Telecommunications Regulatory Authority of Bahrain

Consultation Paper

A public consultation document issued by the Telecommunications Regulatory Authority of the Kingdom of Bahrain (the “Authority”) on the Authority’s proposed approach to implementing the functional separation of Bahrain Telecommunications Company (“Batelco”).

10 May 2018

LAD/0518/114

The address for responses to this document is:

The General Director
Telecommunications Regulatory Authority
PO Box 10353
Manama
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Alternatively, e-mail responses may be sent to lad@tra.org.bh.

The deadline for responses is 16.00 on 31 May 2018.

Purpose: to seek stakeholders’ views on the Authority’s proposed approach to implementing the functional separation of Batelco.

1 INSTRUCTIONS FOR SUBMITTING A RESPONSE

1.1 The Authority invites comments on this consultation document from all interested parties. Comments should be submitted no later than 16.00 on 31 May 2018.

1.2 Responses should be sent to the Authority preferably by email (either Word or PDF format) or by fax or post to the attention of:
1.3 Responses should include:

- the name of the responding entity;
- the name of the principal contact person;
- full contact details (physical address, telephone number, fax number and email address);
- in the case of responses from individual consumers, name and contact details; and
- a brief statement explaining the interest of the responding entity.

1.4 The Authority seeks comments from stakeholders in the telecommunications industry, the business community and the general public on the proposed functional separation of Batelco, including responses to the documents attached at Annexes 1-4, being:

   (a) Draft Project Plan (Annex 1);

   (b) Draft Separation Guidelines (Annex 2);

   (c) Draft Monitoring Guidelines (Annex 3); and

   (d) Draft Special Temporary Measure (Annex 4).

1.5 All comments should be supported as much as possible by detailed explanation, including, where relevant, references to the specific provisions of the Telecommunications Law¹ (the “Law”) or Licences that the respondent is relying upon.

1.6 Further, the Authority invites respondents to provide comments in response to each of the questions listed for reference at Annexes 5-8.

1.7 In the interests of transparency, the Authority intends to make all submissions received available to the public, subject to the confidentiality of the information

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¹ The Telecommunications Law of the Kingdom of Bahrain, promulgated by Legislative Decree No. 48 of 2002
received. The Authority will evaluate a request for confidentiality in line with the relevant legal provisions\(^2\) and the Authority’s published guidance on the treatment of confidential and non-confidential information\(^3\).

1.8 Respondents are required to mark clearly any information included in their submission that is considered confidential. Where such confidential information is included, respondents are required to provide both a confidential and a non-confidential version of their submission (in soft copies and not scanned copies). If part or all of the submission is marked confidential, reasons should be provided. The Authority may publish or refrain from publishing any document or submission at its sole discretion.

### 2 STATUS OF THIS CONSULTATION DOCUMENT

2.1 This consultation document is issued pursuant to the Position Paper on “How TRA Consults” issued by the Authority on 17 October 2017\(^4\).

2.2 Interested parties should not take any actions in reliance on the information or proposals contained in this document. Any views set out in this document should be considered as indicative and will be subject to further consideration following the receipt of comments from interested parties.

2.3 This consultation document does not represent a decision of the Authority. The issues discussed in this document remain open to consideration and should not be construed as indicating that the Authority has formed any final opinion or decision.

2.4 Once the Authority has received and considered responses to this consultation document, the Authority will proceed with finalising the relevant documents subject to this consultation. If appropriate, the Authority will prepare and publish a consultation report which summarises and responds to the comments received.

### 3 INTRODUCTION TO THE SEPARATION OF BATELCO

3.1 The Government’s Fourth National Telecommunications Plan ("NTP4") calls for the development of a single telecommunications infrastructure utility network (the “Single Network”), encompassing the infrastructure required to enable fixed telecommunications networks in Bahrain.

3.2 This Single Network will support the development of a single, fibre-based National Broadband Network ("NBN"), capable of delivering ultrafast broadband products to

\(^2\) Including Article 23 of the Law
consumers and businesses across the Kingdom. The Single Network and NBN will be operated and deployed by a newly created separated entity (“FSE”).

3.3 The FSE will be formed by the separation of the incumbent telecommunications operator, Batelco, into two distinct entities: the FSE and the rest of Batelco. The FSE will comprise the appropriate components of Batelco’s current wholesale and infrastructure business units, with the other entity comprising the remaining parts of Batelco’s business, including its retail division (referred to as Batelco Retail).

3.4 Article 3(e) of the Law requires the Authority to “act in a manner that is consistent with the objectives of” NTP4 provided that this does not derogate from the Authority’s independence as provided for under the Law. NTP4 also describes a number of actions that the Authority might take to implement the Government’s policy objectives. For example, paragraph 24(i) of NTP4 provides that:

“the Authority shall, in coordination with Government, and in consultation with industry stakeholders and the relevant governance bodies of the new entity, develop the plan and timetable for implementing the functional separation of the Incumbent Operator”

3.5 In implementing the NTP4 policies, the Authority will follow a gradual approach to separating Batelco, characterized by a transitional phase and long-term arrangement.

3.6 The Authority has recently issued a report on a new economic regulatory framework (the “Framework”) setting out in some detail the features of the regulation and the wholesale services supplied under the new market structure.

3.7 This includes a discussion of the key technical and organizational components of the FSE as well as three key elements of the regulatory framework, namely:

(a) equivalence of inputs;

(b) the separation of Batelco; and

(c) the regulatory pricing framework.

3.8 A key objective in delivering these is the promotion of efficiency of the FSE and Bahrain’s telecommunications markets.

4 PURPOSE OF THIS CONSULTATION PAPER

4.1 This consultation paper is concerned with the draft measures that the Authority has prepared to implement functional separation in a timely and effective manner.
4.2 It is also intended to promote transparency in relation to the implementation of the new industry structure. The Authority invites stakeholders to comment on the suitability of the attached draft Separation Guidelines and draft Monitoring Guidelines (together “the Draft Guidelines”), as well as the draft Special Temporary Measure and draft Project Plan (together, the “Separation Instruments”). These documents are described in more detail below.

5 OVERVIEW OF THE AUTHORITY’S IMPLEMENTATION PLAN

5.1 The transition to a new industry structure will be guided by the following “separation milestones”:

(i) The Authority’s approval of Batelco’s separation undertakings (the “Undertakings”): these will set out in some detail the operational and logistical tasks necessary to carry out separation, in line with agreed principles and timeframes.

(ii) The Authority’s approval of the FSE’s reference offer: this will set out the price and non-price terms of the wholesale services (the “FSE Products and Services”) that the FSE will supply to other licensed operators (“OLOs”) and Batelco Retail (“BRE”).

(iii) The Authority’s issuance of a new licence to the FSE (“Day One”): this will enable the FSE to formally commence supply of the FSE Products and Services on the price and non-price terms set out under the FSE’s reference offer.

5.2 The period leading up to the issuance of the FSE licence is referred to as the “Transitional Period”. The below diagram provides an overview of the separation process:

5.3 The practical tasks to deliver functional separation in a timely and effective manner are significant. That said, the Authority considers that the process is achievable if industry parties cooperate and recognize the benefits of the new industry structure to competition, operators and consumers in Bahrain. Effective and timely
implementation will arise from clear communication of expectations as well as clear consequences for failing to deliver in a timely way and to the manner expected. The Authority has issued this consultation paper to promote transparency and align the implementation framework with industry expectations.

6 SEPARATION INSTRUMENTS AND OTHER RELEVANT DOCUMENTS

6.1 While an undertaking is voluntary, once an undertaking is approved, it provides certainty as to the process to be followed and the scope of the functional separation commitments. The level of detail to be included in the Undertakings will need to be sufficient to meet the Authority’s requirements and the reasonable expectations of the rest of the industry.

6.2 Accordingly, it is important that Batelco clearly understands the scope of the separation task that it is expected to deliver. It is equally important that once this expectation is clarified, Batelco is required to take the necessary steps to achieve separation in an effective and timely manner. Therefore, the Authority will set out its expectations concerning the scope and timing of Batelco’s separation. The Authority proposes to do this by way of the following regulatory measures:

(i) Separation Guidelines that specify the Authority’s expectations concerning the scope and timing of functional separation (Annex 2).

(ii) Monitoring Guidelines that specify the Authority’s expectations concerning the monitoring regime to be instituted to ensure compliance by Batelco (Annex 3).

(iii) A Decision from the Authority on whether to approve Batelco’s draft undertakings.

(iv) The Special Temporary Measure setting out the requirements on Batelco to provide certain transitional wholesale products and services (Annex 4).

6.3 The following sections provide a brief description of the purpose, general scope and content of each of these measures.

7 PURPOSE, GENERAL SCOPE AND CONTENT OF EACH MEASURE

7.1 Separation Guidelines

7.1.1 The Framework sets out in some detail the key components and requirements underpinning the future industry structure. In particular, the Framework discusses the FSE Products and Services, the new
single network, security, systems and processes and organisational structure and human resources, as well as the three principle regulatory mechanisms that will be used to deliver the future industry structure, namely equivalence of inputs ("EoI"), separation of Batelco and a new regulatory pricing framework.

7.1.2 These regulatory mechanisms are interrelated. For example, the separation of Batelco is a first key step in setting up the appropriate incentive structure for the FSE to follow EoI. The manner and timeframes within which Batelco implements this organizational change will have implications for the degree to which and when Batelco can deliver EoI for the FSE Products and Services. Ultimately, the commercial efficiency of Batelco's separation, with regards to the assets, systems and business units that are transferred to the FSE, will have implications for the pricing of the FSE Products and Services.

7.1.3 Having regard to the above, the Authority expects that the Undertakings will include a high level commitment to functionally separate by Day One, accompanied by a range of commitments in relation to governance arrangements and the allocation of assets, security, business units, staff and associated systems and processes.

7.1.4 To implement separation in a timely and effective manner Batelco will be required to allocate considerable resources to a number of different areas. For example, new operational processes and systems interfaces for operators to place orders, or raise service issues with the FSE, may be needed. There will be a need to set up new business premises and put in place suitable “arms-length” organizational and information management frameworks. Significant resources will be required for the development or rectification of IT systems to ensure that any advantage that Batelco Retail may have had as a result of its vertical integration is nullified.

7.1.5 Having regard to the significant implementation tasks involved, as noted above the Authority also expects that the Undertakings will be accompanied by a number of implementation plans that set out how the high level commitments will be implemented on a gradual basis.

7.1.6 The Separation Guidelines are designed to assist Batelco, and all other interested parties, in understanding the Authority’s expectations concerning the separation of Batelco. The Separation Guidelines outline structural and behavioural issues that Batelco should address in its Undertakings.
7.1.7 The Separation Guidelines specify the requirements for the separation of Batelco, including with respect to governance arrangements and the allocation of assets, products and services, business units, staff and associated systems and processes.

7.1.8 The degree of specificity necessary for the Separation Guidelines needs to be balanced against the need for efficient implementation. In other words, while very prescriptive guidelines will reduce the potential for dispute about the scope of separation, it may not be possible to identify every contingency at this stage. Therefore, certainty for Batelco with regards to the scope of separation must be balanced with a degree of flexibility for the Authority to ensure effective implementation.

7.2 Monitoring Guidelines

7.2.1 The Monitoring Guidelines specify the monitoring activities that the Authority expects Batelco to put in place to ensure that it complies with the Undertakings.

7.2.2 A robust compliance monitoring regime provides greater assurance to all stakeholders that functional separation will be delivered. To this end, the Undertakings should place specific internal and external reporting requirements on Batelco. To promote transparency, some or all of these reports may be made publically available. The Monitoring Guidelines set out the Authority's expectations concerning accountability and enforcement processes for non-compliance.

7.3 Undertakings decision

7.3.1 The Authority proposes that Batelco submit draft Undertakings for the Authority's approval. The Authority will assess the Undertakings and issue a decision either rejecting or accepting the Undertakings. If the Undertakings are rejected, Batelco is free to resubmit revised draft Undertakings addressing the Authority's concerns. If the Authority is minded to accept the Undertakings, it will publish its decision as a draft decision, inviting industry to comment on the draft decision. The Authority would then consider industry feedback in the preparation of its final decision, in which the Authority may direct Batelco to further amend its draft Undertakings. If/when the Undertakings are accepted, they would become binding on Batelco. For the avoidance of doubt, the Authority reserves the right to issue a binding Functional Separation Direction on Batelco pursuant to Article 3(g) of the Law.
7.4 Special Temporary Measure

7.4.1 During the Transitional Period, access to Batelco’s network will continue to be governed by the existing regulatory framework, principally characterized by the terms and conditions set out under Batelco’s existing Reference Offer.

7.4.2 The benefits of the proposed future industry structure to competition will be more effectively realized if the market dynamic during the Transitional Period transitions towards “equivalence of inputs”. The Authority considers that it is important that the Transitional Period be as smooth as possible and promote the successful delivery of the new industry structure.

7.4.3 Accordingly, pursuant to Article 40(bis)(b) of the Telecommunications Law, the Authority has prepared a draft Special Temporary Measure (“STM”) to ensure that Batelco is required to supply OLOs with suitable fibre based transitional products and services until such time as the FSE is issued with a fixed telecommunications infrastructure licence. Batelco is required to supply these transitional products and services on a “fair, reasonable and non-discriminatory basis” as well as to establish effective mechanisms for the Authority to respond to any discriminatory conduct by Batelco in the supply of these services.

7.4.4 The STM is also designed to provide more robustness and transparency over Batelco’s obligations to deploy fibre during the Transitional Period. To this end, the STM sets out a number of monthly deployment targets and requires Batelco to report on its achievements against these milestones.

7.4.5 Furthermore, there will be a need for industry to engage on operational matters during the Transitional Period. For example, coordination will be needed to ensure new ordering systems and processes are fit for purpose. There may be a need for new processes to migrate customers from legacy networks to the new fibre network as it is rolled out. Batelco will be expected to engage with its future wholesale customers on the development of the FSE Products and Services during the Transitional Period.
ANNEXES ONE TO FOUR TO THIS CONSULTATION ARE AVAILABLE ON THE AUTHORITY’S WEBSITE UNDER “STAKEHOLDERS – CONSULTATION”
ANNEX FIVE

DRAFT PROJECT PLAN CONSULTATION QUESTIONS

1. PROJECT PLAN

1.1 Question: Do you agree with the timeframe provided for in the draft Project Plan? If not, what elements of the draft Project Plan do you believe should be altered and/or amended?
ANNEX SIX

STM CONSULTATION QUESTIONS

1  ARTICLE 1: BACKGROUND

1.1  Question: Do you agree with the explanations provided in Article 1 of the STM? In particular do you agree with the proposal:

1.1.1  That the STM requires Batelco to supply Licensed Operators, upon request, with specified products and services during the period of transition to Batelco’s functional separation on fair, reasonable and non-discriminatory terms; and

1.1.2  That the STM obliges Batelco to achieve certain milestones in regards to fibre deployment with a view to meeting the deployment and performance targets set out under NTP4.

If not, please give reasons and state which terms you think should be added or omitted.

2  ARTICLE 2: DEFINITIONS

2.1  Please refer to questions on Schedule 1 of the STM below.

3  ARTICLE 3: DURATION

3.1  Question: Do you agree with the duration provided for in Article 3 of the STM? If not, please state why.

4  ARTICLE 4: TRANSITIONAL PRODUCTS AND SERVICES

4.1  Question: Do you agree with the provisions of Article 4 of the STM? In particular:

4.1.1  That Batelco shall establish and implement internal procedures for maintaining privacy and confidentiality and that such information shall only be available to such Batelco staff as are essential to facilitate the provision of such product(s) or service(s). If not, please state why.

5  ARTICLE 5: APPOINTMENT OF INDEPENDENT CONSULTANT(S)

5.1  Question: Do you agree with the provisions of Article 5 of the STM generally? In particular:

5.1.1  The level of involvement of the Consultant; and

5.1.2  The Consultant’s power to appoint further third parties as necessary.

If not, please give reasons and state which terms you think should be added or omitted.

6  ARTICLE 6: MODIFICATION, REVOCATION AND EXPIRATION
6.1 **Question:** Do you agree with the provisions of Article 6 of the STM generally? In particular:

6.1.1 The process for modification or revocation; and

6.1.2 The automatic expiry provision.

If not, please give reasons and state which terms you think should be added or omitted.

7 **ARTICLE 7: COMPLIANCE AND ENFORCEMENT**

7.1 **Question:** Do you agree with the provisions of Article 7 of the STM? In particular:

7.1.1 The requirement for Batelco to provide written updates every month;

7.1.2 The requirement for monthly reports in accordance with Schedule 3 of the STM; and

7.1.3 The ability for the Authority to impose fines upon Batelco.

If not, please give reasons and state which terms you think should be added or omitted.

8 **SCHEDULE 1: DEFINITIONS**

8.1 **Question:** Do you consider the definitions of Article 2 and Schedule 1 of the STM sufficient? If not, please give reasons and state which terms you think should be added or omitted.

9 **SCHEDULE 2: TRANSITIONAL SERVICES AND TIMELINES**

9.1 **Questions:**

9.1.1 What are the specific Transitional Products and Services that should be included?; and

9.1.2 What are the timelines that should be specified in Schedule 2?

If not, please give reasons and state which terms you think should be added or omitted.

10 **SCHEDULE 3: NTP4 FIBRE DEPLOYMENT MILESTONES**

10.1 **Question:**

10.1.1 Do you consider the target in Schedule 3 of the STM reasonable? If not, please give reasons as to why.
ANNEX SEVEN
SEPARATION GUIDELINES CONSULTATION QUESTIONS

ARTICLE 1: INTRODUCTION

1.1 Question: Do you agree with the provisions of Article 1 of the Guidelines? In particular:

1.1.1 Do you consider the background information provided in the introduction to be sufficient? If not, please give reasons and state what information should be added or omitted.

1.1.2 Do you consider the time limit for Batelco to submit its Undertakings to the Authority sufficient? If not, why?

2 ARTICLE 2: SEPARATION MILESTONES AND TIMETABLE

2.1 Question: Do you agree with the provisions of Article 2 of the Guidelines? In particular:

2.1.1 Do you agree with the requirements for the submission of documents and milestones?

2.1.2 Do you consider that any of the requirements should be omitted? If so, why?

2.1.3 Do you consider that any other requirements should be included in Article 2? If so, what would you wish to include and why?

3 ARTICLE 3: ASSET ALLOCATION PLAN

3.1 Question: Do you agree with the provisions of Article 3 of the Guidelines? In particular:

3.1.1 Do you agree with the requirement for Batelco to submit an asset allocation plan alongside its Undertakings? If not, why?

3.1.2 Do you agree with the considerations which are to be included in the asset allocation plan? If not, why?

3.1.3 Do you agree with the requirement to establish Service Level Agreements between the FSE and Batelco in the case of any proposed asset sharing agreements between the two? If not, why?

3.1.4 Do you agree with the matters to be included in the Service Level Agreements? If not, why?
3.1.5 Do you agree with the requirement that the FSE is expected to assess on a regular basis whether it continues to require the use of the assets held by Batelco? If not, why?

3.1.6 Do you agree with the criteria for assessing the proposed allocation of assets? If not, why?

4 ARTICLE 4: SECURITY MANAGEMENT PLAN

4.1 Question: Do you agree with the provisions of Article 4 of the Guidelines? In particular:

4.1.1 Do you agree with the considerations which the FSE will be expected to take into account? If not, why?

4.1.2 Do you agree with the requirement for Batelco to submit a Security Management Plan? If not, why?

5 ARTICLE 5: SYSTEMS SEPARATION PLAN

5.1 Question: Do you agree with the provisions of Article 5 of the Guidelines? In particular:

5.1.1 Do you agree with the items which are expected to be covered in the Systems Separation Plan? If not, why?

5.1.2 Do you agree with the criteria for assessing Batelco’s proposed separation? If not why?

6 ARTICLE 6: FSE GOVERNANCE FRAMEWORK

6.1 Question: Do you agree with the provisions of Article 6 of the Guidelines? In particular:

6.1.1 Do you agree with the matters which are to be included as a minimum in the FSE Governance Framework? If not, why?

7 ARTICLE 7: ORGANISATIONAL SEPARATION PLAN

7.1 Question: Do you agree with the provisions of Article 7 of the Guidelines? In particular:

7.1.1 Do you agree with the matters which are required to be addressed in the Organisational Separation Plan? If not, why?

7.1.2 Do you agree with the criteria for assessing Batelco’s proposed separation of the organisational structure? If not, why?

8 ANNEX: SUMMARY OF BATELCO SUBMISSION REQUIREMENTS

8.1 Question: Do you agree with the summary? If not, why?
GENERAL OBSERVATIONS

9.1 **Questions**: What other issues (if any) do you think should be included in, or excluded from, the Guidelines? Please support your comments with detailed reasoning.
ANNEX EIGHT

MONITORING GUIDELINES CONSULTATION QUESTIONS

1 LIST OF ACRONYMS AND DEFINITIONS

1.1 **Question:** Do you consider the definitions and acronyms to be sufficient? If not, please give reasons and state which terms you think should be added or omitted.

2 ARTICLE 1: INTRODUCTION

2.1 **Question:** Do you agree with the provisions of Article 1 of the Guidelines? In particular:

2.1.1 Do you consider the background information provided in the introduction to be sufficient? If not, please give reasons and state what information should be added or omitted.

2.1.2 Do you agree with the scope of the monitoring regime? If not, please give reasons and state what information should be added or omitted.

2.1.3 Do you agree with the two areas the Authority will need to closely monitor? If not, please give reasons and state what information should be added or omitted.

2.1.4 Do you agree with Authority’s views on the monitoring to be undertaken by Batelco and the Authority? If not, please give reasons and state what information should be added or omitted.

2.1.5 Do you agree with the approach to be taken by the Authority in relation to failures of compliance with the Commitments? If not, please give reasons and state what information should be added or omitted.

3 ARTICLE 2: BATELCO MONITORING REQUIREMENTS

3.1 **Question:** Do you agree with the provisions of Article 2 of the Guidelines? In particular:

3.1.1 Do you consider the timeframe for implementation of the Batelco Monitoring Program to be sufficient? If not, why?

3.1.2 Do you agree with the matters which are expected to be included in Batelco’s internal compliance processes? If not, please give reasons and state what information should be added or omitted.
3.1.3 Do you agree with the provision that the UCO should have sufficient authority and budget to implement the Batelco Monitoring Program? If not, why?

3.1.4 Do you agree with the requirement that the UCO must be notified by Batelco to the Authority for the Authority’s approval? If not, why?

3.1.5 Do you agree with the requirement that the FSE put in place measures in relation to transparency and governance? If not, why?

3.1.6 Do you agree with the requirement that the Batelco Monitoring Program include the submission of reports relating to compliance with the Commitments? If not, why?

3.1.7 Do you agree with the requirement that Batelco notify and provide evidence to the Authority of the completion of the milestones in line with the timelines set out as part of its Undertakings? If not, why?

3.1.8 Do you agree with the details to be included in the Separation Milestones Report? If not, please give reasons and state what information should be added or omitted.

3.1.9 Do you agree with the details to be included in the Equivalence Report? If not, please give reasons and state what information should be added or omitted.

3.1.10 Do you agree with the regularity of reporting for the Separation Milestones Reports and Equivalence Reports? If not, why?

3.1.11 Do you agree with the requirement for Batelco to give notice to the Authority in the event that it becomes aware of any actual or potential failure to meet its obligations in the Undertakings? If not, why?

3.1.12 Do you agree with the details to be included in such Ad Hoc Report? If not, please give reasons and state what information should be added or omitted.

3.1.13 Do you agree with the time period for such Ad Hoc Report to be submitted to the Authority? If not, why?

4 ARTICLE 3: AUTHORITY MONITORING ACTIVITIES

4.1 Question: Do you agree with the provisions of Article 3 of the Guidelines? In particular:
4.1.1 Do you agree with the matters to be included in the Authority’s monitoring of Batelco’s compliance? If not, please give reasons and state what information should be added or omitted.

4.1.2 Do you agree with the sources from which the Authority may be informed in monitoring compliance? If not, please give reasons and state what information should be added or omitted.

4.1.3 Do you agree with the three key types of potential compliance failure? If not, please give reasons and state what information should be added or omitted.

4.1.4 Do you agree with the matters which are to be taken into account by the Authority when assessing the nature and gravity of concern? If not, please give reasons and state what information should be added or omitted.

4.1.5 Do you agree with the actions which may be taken by the Authority in response to Batelco’s potential non-compliance? If not, why?

5 GENERAL OBSERVATIONS

5.1 Questions: What other issues (if any) do you think should be included in, or excluded from, the Guidelines? Please support your comments with detailed reasoning.