



GOVERNMENT OF CHILE

Ministry of Transport and
Telecommunications

Telecommunications Subsecretariat



Tariff regulation in the Chilean telecommunication market

Buenos Aires, June 2005



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Applicable legal and regulatory framework



Tariff regulation: Normative aspects

- The General Telecommunications Act (Act No. 18.168 of 1982) and the amendments thereto, in particular the provisions of Article 24 bis, 25 and Section V, on tariffs.
- Regulations governing the procedure for, announcement of and participation in the tariff-setting process, as laid down in Section V of the General Telecommunications Act (Act No. 18.168) (Supreme Decree No. 4 of 2003).



Tariff regulation: Normative aspects

- Tariff freedom (the general rule)
- Services affected under the Act (Articles 24 bis and 25)
 - Services provided by public service licensees and intermediaries through interconnection arrangements. Metering, billing, charging and collection services provided to carriers by public service licensees (Supreme Decree No. 95 of 1994).
 - Tariffs for services provided under interconnection arrangements enable these licensees to charge for the cost of using their networks.

Tariff regulation: Content aspects

- **Basic principles of tariff-setting:**
 - Tariffs charged to users reflect costs.
 - Guaranteed absence of cross-subsidies between services and tariff areas.
 - Use of efficient enterprise model generates incentives for the actual licensee to introduce technology enhancements in its network and in regulated services, thereby increasing their efficiency.
 - Through the tariff-setting process it is possible to pass on to the consumer the efficiency gains made by the company as a result of its improved management coupled with technological advances.



Tariff regulation: Content aspects

- **Efficient company** (Act 18.168, Art. 30A and F):
 - Provides only regulated services.
 - Only those costs that are essential to their provision.
 - Using available technology.
 - Maintaining quality.
 - Determination of costs of each service: investment and operation, including capital cost.
 - Indivisibility of unregulated services: only fraction of costs used, consistent with the proportion of assets used.



Tariff regulation: Content aspects

- **Incremental development cost (IDC)** (Art. 30)
 - General rule: marginal cost charging
 - Plans for expansion of each service by tariff area.
 - The incremental development cost is obtained for each expansion plan.
 - Exception: Long-run marginal cost
 - In the absence of expansion plans.
- **Total long-run cost** (Art. 30C)
 - Asset replenishment plan for the efficient company.
 - Average volume of different services provided.



Tariff regulation: Content aspects

- **Efficient tariffs** (Art. 30E)
 - Generate revenue equivalent to the IDC (marginal cost).
 - In case of more than one regulated service in a tariff area, equal profit margins.
 - Where expansion plan provides for unregulated services: only fraction of IDC used, in keeping with the proportion of asset usage.
- **Definitive tariffs** (Art. 30F)
 - Only where there are economies of scale.
 - Efficient tariffs increased until total long-run cost reached.
 - Inefficiencies minimised.
 - Where efficient company provides unregulated services: only fraction of total long-run cost used, in keeping with the proportion of asset usage.

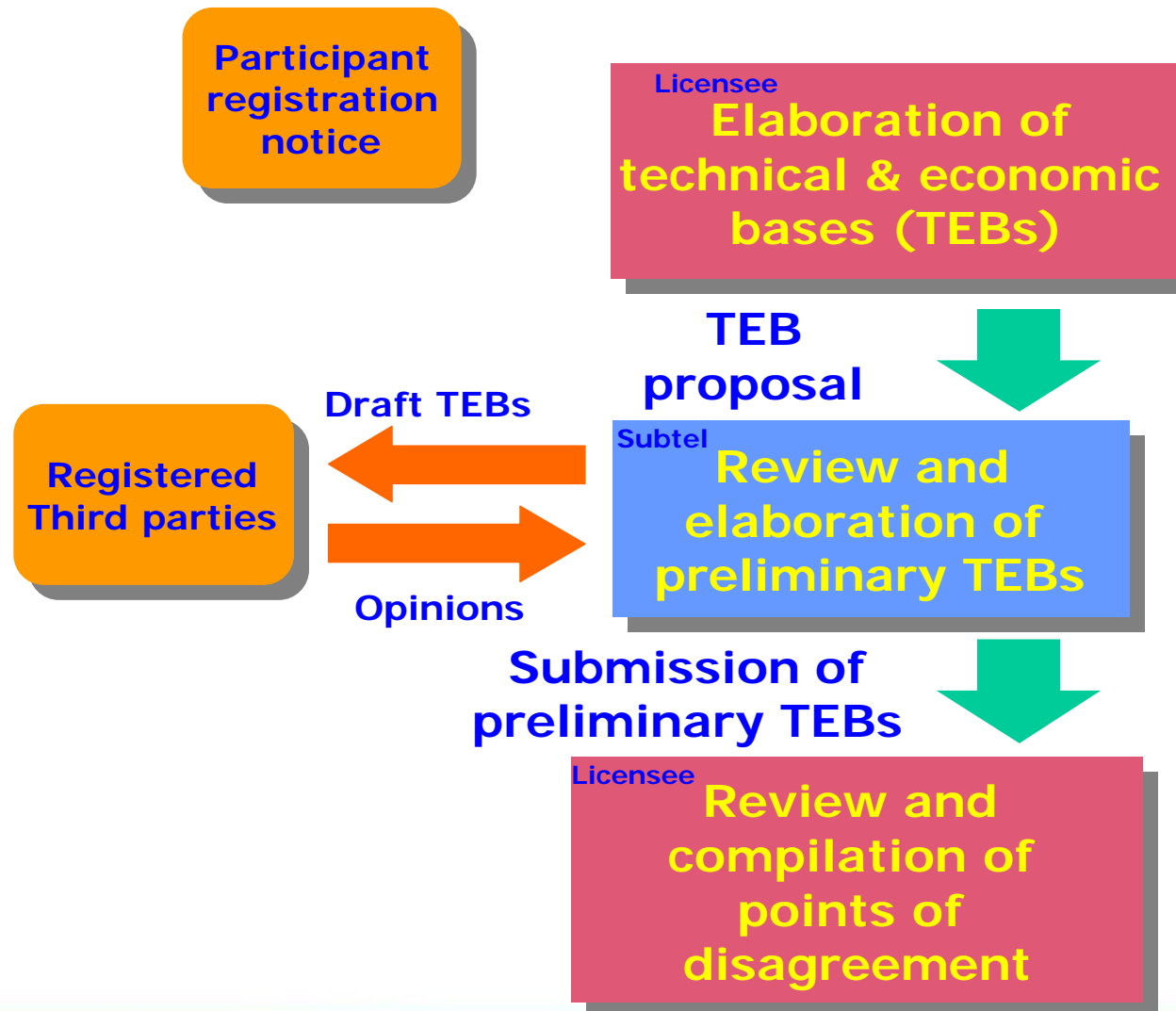


Tariff regulation: Content aspects

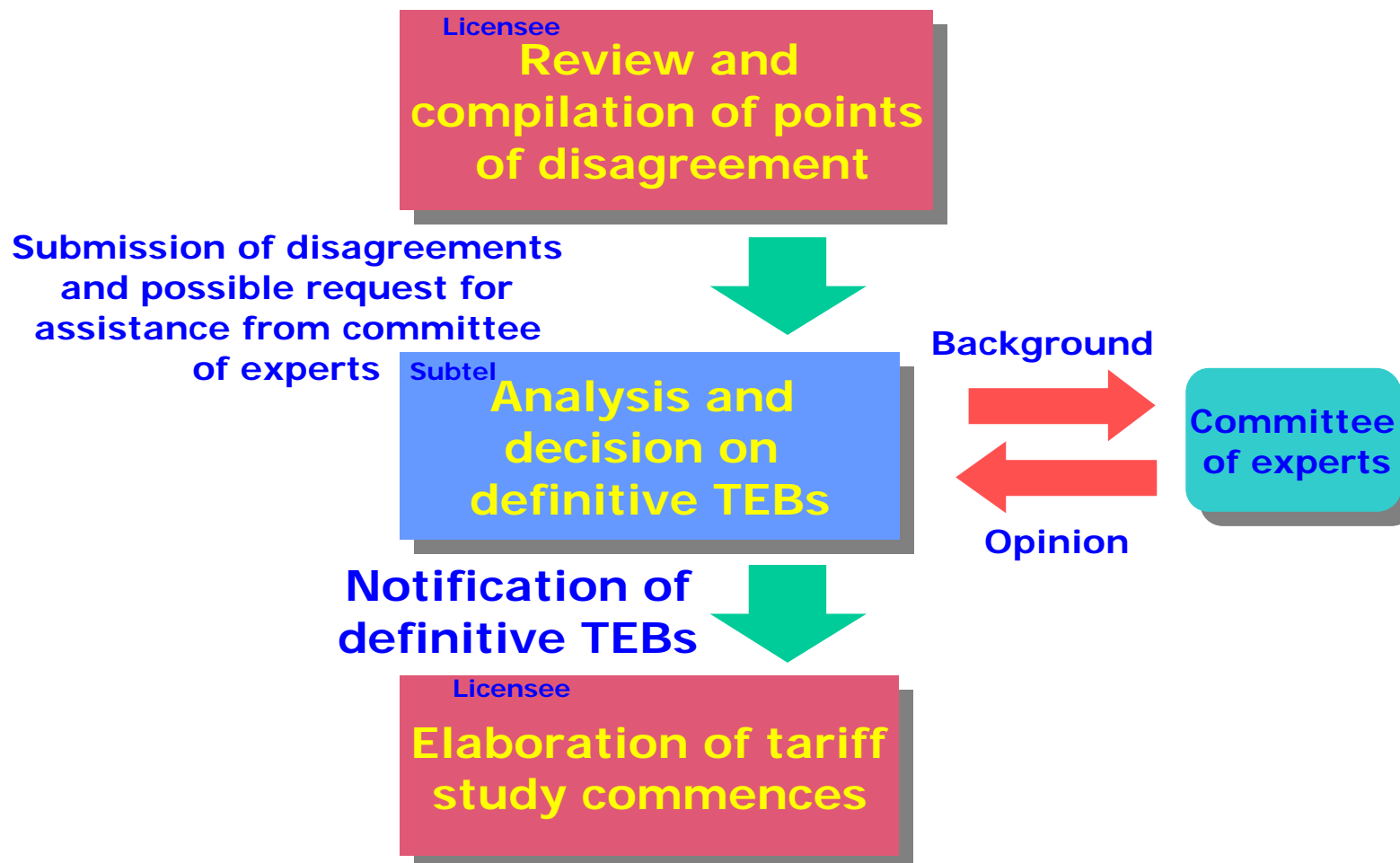
- **Capital cost rate** (Art. 30B)
 - Risk-free rate of return.
 - Company's systematic risk.
 - Risk premium.
 - Capital cost rate = Risk-free rate + Systematic risk * Risk premium
- **Indexation**
 - An index is determined for each service.
 - Based on published input price indices.
 - Representative of cost structure of the efficient company.



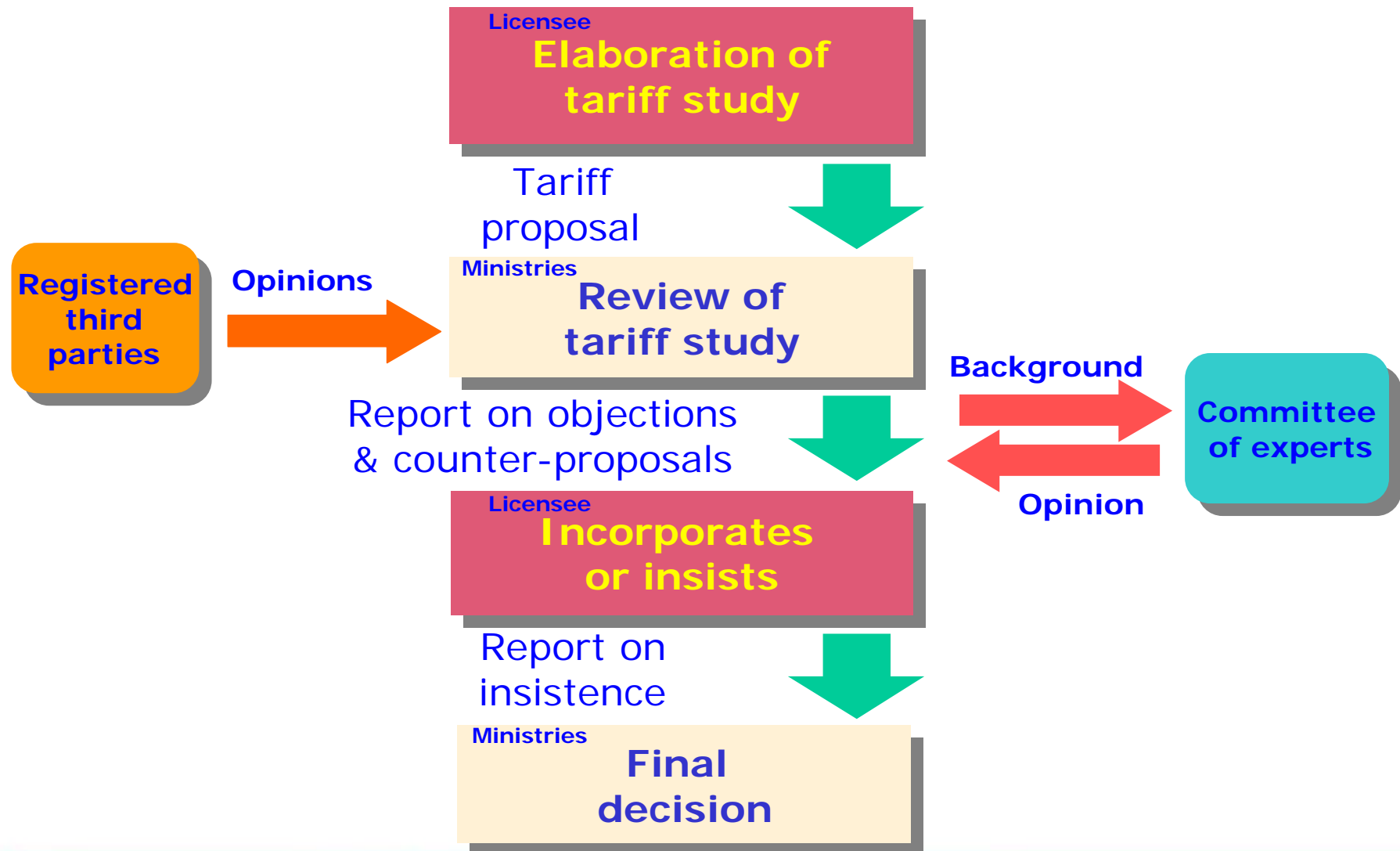
Procedure: Technical and economic bases



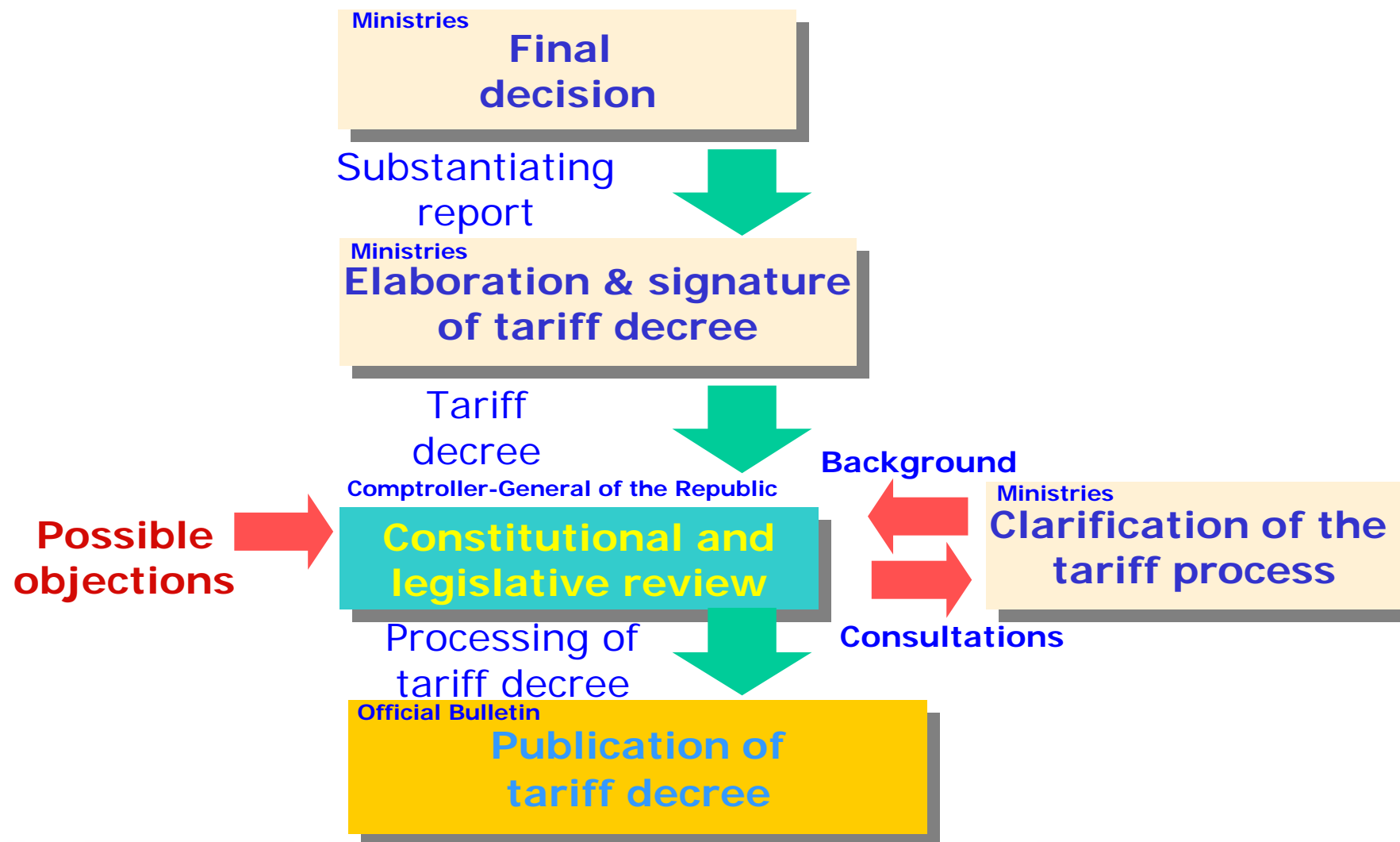
Procedure: Technical and economic bases



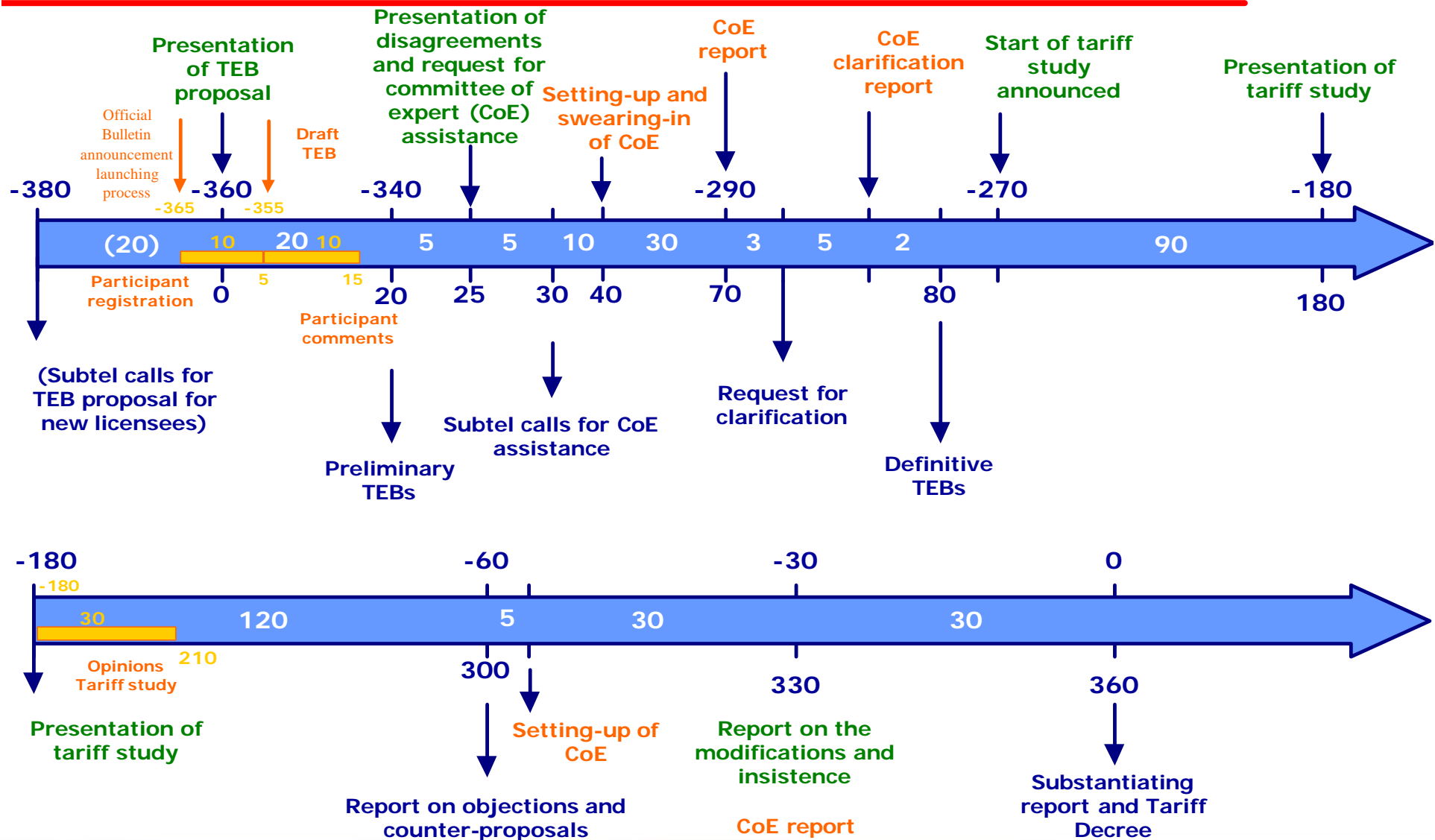
Procedure: Tariff-setting



Procedure: Tariff-setting



Procedure: Tariff processes



Tariff regulation: Tariff aspects

- **The main services regulated in the context of public service licensees for mobile telephony correspond to:**
 - Interconnection at network termination points
 - Access to other telecommunication service licensees
 - Administrative functions (metering, charging, billing, collection, balance management)



Tariff regulation: Tariff aspects

- **The main services regulated in the context of public service licensees for fixed telephony correspond to:**
 - Interconnection at network termination points
 - Access to other telecommunication service licensees
 - Administrative functions (metering, charging, billing, collection, balance management)

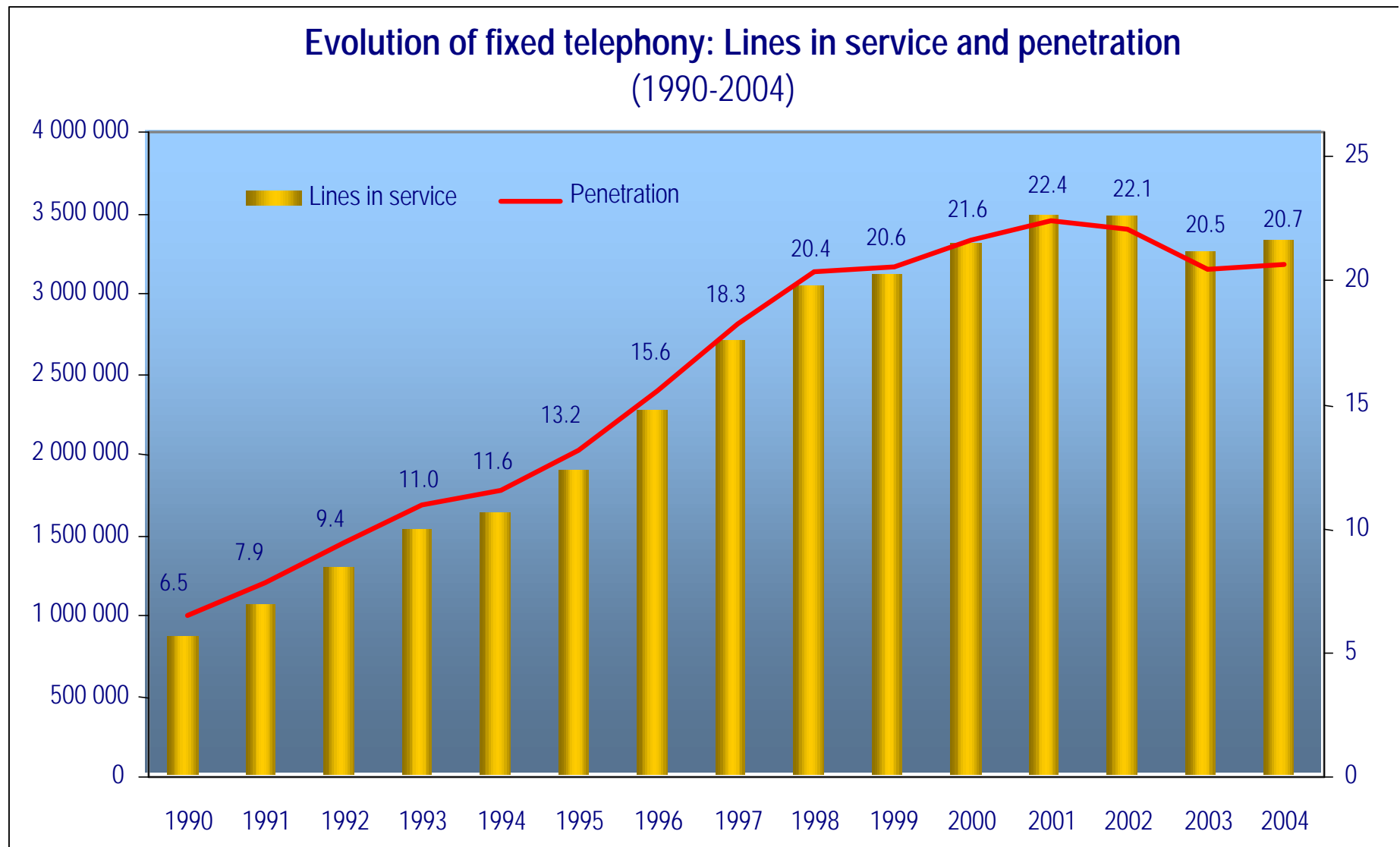




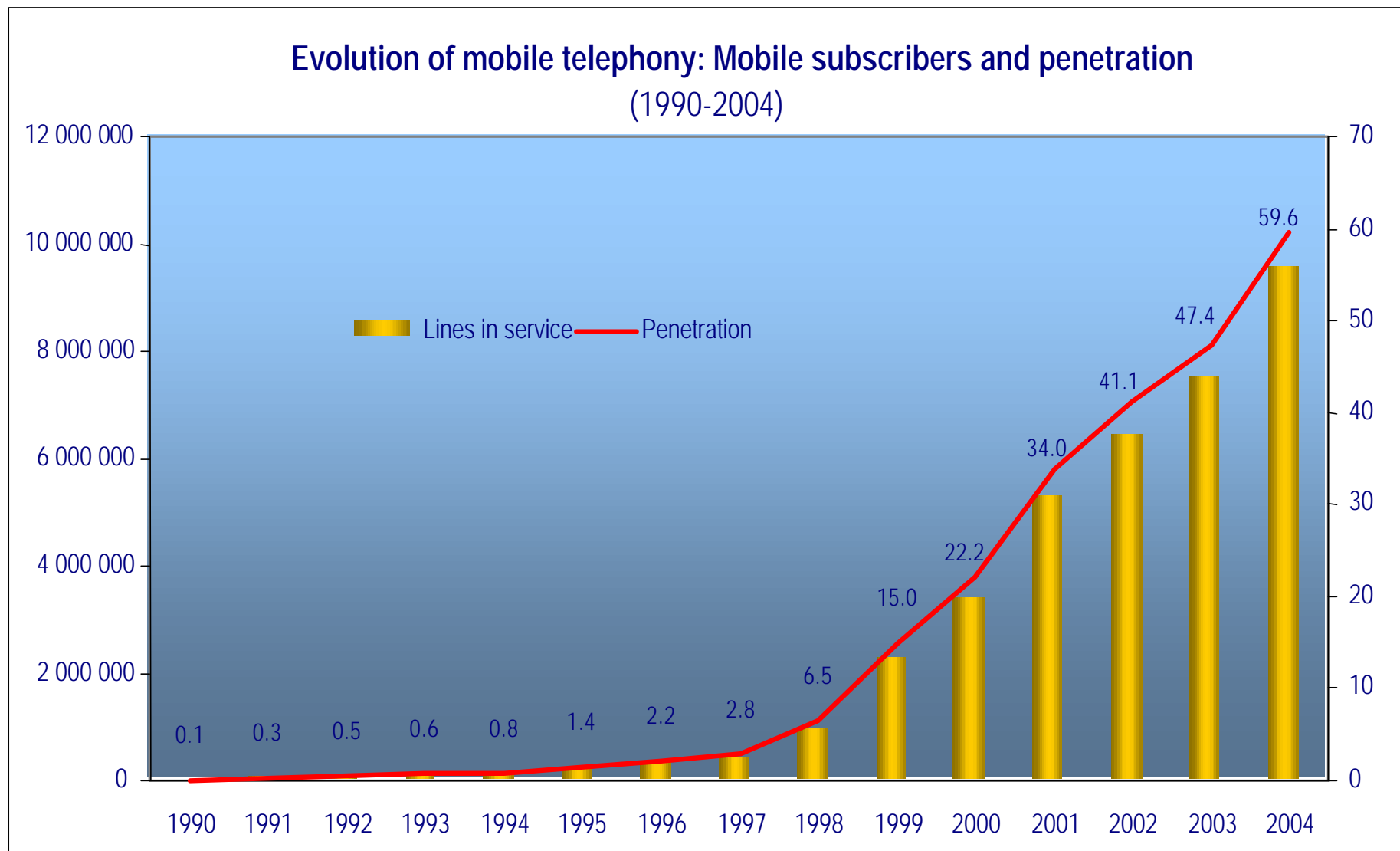
Fixed and mobile telephony market: Current situation



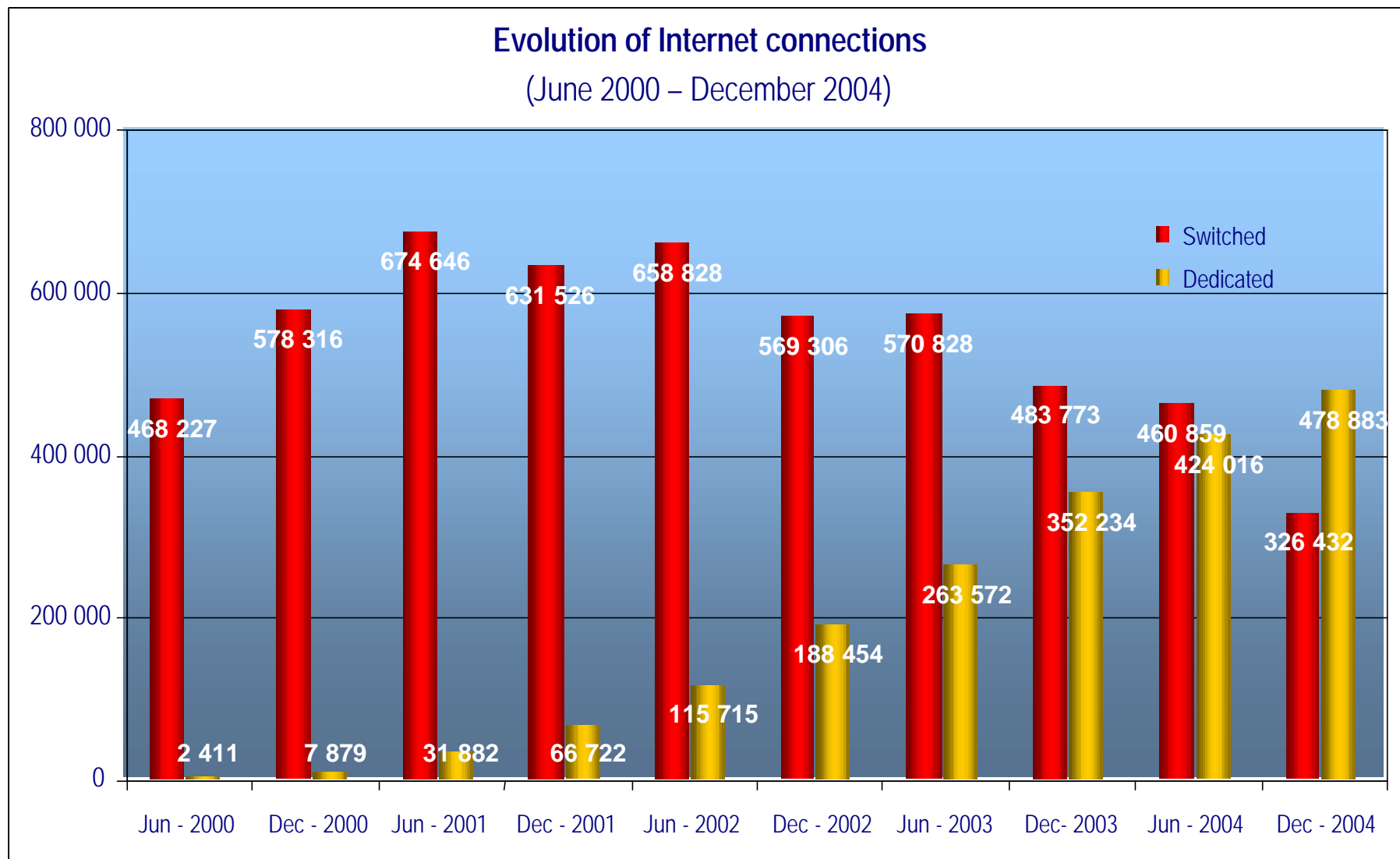
Chilean market: Fixed lines



Chilean market: Mobile subscribers

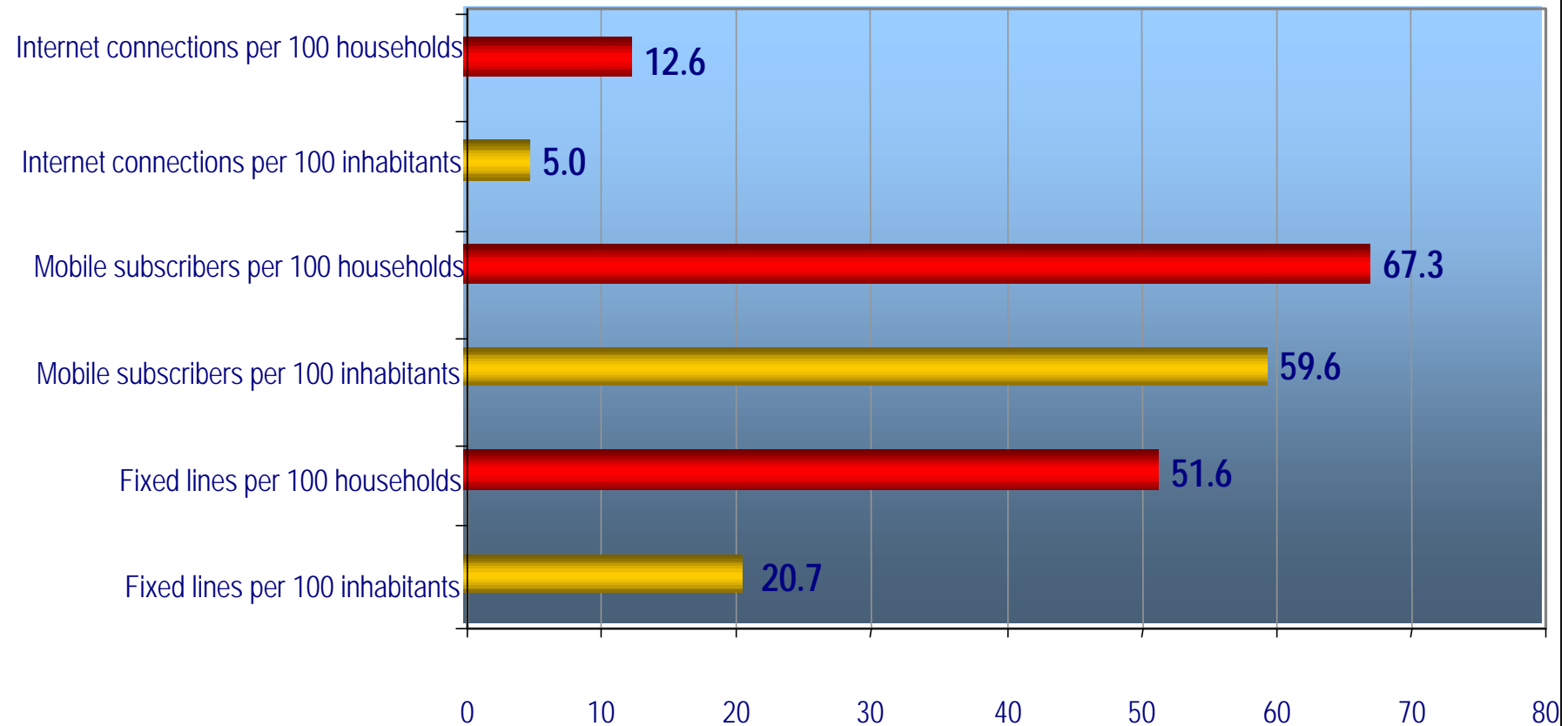


Chilean market: Internet connections



Chilean market: Penetration indicators

Penetration of fixed telephony, mobile telephony and Internet in Chile
December 2004



Note: In the case of household penetration, the information is drawn from the CASEN 2003 survey.



Results: Tariff processes



Tariff regulation: Tariff processes

- During the most recent period, the regulatory body conducted a series of tariff processes with the aim of establishing regulated tariffs for the services in question in the various market segments.
- The processes covered public service licensees for mobile and fixed telephony and intermediate service licensees.
- They involved a review of the tariff decrees relating to the dominant enterprises and mobile and rural companies, bringing other companies into the arena.



Tariff regulation: Tariff processors

- The processes by segment correspond to:

Mobile and of the same type:

- Bellsouth
- Entel PCS
- Entel Móvil
- Smartcom
- Telefónica Móvil
- Nextel (Multikom and Centennial)

Rural:

- CTR
- RTC
- Megacom

Fixed:

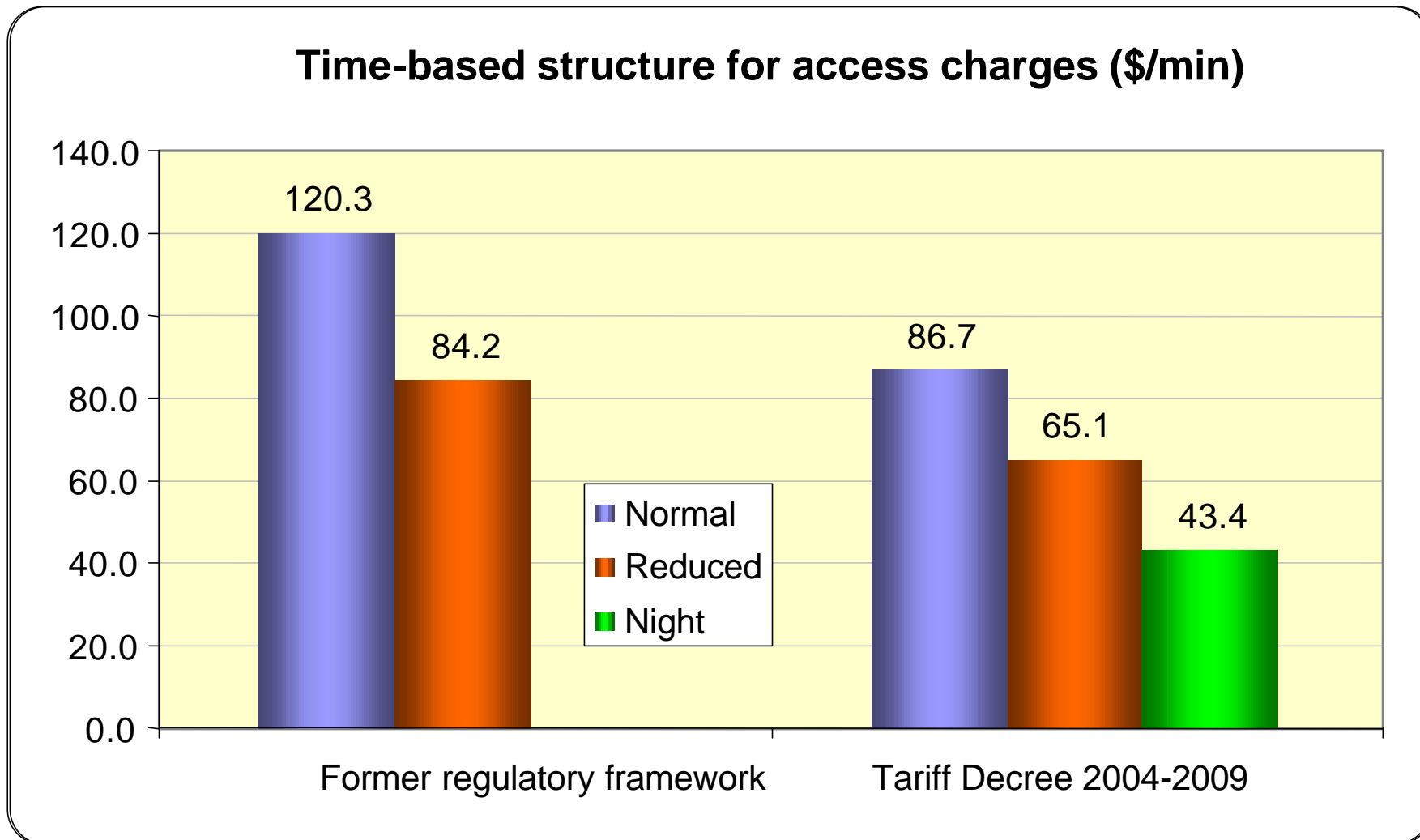
- CTC
- Telefónica del Sur
- TelCoy
- EntelPhone
- VTR
- Manquehue
- Telesat
- CMET

Intermediate:

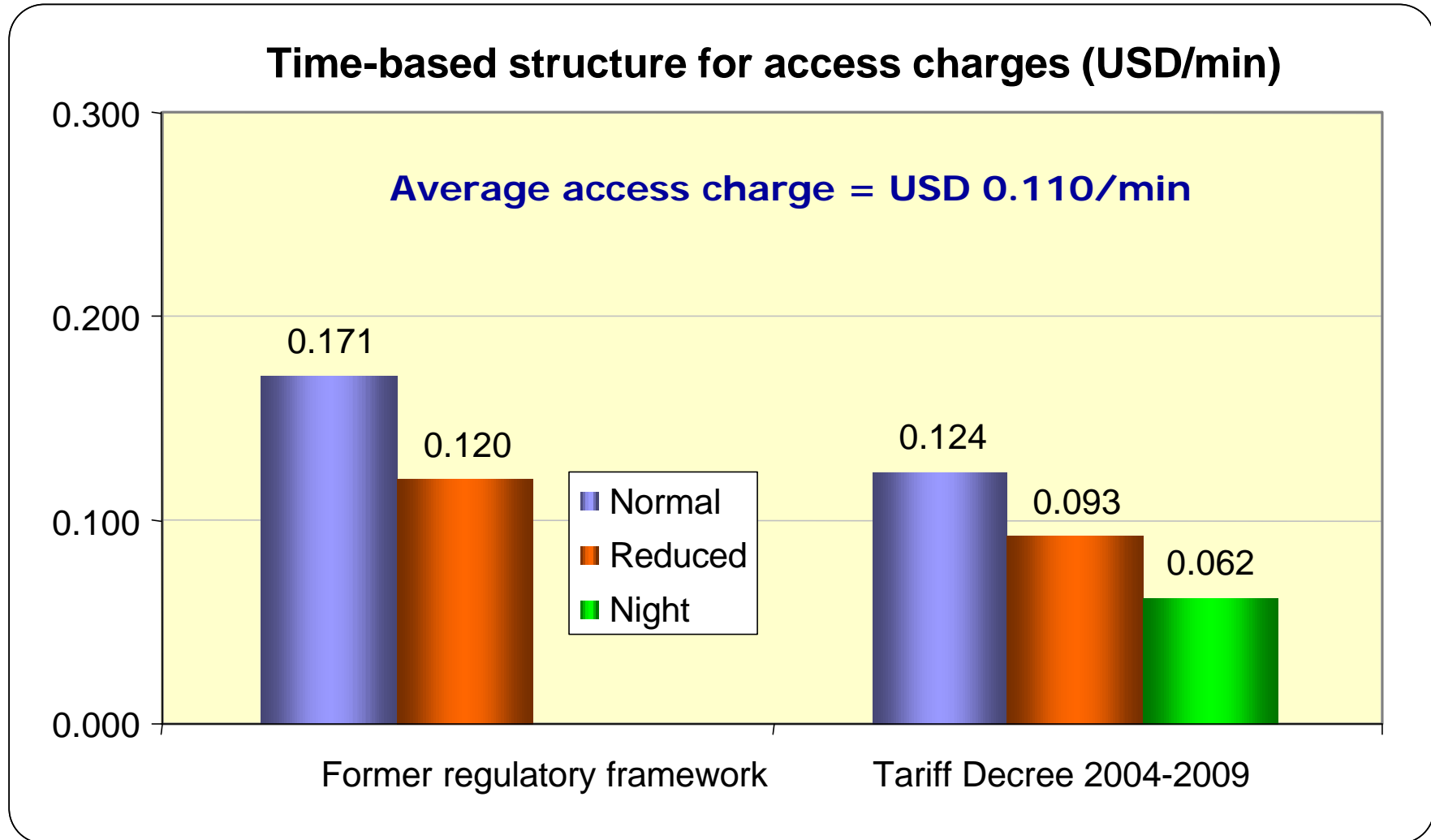
- Entel



Mobile access charges: The new prices



Mobile access charges: The new prices



Comparison of charging periods

Current time-band structure

Time band	Working days	Saturdays	Sundays and public holidays
00:00 - 08:59	Reduced	Reduced	Reduced
09:00 - 13:59	Normal	Normal	Reduced
14:00 - 19:59	Normal	Reduced	Reduced
20:00 - 23:59	Reduced	Reduced	Reduced

Traffic distribution:

Normal rate : 57.9%
Reduced rate : 42.1%

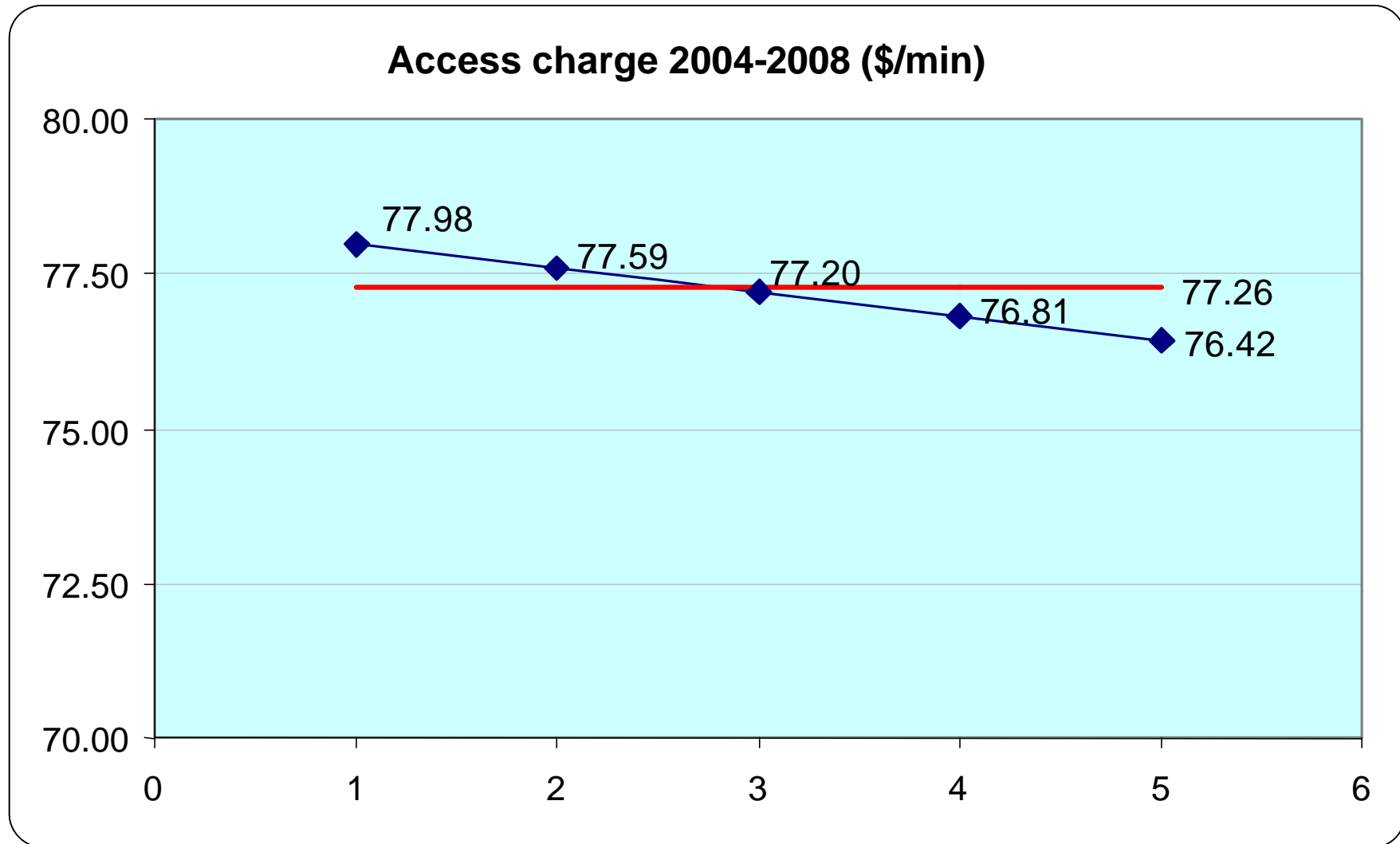
Proposed time-band structure

Time band	Working days	Saturdays	Sundays and public holidays
00:00 - 07:59	Night	Night	Night
08:00 - 13:59	Normal	Normal	Reduced
14:00 - 19:59	Normal	Reduced	Reduced
20:00 - 23:59	Reduced	Reduced	Reduced

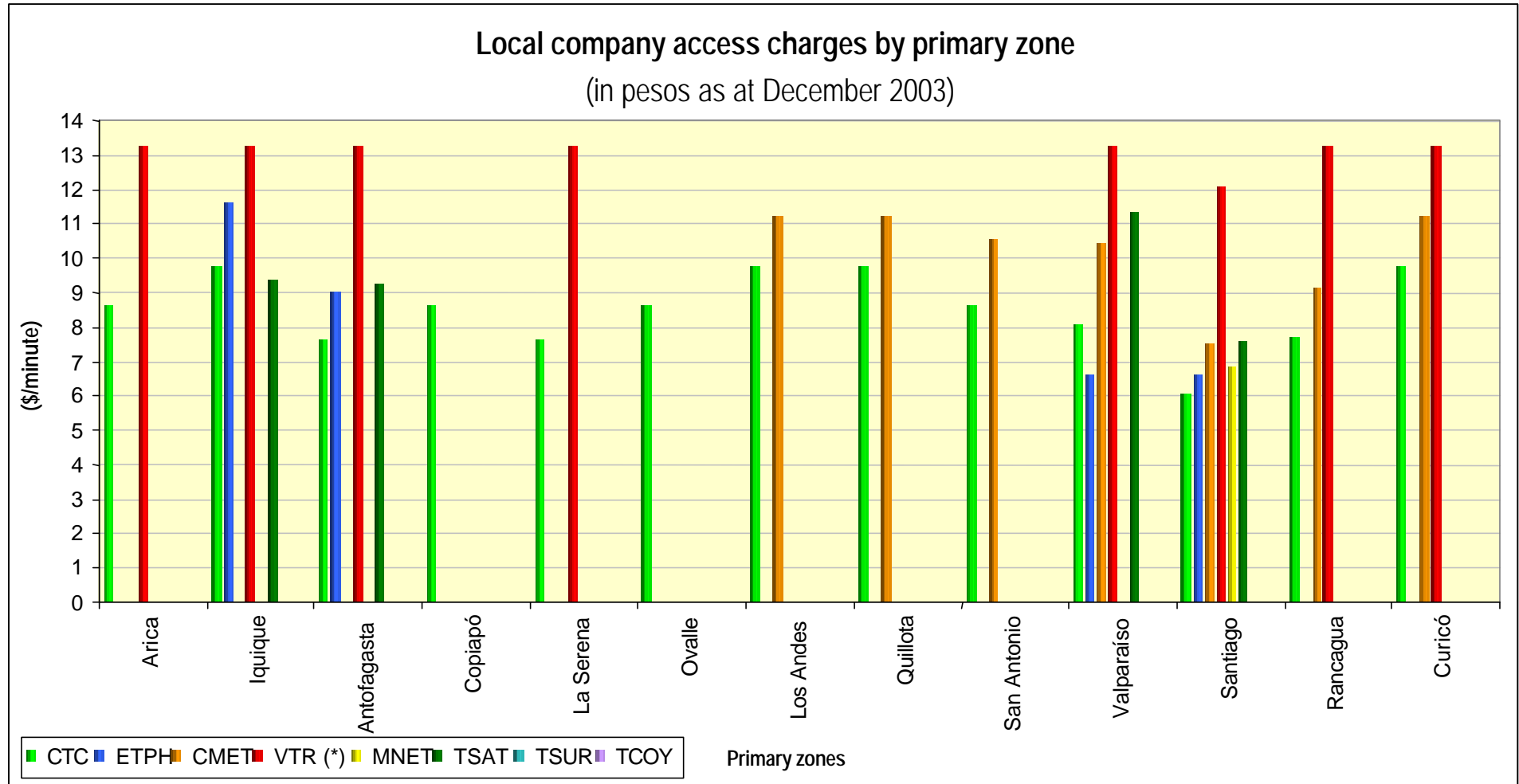
Traffic distribution:

Normal rate : 61.4%
Reduced rate : 33.5%
Night rate : 5.1%

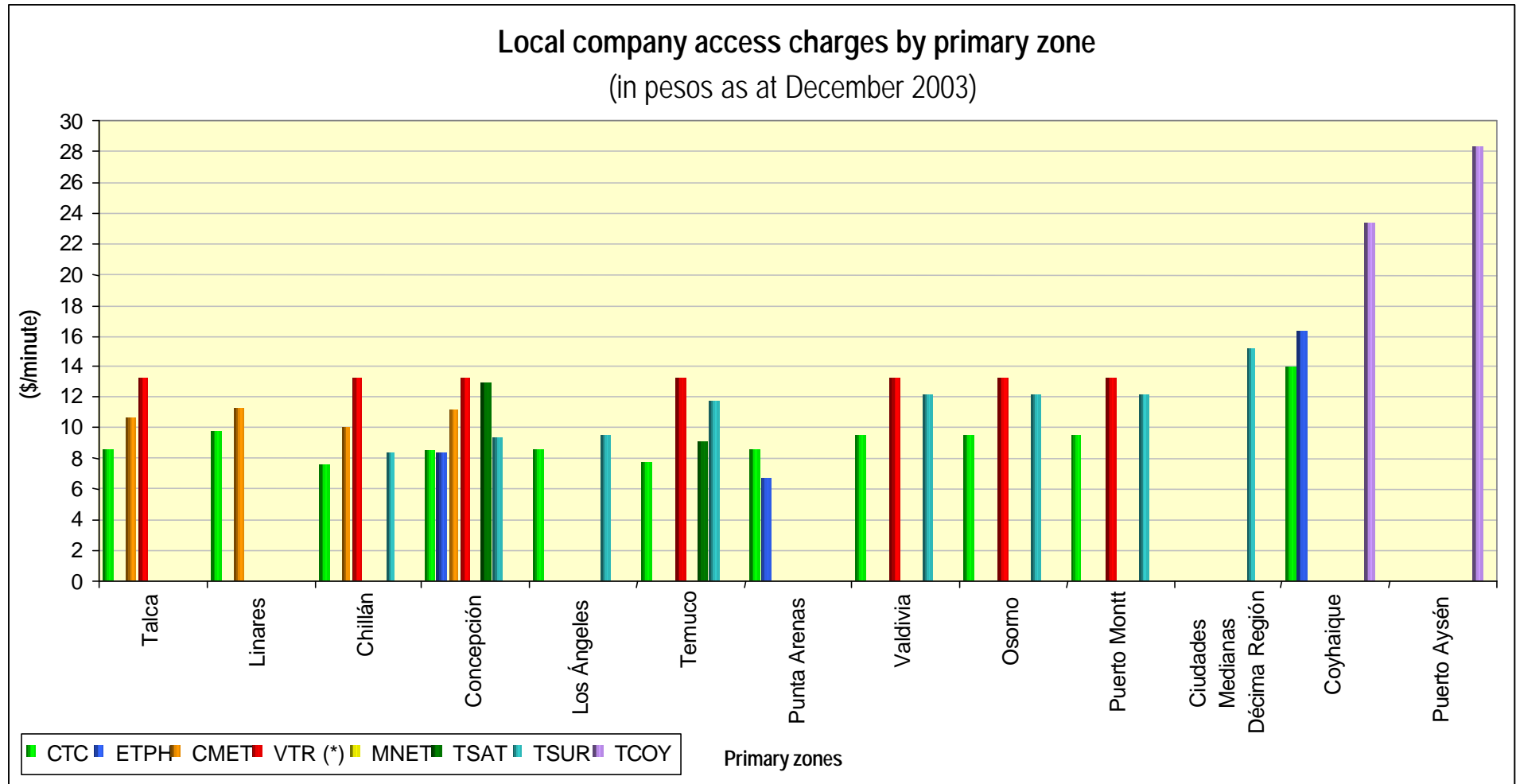
Access charges: Decreasing prices



Local access charges: Normal rate

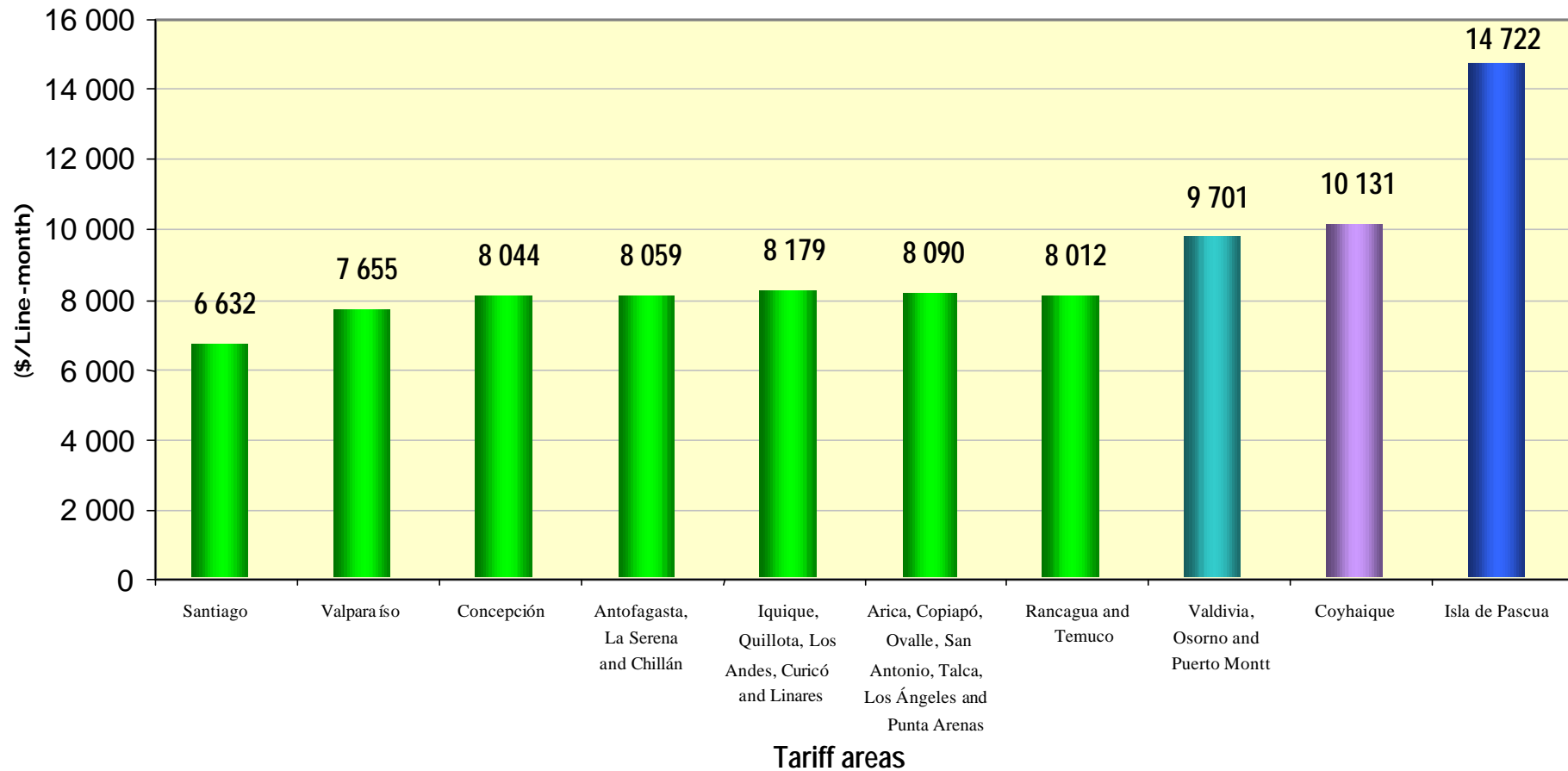


Local access charges: Normal rate



Telephone line service

Local company telephone line service per tariff area
(in pesos as at December 2003)





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THE END
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