COMPETITION >> INTERCONNECTION AND ACCESS COST MODELS/ MODELING

Interconnection (and access) is key to proper function of the industry and competition. The regulators are responsible for enforcing interconnection rules to ensure fair competition. Having interconnection rules and efficacious enforcement are central to competition.

- Interconnection Services: Wholesale services (e.g., access, interconnection) are often contentious process where Reference Interconnection Offers (RIOs) are disputed and mediated by regulators. A strong set of regulatory rules are important to the efficient \ functioning of the telecommunications sector. Some of the important issues relating to RIOs include:
  - ✓ Appropriate methodologies to cost interconnection services
  - ✓ Accounting separation
  - ✓ Benchmarking
  - ✓ Revenue Sharing
  - ✓ Retail Minus
  - ✓ FAC – historic and current
  - ✓ LRIC Costing

- Cost Models/Modeling: Wholesale services (e.g., access, interconnection) are often contentious process where Reference Interconnection Offers (RIOs) are disputed and mediated by regulators. A strong set of regulatory rules and costing methodologies through cost models/modeling are important to the efficient functioning of the telecommunications sector. At ERCC

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we assist regulators with the development, understanding, and implementations of:

- Various cost standards and their areas of useful application in telecommunications;
- Different types of models such as bottom-up or top down, their advantages and disadvantages, and their uses; some of the differentiators of cost models are,
  - ✓ Cost methodologies: FAC, LRIC (different versions of LRIC), etc.
  - ✓ Types of models: bottom up, top down models; scorched earth, scorched node
  - ✓ Cost attribution (ABC and other methods, indirect and common cost)
  - ✓ Asset valuation (historic book values, current values, expected future asset values)
- Preparing cost model specifications for a range of costing, pricing and related purposes
- Analyzing and assessing cost models
- Gathering of input data

- Common Bottom-Up Cost (BU) Models: The regulators have recently gravitated towards BU cost models, focusing on three common areas:
  - Access network: Can be for either the copper or fiber networks (or combination), and calculate the cost of duct access and local loop unbundling services. The outcome is also cost inputs to the core network cost model.

  - Core network: For costing fixed telecommunication

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services (voice, broadband access, leased lines). The model calculated the cost of an operator's transmission network. The model calculates the appropriate level of charges for services such as:

- ✓ Fixed termination;
- ✓ Wholesale DSL and Bitstream access;
- ✓ Wholesale leased line access
- ✓ Wholesale interconnection link.

- Mobile network: BU cost model which calculates the cost of providing mobile telecommunication services for mobile operators. Its results provide useful information for the purposes of setting of mobile termination rates.