

Regional Seminar on the economic and financial aspects of telecommunications Study Group 3 Regional Group for Latin America and Caribbean (SG3RG-LAC)

Project

“Cost modeling implementation”

Paraguay, March 14th, 2012



1990

2000

2010



1995: Constitutional amendment

1997: LGT - Lei Geral de Telecomunicações

1998: Privatization

1998: PGMU – Universal Services

2003: New PGMU

2003: Telecommunication public policy (Regulation 4733/2003)

2005: RSAC (Accounting Separation)

2008: PGR – Plano Geral de Atualização da Regulamentação

2011: Cost modelling project

Public Regime

- Provided through concession or permission, in contracts between Brazilian government and operators
- Universalization and continuity obligations
- Tariffs and adjustments considered in contracts
- Includes fixed telecommunication services – STFC



Private Regime

- Provided through authorization
- No universalization nor continuity obligations
- No prices control.
- Prices defined by market forces

Retail - Price-cap

- Simpler method for tariffs regulation
- Based on historical prices and price index adjustments, considering efficiency factors
- Usually facilitates the process of tariff restructuring
- Can be applied for a basket of products / services or individual ones
- In Brazil, it will be applied in the STFC local and long distance services



Wholesale - Cost-based

- Emulates efficient operator and market competition, considering price = marginal cost
- More complex than price-cap methodology
- In Brazil, it will be applied with emphasis to wholesale tariffs (e.g. interconnection rates and EILD)

Incentives

- Although we have **not constructed yet the Cost models** (TD and BU), some **regulations were published** in order to show to the market that the most important things in Brazilian telecommunication sector are: **the competition and the productive efficiency**;
- The **focus is not** at the **price control**.

Regulation adjustments

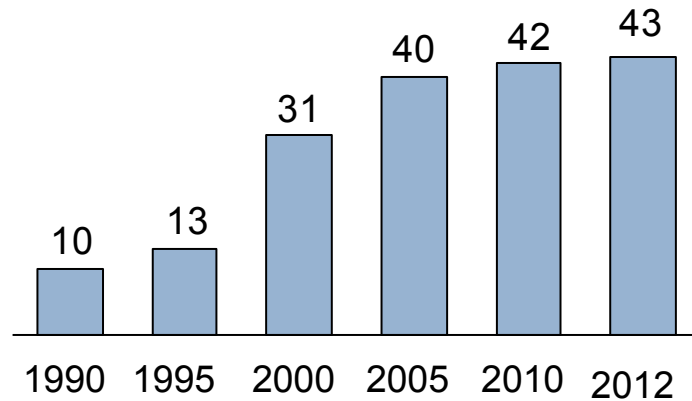
- **Regulation adjustments** that pointed to **cost-oriented** wholesale tariffs regulation;
- **Retail minus** in **FTR** regulation

Transitioning

- **Smooth transitioning to cost-oriented** models, so that investment flows are not impaired;
- **Recent regulation** establishing **VC's and MTR reduction**, until the **cost-oriented values** to be published in two years.

Fixed lines

(Million)

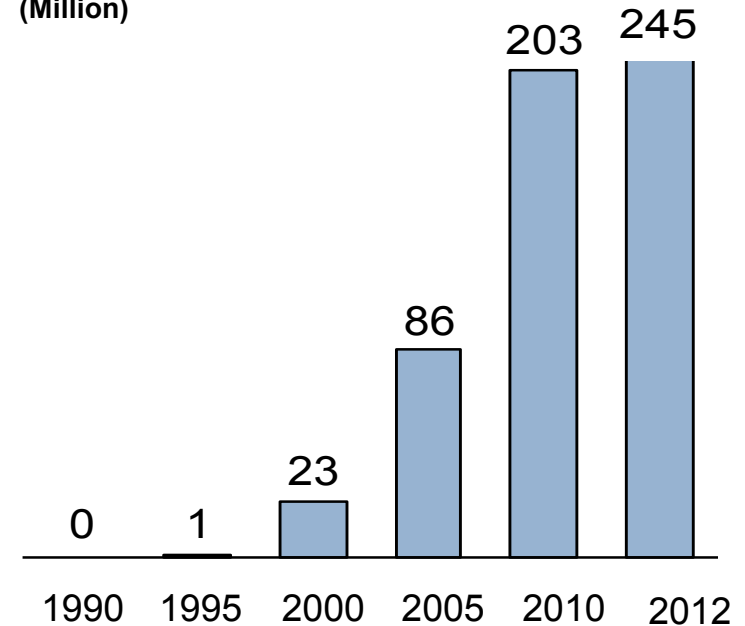


Penetration
(# fixed lines /
100 households)

29 34 68 75 73 74

Mobile lines

(Million)



Penetration
(# mobile lines /
100 population)

0 01 14 47 106 125

- The Brazilian market regulations were good. We can see an important increasing of lines sold and of penetration;
- The Cost Model shall improve the market conditions;

Telecommunication cost modeling examples

Examples of models used in Europe⁽¹⁾

	Interconnection	Leased lines
Austria	FL-HCA	HCA
Belgium	FL-CCA	HCA
Denmark	HCA	HCA
France	FL-CCA	FL-HCA
Germany	FL-CCA	HCA
Greece	FL-CCA	HCA
Ireland	FL-CCA	FL-HCA
Italy	FL-CCA	FL-HCA
Netherlands	FL-CCA	FL-HCA
Portugal	FL-CCA	HCA
Spain	CCA	CCA

HCA: Historical Cost Accounting

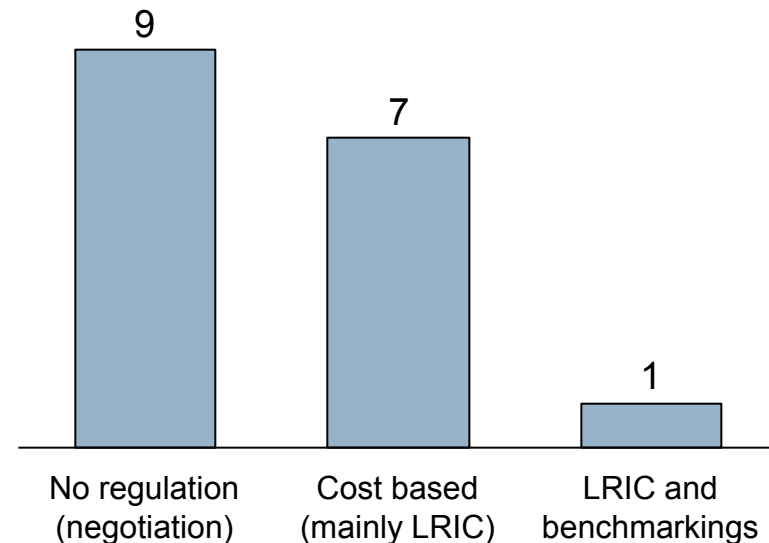
CCA: Current cost accounting

FL-HCA: Forward-looking based on historical cost

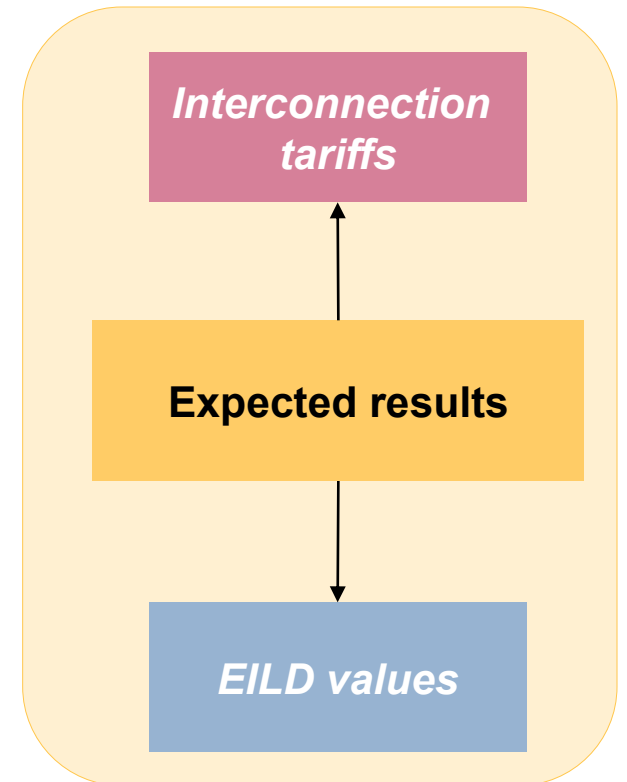
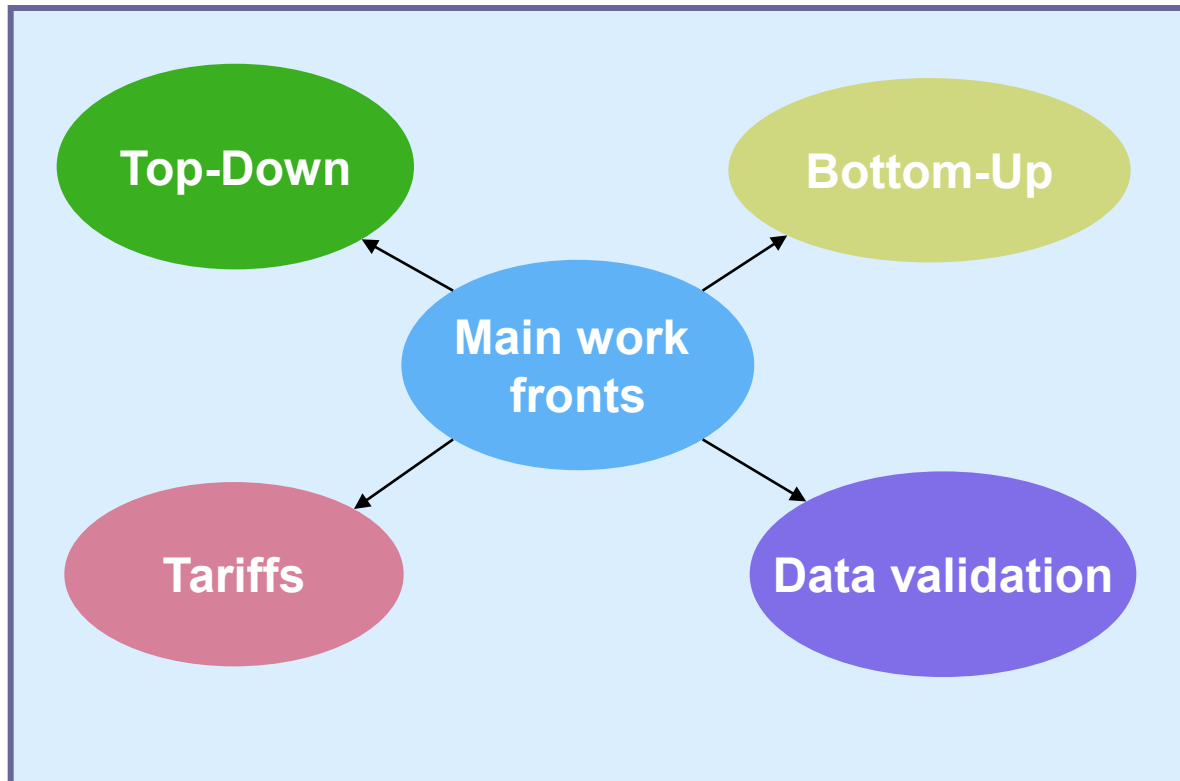
FL-CCA: Forward-looking based on current cost

International experiences were considered by Anatel's team during the period of the ToR's discussion.

Methodology for tariffs regulation in Latin America⁽²⁾

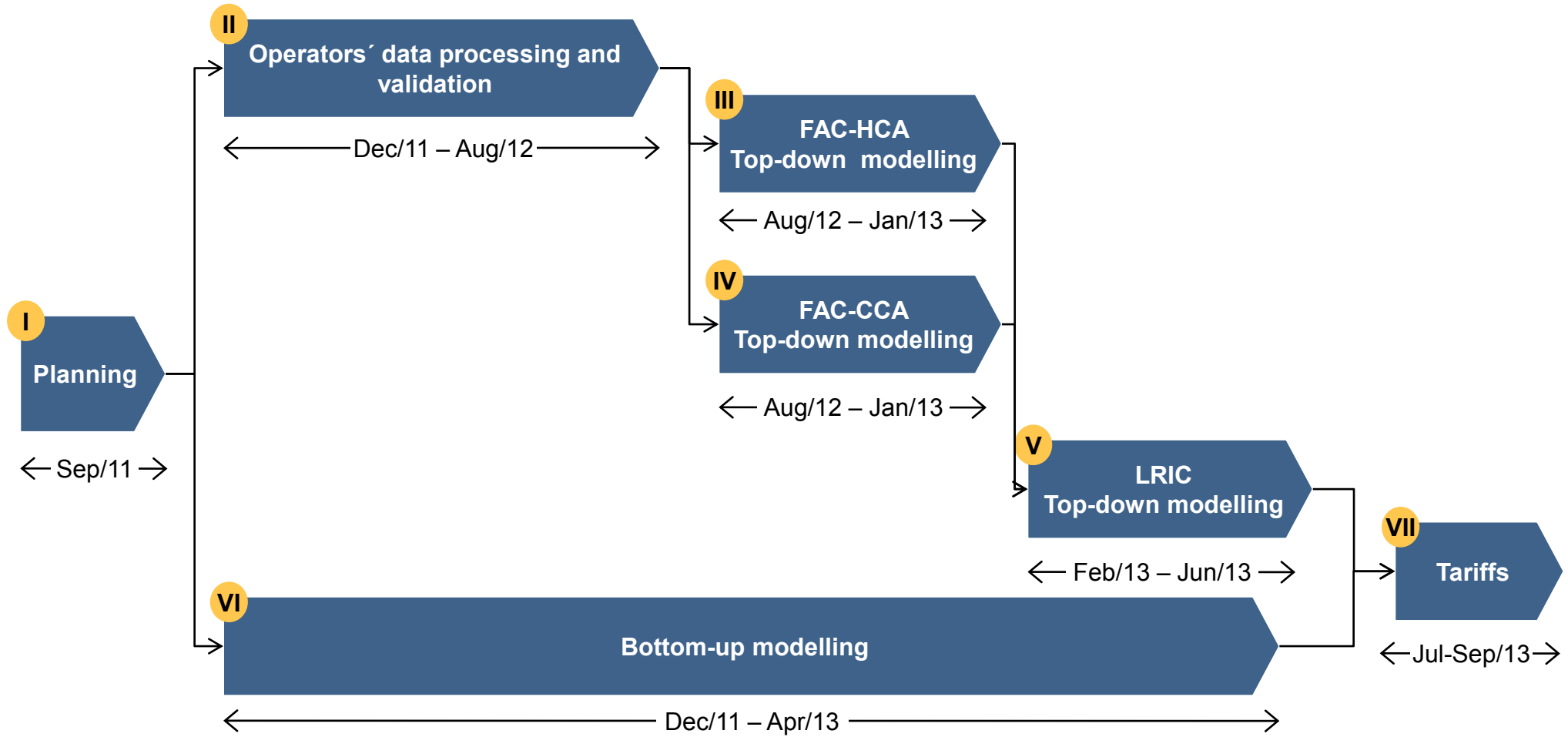


Anatel's main tasks



	GRUPO	COMPOSIÇÃO (Resolução nº 101)
1		Telefônica (STFC); Vivo (SMP); Emergia (SCM), DTHi (DTH) ...
2		Telemar Norte Leste (STFC); TNL PCS (SMP); Brasil Telecom (STFC); 14 BrT Celular (SMP); BrT Com Multimídia (SCM), Vant (SCM)...
3		Embratel (STFC); Claro (SMP); Vésper (STFC);
4		CTBC Telecom (STFC); CTBC Multimídia (SCM); Engeredes...
5		Sercomtel (STFC); Sercomtel Celular (SMP) ...
6		TIM Nordeste (SMP); TIM Celular (SMP), TIM (STFC)...

x Project phases



International consortium



- Cost based modeling is a complex process, demanding a series of related activities and regulatory actions, including, specially, operators commitment;
- It is a powerful tool for regulators to adjust tariffs in order to implement telecommunications strategy and policy;
- Important decisions by Anatel (defined by regulations) will incorporate the results of the cost modeling process:
 - MTR: conflict composition among fixed and mobile operators
 - Network elements rental

Thank you

Hélio Fonseca

hmmfonseca@anatel.gov.br

5561 2312-2993