

# 2011 Batelco's draft RO Order

Setting the charges of Batelco's Reference Offer

Presentation to the industry

3 November 2011



هيئة تنظيم الاتصالات  
Telecommunications Regulatory Authority

*Disclaimer:*

*In case of any discrepancies between this presentation and the RO draft Order, the 2011 RO draft Order shall prevail.  
This presentation is for information purposes only and should not be relied upon.*



# Summary

- 1 Presentation's objectives
- 2 Batelco's RO - Background
- 3 Overall approach to the setting of charges
- 4 How is the RO submission reviewed?
- 5 2011 product by product highlights
- 6 Future RO reviews with bottom-up cost models
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## Presentation's objectives

- ▶ Outline TRA's approach to the review of Batelco's RO submission and the setting of charges
- ▶ Present the main highlights of the 2011 RO draft Order
  - ▶ The charges included are **DRAFT** charges and may be subject to change following consultation.
  - ▶ Draft RO charges represent important price reductions.
  - ▶ They are evidence-based, fair, reasonable and non-discriminatory and allow Batelco to earn a fair and reasonable return on its investment.
- ▶ Provide guidance for the preparation of submissions
- ▶ Next steps



# Summary

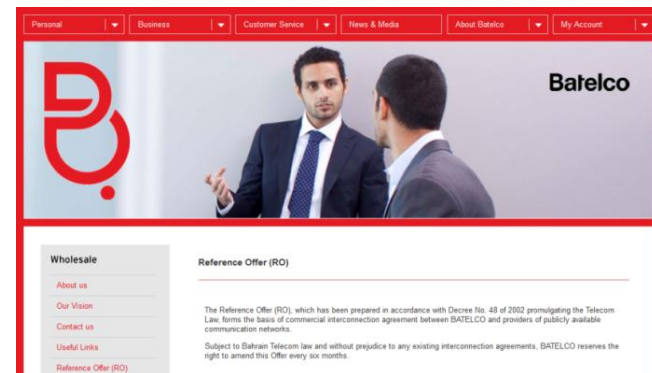
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# Batelco's RO - Background

- ▶ The Reference Offer ('RO') contains the list of regulated wholesale products and services offered by Batelco.
- ▶ Batelco's RO is a key regulatory instrument supporting competition and choice in the telecommunications sector.
- ▶ As it affects OLOs and Batelco, TRA has decided to have a public consultation on the draft Order.
- ▶ As per Article 7 (d) of the Law, RO must be publically available/ Batelco's current RO is available for download on its website.

[http://www.batelco.com/portal/Wholesale/wholesale\\_reference\\_offer.asp](http://www.batelco.com/portal/Wholesale/wholesale_reference_offer.asp)





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# Overall approach to the setting of charges

- ▶ Premise of fair, reasonable and non-discriminatory ('FRND') charges:
  - ▶ Consistent with the Telecommunications Law and TRA's duties, TRA considers that for tariff to be fair, reasonable and non-discriminatory, they should be based on relevant efficiently incurred costs calculated on a forward looking basis and including the return on capital employed.
  - ▶ TRA also considers the relationship between wholesale and retail charges to ensure that access based competitors can compete.
  - ▶ This supports the protection of consumers interest and the promotion of competition



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# How is the RO submission reviewed? (1)

- ▶ Each year Batelco submits its RO for approval:
  - ▶ The submission includes a large number of files, including cost stacks based on the latest regulatory accounts
- ▶ TRA reviews the submitted RO with the help of other sources of information, including:
  - ▶ Previously submitted RO
  - ▶ Accounting procedures manual and regulatory accounts
  - ▶ Cost stacks submitted as part of Retail Tariff Notifications
  - ▶ International benchmarks
- ▶ In reviewing charges, TRA considers 2 key costing principles:
  - ▶ Cost causation: cost should be recovered from the services that cause the cost to be incurred (i.e. only relevant cost should be recovered).
  - ▶ Cost minimisation: the approach whereby cost are recovered should provide incentives for cost minimisation (i.e. only efficiently incurred cost should be recovered).



## How is the RO submission reviewed? (2)

▶ To review the submitted RO, TRA follows broadly the following steps:

1. Submitted charges are compared with existing charges and previously submitted charges.
2. Costs stacks corresponding to the submitted charges are analysed notably in light of previously approved/submitted cost stacks
  - any changes in the costing approach?
  - any error of calculation?
  - any misallocation of costs?
  - any unexplained variation in costs compared to previous years?
  - any inconsistencies with other sources of costing information?
3. Information request(s) is/are issued to clarify any outstanding issues
4. **Cost stacks are adjusted/corrected to derive FRND charges**
5. When costing information is absent or unreliable, international benchmarks are compiled to derive an appropriate level for the charge.
6. **Adjustments made to cost stacks are explained and justified in the draft RO order.**



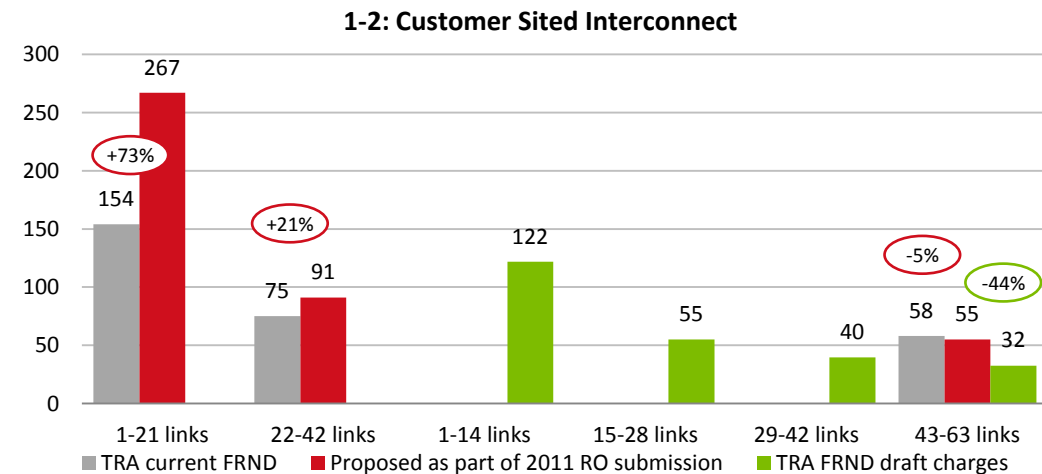
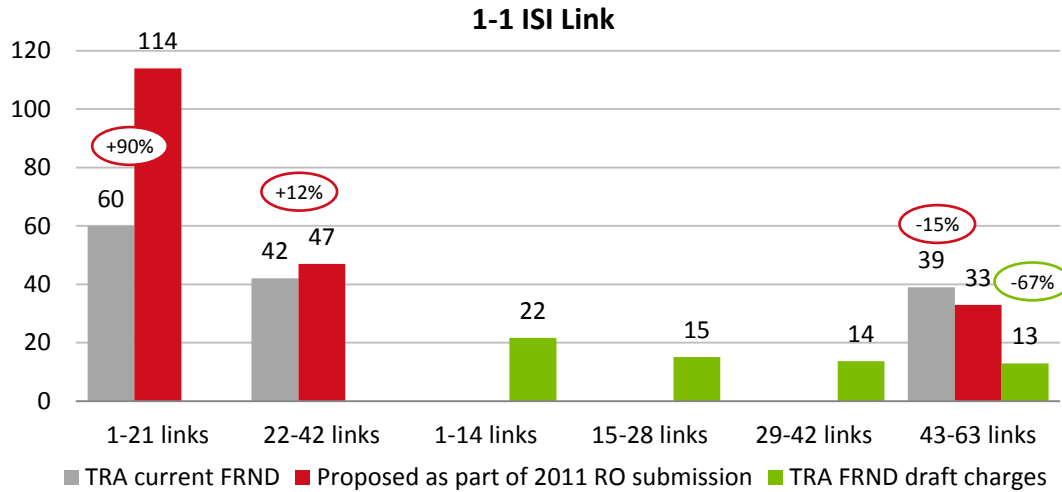
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## 2011 product by product highlights

- ▶ In the following section will look into more details at key wholesale products of Batelco's RO.
  - ▶ ISI/CSI
  - ▶ Interconnection services
  - ▶ Duct rental
  - ▶ CAT/LLCO
  - ▶ IPLC
  - ▶ WDSL
  - ▶ Bitstream

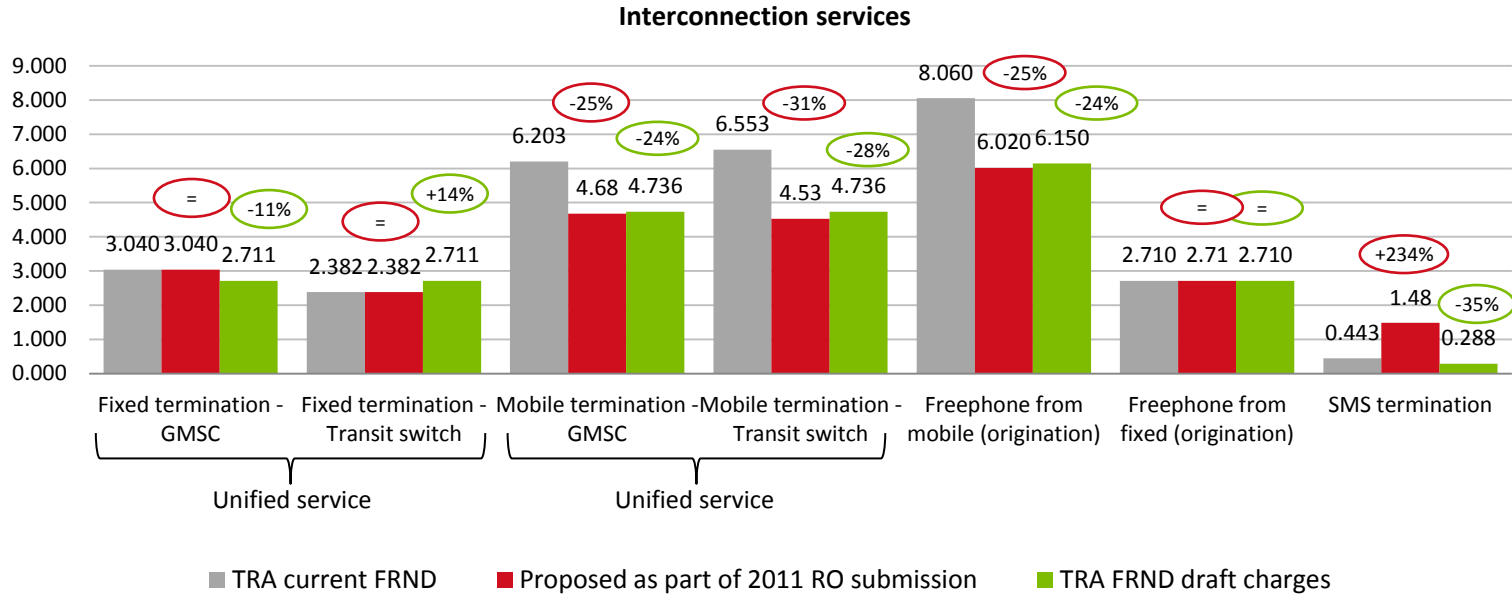


- ▶ Main corrections/changes introduced
- ▶ Cost of fibre access (per fibre access and not per 1km of unadjusted length)
  - ▶ CPE equipment cost calculation
  - ▶ Introduction of additional tariff bands
  - ▶ Cost causation: charge to be reduced by -50% for ISI and by -25% for CSI

▶ Resulting FRND draft charges -50% to -70%



# Interconnection services



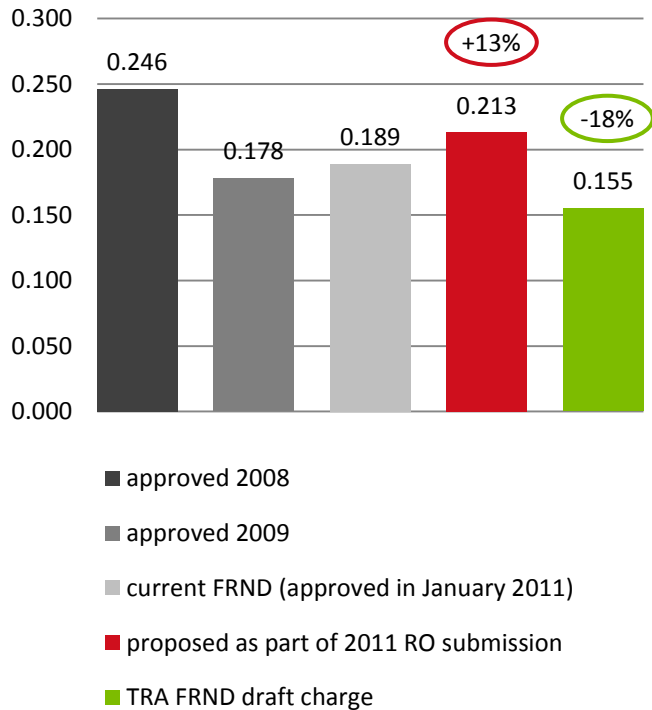
- ▶ Main corrections/changes introduced
  - ▶ Corrections of several routing factors ('RF') (CN90, MN01)
  - ▶ Re-introduction of legacy equipment in cost stacks
  - ▶ Recalculation of network equipment unit cost based on corrected RF table
  - ▶ Unification of interconnection services that previously had distinct point of interconnection (Before: GMSC and Transit Switch → Now single point of ICX: ICG Softswitch)

▶ Resulting FRND draft charges: for fixed ~stable, for mobile ~-25%



# Duct rental

Duct rental charge (in BD per duct bore/per metre/per month)



▶ To calculate the charge, TRA followed the same approach as in last year RO Order

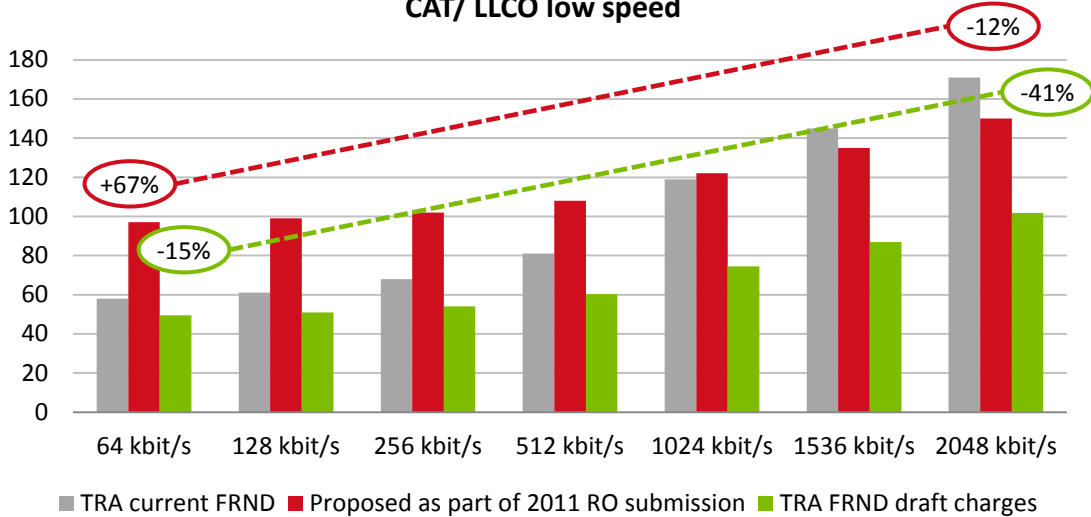
- ▶ Adjustment made to reflect change of duct asset life from 20 years to 40 years; and
- ▶ One-off charges are factored into the analysis to prevent cost over-recovery.

▶ Site survey charge

- ▶ The site survey charge has been a major issue raised by OLOs (e.g. Lightspeed)
- ▶ The charge is no longer set at BD 300 per site but on a time and material basis;

- ▶ Based on a benchmark, TRA set a cap for the maximum that Batelco can charge for the feasibility study
  - BD 0.6 per metre of the straight line distance separating the two physical locations between which access to duct is requested.

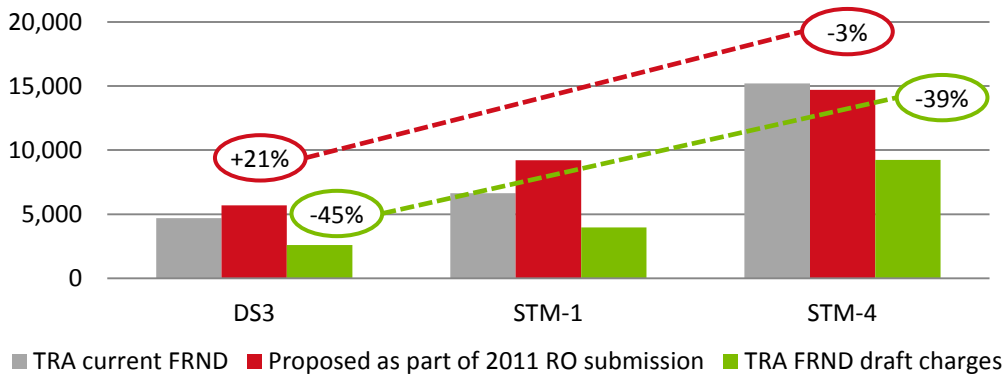
**CAT/ LLCO low speed**



For low-speed circuits:  
 ► Bottom-up approach to estimate wholesale costs

► Resulting FRND draft charges -15% to -41%

**CAT/ LLCO high speed (price ceiling)**



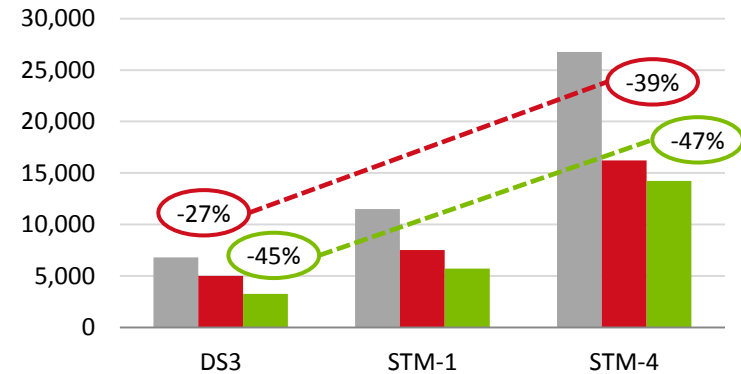
For high-speed circuits:  
 ► Correction of wholesale cost allocation  
 ► Cost of fibre access (per fibre access and not per 1km of unadjusted length)

► Resulting FRND draft charges -39% to -45%

### Low speed IPLC – Zone 1, 2 & 3

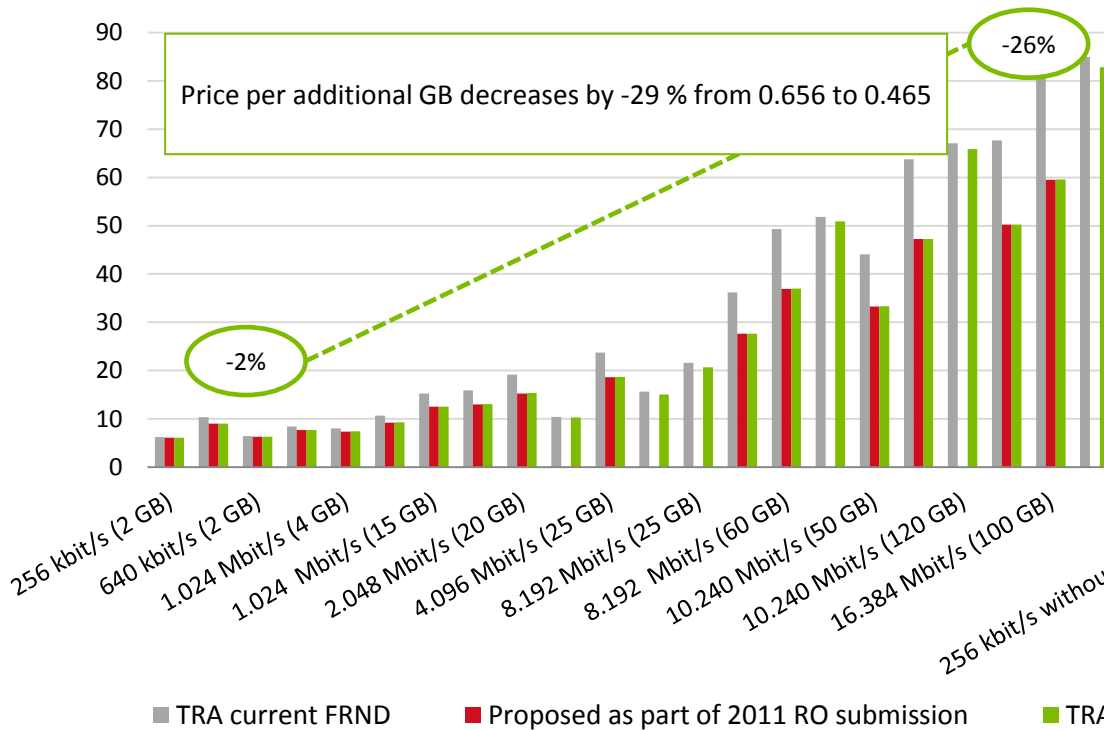
Circuit	Batelco	TRA FRND
IPLC Zone 1	-35% to -18%	-43% to -28%
<i>2.048 Mbit/s - Zone 1</i>	<i>BD 882</i>	<i>BD 774</i>
IPLC Zone 2	-13% to + 35%	-23% to +18%
<i>2.048 Mbit/s - Zone 2</i>	<i>BD 2,650</i>	<i>BD 2,325</i>
IPLC Zone 3	-38% to - 33%	-45% to -41%
<i>2.048 Mbit/s - Zone 3</i>	<i>BD 1,470</i>	<i>BD 1,290</i>

### High speed - PLC Zone 1 (price ceiling)

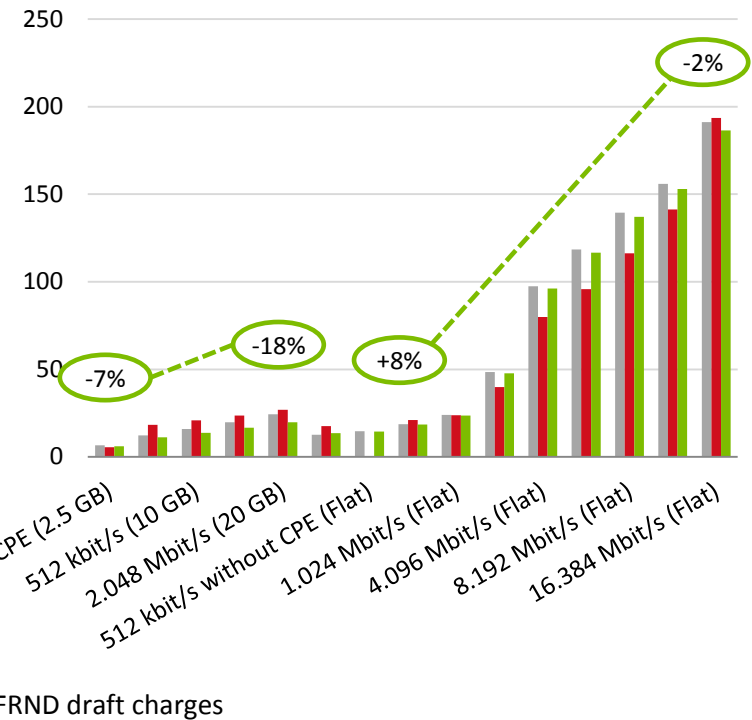


- ▶ For low-speed circuits:
  - ▶ Removal of risk factor
- ▶ For high-speed circuits:
  - ▶ Same cost as high-speed CVAT/LLCO for the local end of the service

### WDSL - Residential



### WDSL - Business

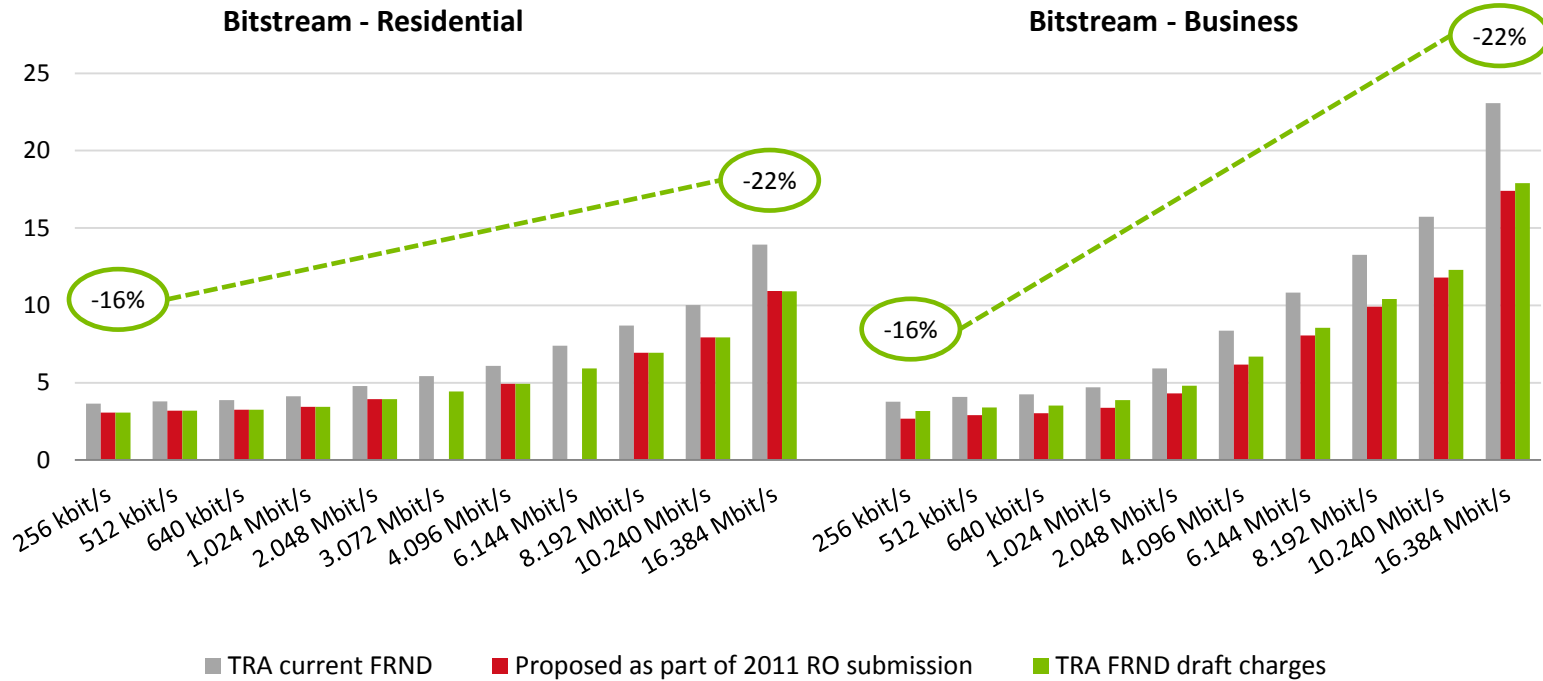


## ▶ Main corrections

- ▶ Copper contribution set at BD 2.04 per line as per last year RO Order
- ▶ For Business: CPE cost set at BD 4 per month



# Bitstream



## ▶ Main corrections

- ▶ Copper contribution set at BD 2.04 per line as per last year RO Order and correction of the calculation used to derive the cost per port

## ▶ Maintain the relationship charge

- ▶ Batelco's proposed charges of BD 4,029 pm => FRND charge of BD 873, inclusive of helpdesk cost



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# Future RO reviews with bottom-up cost models

- ▶ For the next RO submission review, TRA will be able to rely on an additional source of information: the bottom-up cost models.
  
- ▶ Bottom-up models will be useful complementary instruments
  - ▶ Application of economic costs instead of accounting costs
  - ▶ Increase transparency and flexibility
  
- ▶ The use of bottom-up models will enable TRA to:
  - ▶ Perform sanity checks with submitted charges
  - ▶ Produce sensitivity analysis of regulated charges to volume change (traffic or lines)
  - ▶ Review NGN cost allocation to services
  - ▶ Set rates consistent with TRA's position regarding symmetry for MTRs
  - ▶ Increase mid-term visibility and enable multi-year price control
  - ▶ Set rates more in line with the Telecommunications Law (forward-looking costs)



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# Guidance for the preparation of responses to this consultation

- ▶ Consultation period ends **8 December 2011 at 4pm**;
- ▶ Responses should be sent by email to:
  - ▶ Director, Market and Competition Department, [mcd@tra.org.bh](mailto:mcd@tra.org.bh)
  - ▶ Send soft copies rather than scanned copies
- ▶ Follow the same order as the one set out in the consultation document. Also indicate which section and/or paragraph number of the draft Order your comment is referring to.
- ▶ **Substantiate systematically** each of your arguments (especially if you are in disagreement).
- ▶ **Provide concrete examples** (i.e. how this applies to you and your daily operations) **and supporting evidence**.
- ▶ Mark clearly any confidential information included. Provide both a confidential and a non-confidential version of your submission.

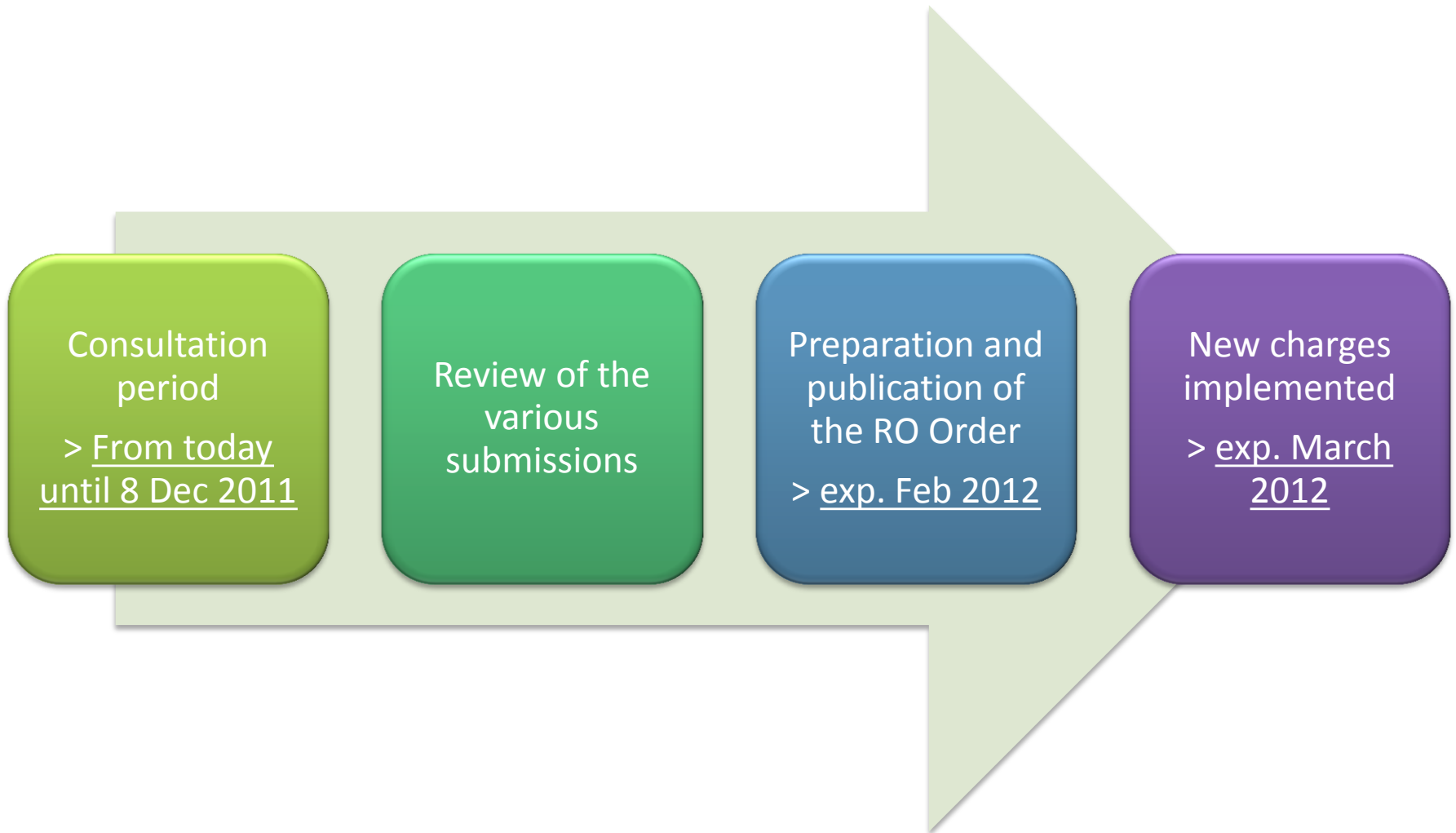


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We invite you to download the non-confidential version of the draft Order on TRA's website this afternoon.

Thank you



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[www.tra.org.bh](http://www.tra.org.bh)