



TELECOMMUNICATION COST AND TARIFF MODEL IN BRAZIL

Rio de Janeiro, May 2006

Evolution since privatization

Brazil – selected telecom service indicators for 1998 and 2005

Indicator	1998	2005
Fixed access points installed (millions)	22.1	50.3
Fixed access points in service (millions)	20.0	39.6
Incorrect accounts per 1000 accounts	9.94	1.64
Local network digitization (%)	67.6	99.9
Fixed access points in service per 100 inhabitants	12.5	21.5
Number of cellular terminals (millions)	7.40	75.5
Number of cellular terminals per 100 inhabitants	5	41
Public telephone booths in service per 100 inhabitants	34	69

Note: The 1998 data are for the month of July

The 2005 data are for the month of December

Source: Anatel

Regulatory challenges

- Updating of the regulatory framework: technological convergence
- Strengthening economic and financial regulation: reduce information imbalances
- Stimulating fresh investment, efficiency and passing the benefits on to society

Cost-based regulation context

- Decree 4.733 of 10 June 2003, Article 7:
- *“I – Interconnection and unbundling tariffs will be determined through the adoption of a long-run incremental cost model, with the economic conditions necessary for the ongoing fulfillment of universal service goals by licensees being maintained”.*

Cost-based regulation context

- Institutional environment in 2002:
 - Brazil risk (EMBI Brazil):
 - » March 2002 = 700 base-points
 - » September 2002 = 2400 base-points
 - » March 2006 = 230 base-points
 - Society's reaction to the indexation of tariffs in general and of telephony tariffs in particular
 - » IPCA index, May 1998 to May 2005 = 68.72%
 - » Monitored prices = 127.58%
 - » General Price Index – Domestic Supply = 127.45%

Cost-based regulation context

- Regulation of interconnection tariffs:
- First contractual period: June 1998 to 31 December 2005
=> Maximum prices annually adjusted by the General Price Index – Domestic Supply, less an annual predetermined factor
- Second contractual period:
“With effect from 1 January 2008, the local network usage tariff will be expressed in values that take account of the long-run cost model established under the terms of the relevant regulations in force...” (§ 25.2 of new licence contracts).

Cost-based regulation context

- From 1 January 2006 to 31 December 2007, the maximum local network usage tariffs will be equivalent to:
 - 2006 => 50% of the public usage tariffs
 - 2007 => 40% of the public usage tariffs
- Local network usage tariffs currently:
 - from R\$ 0.03371 to R\$ 0.03737 per minute, equivalent to USD 0.014 to USD 0.016
- Long-distance network usage tariffs during normal hours:
 - from R\$ 0.08277 to R\$ 0.11139 per minute, equivalent to USD 0.035 to USD 0.048

Structure of the Accounts Separation and Allocation Document (ASAD)

- I => Historical cost accounting (HCA) base, whereby costs are allocated to the network elements and products according to the fully allocated costs (FAC) model
 - Allocation methodology: activity-based costing
- II => Current cost accounting (CCA) base
- III => Long-run incremental costs (LRIC)

Current actions

- Establishment of a Cost-Model Commission (CMC). Results:
 - Development of a consultative mechanism for responding to telecommunication operators
 - Development of an interface for electronic submission of the ASAD
 - Elaboration of terms of reference for the hiring of three consultancy firms to deal, respectively, with the areas of: project management; validation of the top-down ASAD; construction of the bottom-up (efficient network) version and reconciliation

Time-frame

- 30 April 2006 => Submission by FSTS licensees of the FAC-HCA => Costs totally allocated on historical bases
- 30 April 2007 => Submission by FSTS licensees of the CCA/LRIC => Costs on current bases/LRIC for use as from 2008 in the definition of local network usage tariffs
- Mobile telephony => Awaiting a resolution from Anatel. May use FAC-HCA and FAC-CCA in defining RVU-M reference usage value for resolution of disputes between companies negotiating mobile network usage tariffs

Challenges/opportunities

- Strategic use of the ASAD by telephony licensees
- Budgetary restrictions
- International experience
- New learning

Thank you!

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