REGULATION >> PRICE/TARIFF REGULATION

Public policy on telecommunications throughout the world is presently being re-examined and reshaped as regulators and legislators attempt to set rules and implement the provisions of the industry regulation. Through emphasis on competition and reliance on market forces to effect outcomes that were once characterized by monopoly or Significant Market Power, the regulations have placed a significant role on economic principles to drive the future course of telecommunications. Those principles relate generally to costing and pricing, two critical components of many regulatory provisions, and a foundation for successful entry by competitors.

Prices of services are included in tariffs that combine prices with associated terms and conditions. Regulators are commonly faced with difficult questions: To what extent should tariffs be regulated? Can tariffs be left to market forces? What is the role of the regulator? What are the key methodologies for determining tariffs?
ERCC helps regulators expertise in many facets of price/tariff regulation:

- Tariff rebalancing and cross-subsidization
- Rate of Return/Price Cap Maximum Rate structures
- Price reviews
- Key considerations in price design
- To what extent should tariffs be regulated?
- Can tariffs be left to market forces?
- What are the target services?
- Who are the target service/network providers?

cont'd on next page

- What are the key methodologies for determining tariffs? Rate of Return, RPI-X, etc.
- Cost Modeling and Costing

Recommendation on different cost modeling methodologies applicable to:

- Fixed networks
- Mobile networks
- Various Infrastructure Assets
  Principles of Modeling with cost allocation across various components, e.g., Access network, Core network, Switching, Transmission, Routing tables, Service costings
- Top Down cost modeling
- Bottom Up cost modeling
- Recommendations on various regulatory costing tools:
- Accounting and other separations
- Recovery of common costs
- Cost of capital
- Treatment of spectrum costs
- Externalities
- Regulating the Mobile Market

The key issues in the regulation of the mobile sector:

- LRIC and other models
- Allowable costs and externalities
- Mobile data
- Roaming charges and wholesale access
- Fixed Mobile Convergence
- Next Generation Mobile
- Network Interconnection and Access Issues

cont'd on next page

- Key commercial, and regulatory issues
- Commercial Strategies
- Issues in Call Termination
- Costing of call termination
- Reciprocity
- Capacity-based charging
- Bill & Keep
- Local Loop Unbundling (LLU) and the Reference Unbundling Offer (RUO)

Local Loop Unbundling must be offered by operators in most countries (e.g., all European Union operators) as a way of encouraging further competition in the sector. ERCC expertise covers many of the LLU related issues:

- Operational issues: Implementation
- Determining the costs for LLU services
- What is contained within a RUO?
- Appropriate regulation for local conditions
- Access, Unbundled network element (UNE) pricing; Resale and wholesale rates; Interconnection rates

Deregulation in many jurisdictions has created opportunities competitors to pursue different market-entry strategies in the market for fixed-line telecom services:

- Providing competitive services entirely over their own facilities (only requiring interconnection with an incumbent,
- Using a combination of their own facilities and an Incumbent's facilities (purchasing UNEs where necessary); and

cont'd on next page

- Using only the facilities of an incumbent (resale).

It is important that these rates for interconnection, UNEs, and resale services accurately reflect their costs (or avoided costs in the case of resold services) to promote efficiency.

ERCC advises clients on the proper economic principles for setting these rates, including how the principles outlined in the regulation affect the rate-setting process. ERCC provides the analyses regarding those principles and the appropriate rate levels.