – should be substituted with the amended market definition
- **Regulations 5 & 6** – should be retained
- **Annexure A, regulation 3** - tables A1 and A2 should be maximum rates



Conclusion

- Another 3 year cycle for established licensees that ends at 44% is a concern
 - ✓ Asymmetry level should reduce over period, with symmetry in year 3 supported by a single BU scenario
- Inconsistency with model approach and assumptions is a concern
 - ✓ Costing approach and assumptions need to be applied consistently and errors need to be corrected
- Consultation was good and should have extended to changes to Final Draft model
 - ✓ Material changes need to be consulted on



THE END

