

Workshop on Price Cap Regulation and Interconnection held in Islamabad, Pakistan, 2-4 August 2001

Report by Professor Patrick Xavier on the ITU/PTA

The Workshop was attended by 26 senior officials of PTA, Ministry of Science and Technology, and telecommunications operators. It focused on interconnection and price regulation issues. This report concerns the price regulation part of the Workshop.

The Workshop reviewed the rationale of price regulation, forms of price regulation in practice in developed and developing countries, and in particular so-called "rate-of-return" and "price cap" regulation.

The price cap regime in Pakistan was appraised against a background of experience in the use of price cap regulation in a range of countries, including: Australia, UK, Canada, France, Sweden, etc.

ISSUES CONSIDERED BY THE WORKSHOP INCLUDED THOSE LISTED BELOW.

1. SHOULD THERE BE ANY REGULATION OF TELECOMMUNICATIONS PRICES IN PAKISTAN?

2. Is price cap regulation an appropriate system in Pakistan's circumstances?
3. Would direct regulation based on approval from e.g. the government, the Ministry of Finance, the regulator be preferable?
4. Would rate-of-return regulation be preferable?
5. Should there be a rate-of-return component in the price cap regime?
6. How is a 'reasonable' rate of return to be determined?
7. Should there be an 'X' factor (in the CPI-X formula) and, if so, how should its size be determined?
8. How are services to be included/excluded in the price cap basket determined? Are there services that should be included/excluded in the price cap basket?

Why?

9. How should the price re-balancing targets (nature, extent, direction, speed) be determined? Should there be any constraints on price re-balancing?
10. Should there be a 'flow through' factor e.g. for a depreciation in the exchange rate? Would not this be manifested in a movement in the CPI?
11. Should there also be 'price floor' regulation? Why?
12. To what extent would price cap regulation result in reduced network expansion and modernisation?
13. Under what conditions should price cap regulation be abandoned?
14. How can the aims of both customer and the price cap regulated operators be achieved in the process of determining the characteristics of price cap regulation?

To develop understanding of the differing aims concerning price cap regulation, two working groups were formed to consider and make presentations on the desirable characteristics of price cap regulation from the point of view of (a) price regulated operators and (b) consumers. The likely aims of these two 'stakeholders' are set out below.

OPERATOR	CONSUMER
Reasonable profit (but this is perceived at a relatively high level)	Reasonable profit (perceived at a lower level)
Reasonable affordable level of prices (but this perception of what this means may be different from consumers)	Reasonable affordable level of prices (probably perceived at a lower level than by operator)
Freedom to rebalance prices e.g. for competitive and revenue enhancing reasons	Restrictions on price re-balancing: nature, direction, extent, speed
Network expansion & modernisation	Network expansion & modernisation
Quality of service (but this may be different from what consumers want)	Quality of service, including billing quality
Stable predictable minimum regulation	Strong regulatory protection
Provision of services based on latest technology	Access to services based on latest technology
Ability to thrive/survive in a competitive environment	Ability of operator to maintain operations through enhanced products

There was intense discussion over the various characteristics of price cap regulation in Pakistan. The broad conclusion was that price cap regulation can be useful in facilitating a move to more transparent price regulation, allowing more flexibility to 're-balance' prices in a managed way in regard to the nature, direction, extent and speed of price re balancing.

The Workshop was evaluated as an 'outstanding success' by participants.
