



# **Recommendations for new interconnection rates for the ECTEL Member States**

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*Introduction to BU-LRIC Models Consultation*

29 May 2017

After a number of years of regulation, Axon Consulting has been commissioned by ECTEL to review and update interconnection rates in Member States

**The Eastern Caribbean Telecommunications Authority 'ECTEL' was established**

2000

2009

ECTEL commissioned to **Axon Consulting to "review and update mobile and fixed interconnection rates** for the ECTEL Member States"

End of 2016

**Purposes**

- Promote fair pricing and the use of cost-based pricing methods by telecoms providers in the Contracting States.
- Recommend a regional cost-based pricing regime for implementation by each Contracting States.

The Council of Ministers that govern ECTEL approved the **implementation of the Long Run Incremental Cost Models ('LRIC')** for setting interconnection rates. The models were developed by the incumbent operator.

**Objective**

- The main objective of this project is to set the mobile and fixed interconnection rates by developing Bottom-Up Long Run Incremental Cost models (BULRIC) for fixed and mobile networks.

The decision of the Council of Ministers was to base interconnection rates on Long Run Incremental Costs (LRIC), aligned with the international practice

### Studies suggest to set interconnection rates at marginal cost

- ▶ The economic theory predicts that, in perfect competition conditions, prices are set to marginal cost level
- ▶ Theoretical economic studies about interconnection rates (two-way pricing) conclude the convenience of establishing them to **marginal cost**

### The definition of “Marginal Cost” is complicated in the Telecoms sector

- ▶ Telecom industry is characterized by economies of scope and resources sharing
- ▶ There is a big difference between marginal (short term) and average cost
- ▶ It is **difficult to estimate marginal cost** of 1 unit
- ▶ Technology evolves quickly

### Something which can be addressed using the LRIC standard

- ▶ “Common costs” are recognised and imputed to different services or activities
- ▶ “Incremental” cost is meant as the production of an increment large enough to be measured with precision
- ▶ **LRIC is considered the international best practice** for interconnection regulation

# BU-LRIC Models calculate services' LRIC costs based on a number of inputs and on engineering algorithms

- ▶ A Bottom-up LRIC (BU-LRIC) model is a techno-economic tool that calculates network cost of fixed and mobile services
- ▶ The model calculates such costs, based on demand, technical characteristics of the network and network equipment unit costs
- ▶ Using BU-LRIC models is the common practice among NRAs

## Demand

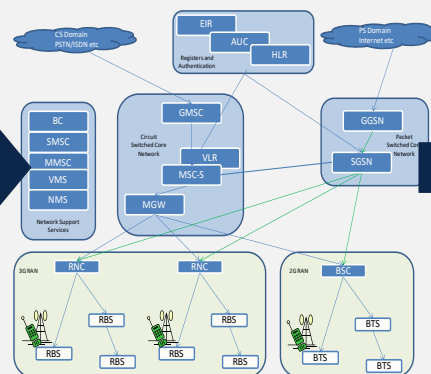


Input

- ▶ Traffic characterisation
- ▶ Geographical distribution of demand

## Bottom-up System

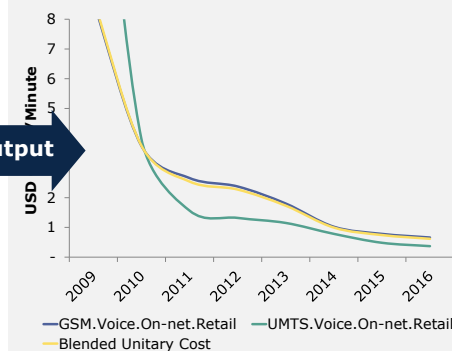
*Dimensioning and Costing Algorithms*



Output

- ▶ Dimensioning rules based on the characteristics of the underlying technology ("engineering")
- ▶ Costing rules based on actual equipment costs

## Results



- ▶ The models produce services' cost for a number of years

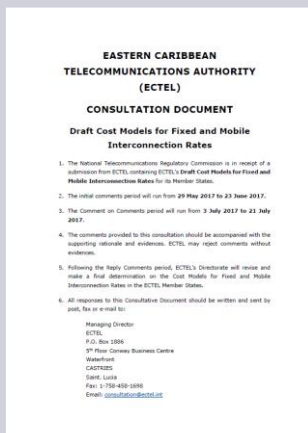
This consultation is the result of months of work in which the methodology was defined and the models developed



# The Public Consultation includes three main blocks of information which provide full transparency to Stakeholders

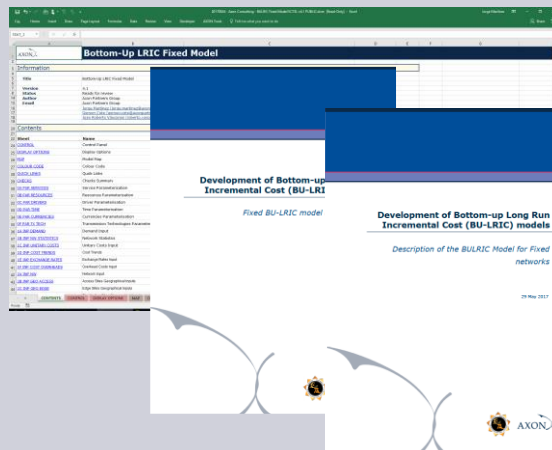
## Consultation Document

- ▶ Explains the consultation process
- ▶ Presents the topics of highest relevance for which ECTEL seeks for feedback
- ▶ Formulate specific questions



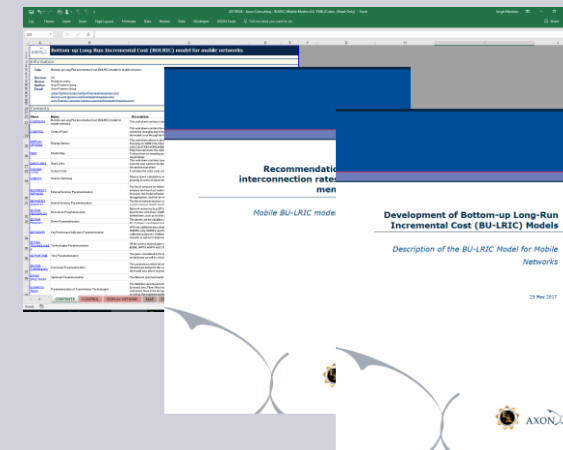
## BU-LRIC Model for Fixed Networks

- ▶ Full access to the excel model
- ▶ User manual to understand its use
- ▶ Descriptive document outlining the algorithms



## BU-LRIC Model for Mobile Networks

- ▶ Full access to the excel model
- ▶ User manual to understand its use
- ▶ Descriptive document outlining the algorithms



For further queries please contact:



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