

Position expressed by the representative of the operator CANTV (Venezuela) in regard to the question of use of the COSITU program in calculating the access deficit, discussed during the workshop on the application of COSITU

Santiago de Chile (7-10 September 2004)

The position expressed by CANTV during the workshop on COSITU held in Santiago de Chile in September 2004 is that the software should take account of observations made in regard to the manner in which operators and regulators deal with the question of calculation of the local access deficit (as well as other questions), with a view to including in this tool a number of options designed to make it much more adaptable to our environment.

So far as the access deficit is concerned, it is of great importance to many of the region's administrations (regulators and operators) that the mathematical formulation of the tool should coincide with the regulatory reality of our countries, since, particularly during periods of liberalization in which the telecommunication market is being opened up to competition and the incumbent operator is emerging from a period of limited competition (or controlled monopoly), the concept of access deficit takes on crucial importance since it brings together issues such as, among others, rebalancing, cross-subsidies, accounting separation and predatory pricing practices, all of which are key factors in the regulatory theory of telecommunication market liberalization.

The COSITU model incorporates a formula for determining the access deficit which, as we see it, does not fully reflect the way things actually stand in this sphere.

In CANTV we have for some time now, including before the introduction of liberalization in 2000, been studying the question of access deficit (which we refer to as "local service deficit") and its evolution in recent years, honing our analysis and conclusions up to the present time, having now reached the point at which we have deepened the study to include, for example, the effect of introducing flat rate plans, conducting profitability analyses for each of the plans that constitute the operator's offer to its subscribers, and identifying which of them generate a shortfall and which a surplus. We have taken some initial steps by reviewing the structure of the shortfall, analysing costs from the standpoint of fixed and variable costs, reviewing the impacts of elasticities and the way in which the result of voluntary customer migration between plans is affected, and incorporating the development of new alternatives which reduce the deficit, such as the "call setup charge", etc.

This calculation of the access deficit is nothing other than a comparison of the monthly weighted average income and costs in respect of the basic rental (access) and the local (or "urban" using the COSITU definitions) traffic, both individually in the case of residential customers (dwellings) and non-residential customers (businesses), and on a consolidated basis. This computation (which outwardly is a simple one) provides knowledge as to the economic merits and tariff requirements in respect of these services, making it possible to determine whether cross-subsidies exist between services or even between types of customer, the level of rebalancing needed in order to achieve sustainable tariffs, etc. For those of us in CANTV (and in many other countries), this is a key factor in any process for reviewing basic telephony service tariffs vis-à-vis the regulatory body, these being services which, as is the case in most countries undergoing liberalization processes, are regulated when provided from a dominant position.

It is very important to note that one of the ideas put forward by regulatory theory in regard to liberalization models is that the entry of new operators into the local service market with offers to users that are attractive and which decisively increase the levels of telephone service penetration within the population is essentially rooted in the establishment by the regulatory body of clear rules in respect of tariffs (without excluding the quality requirements that have to be met by all operators)

that allow for an adequate return on investment. A local service (basic rental + local traffic) with loss-making tariffs sustained solely by means of cross-subsidies serves to discourage any incoming operator wishing to invest in a newly-liberalized market.

Furthermore, in the vast majority of countries undergoing liberalization, regulation includes the notion of "accounting separation" which allows, including in cases where an operator provides different services under a single legal entity, for the identification of each service as an independent item which must be self-sustaining. It is precisely this financial sustainability that rules out the possibility of cross-subsidies. In such a regulatory environment, the local service (basic rental + local traffic) is viewed as an individual service, totally separate from the national long-distance service which, in turn, is itself separate from the international long-distance service. By such means, the regulators seek to, among other things, ensure that an operator is unable to maintain artificially lower prices in a given segment, or even to keep prices/tariffs below costs (predatory pricing) by using income from other services, this being a practice whose effect is to restrict free competition. On the other hand, operators find themselves motivated to identify these factors in order to establish an income basis that is much more in keeping with the cost structure.

Thus it is that, in our countries, it is uncommon for the calculation of the access deficit to include interurban (or national long-distance) traffic within the local service, since this prevents both the regulator and the operator from being able to properly perceive the rate of return between the local and the national long-distance services as separate services, and of course makes it impossible to measure the level of cross-subsidies which translate into anticompetitive practices in one market whose artificially low prices are financially compensated for by the excessive income generated in another.

Similarly, the same flexibility should be exercised in regard to the inclusion of the "inefficiencies" factor in the calculation of the access deficit, since not all administrations necessarily include this concept in their calculations aimed at measuring the performance of tariffs versus costs in the local service (or other service). In fact, this issue is open for discussion in many cases, since there may be inefficiencies that are the result of idle installed capacities that were put in place further to instructions given to the operator in a situation of "limited competition" and which failed to correspond to the expected level of growth in demand for the service or to the limited spending power of subscribers at a time of general economic downturn or stagnation.

All of these concepts are likewise applicable to other services such as, for example, the costs of originating traffic bound for other networks, there being regulations in Latin America which expressly prohibit the inclusion, in the determination of interconnection charges, of a portion of costs associated with access, while there are also separate practices which allow for the maintenance of access deficit scenarios by comparing the effective tariffs for basic rental and local (urban) traffic with their respective costs, since part of the deficit is financed from direct subsidies to the operators, with a part thereof even being included in the interconnection charge calculations.

As can be observed, the great variety of regulatory factors makes it necessary for the COSITU model to be made far more flexible. It is obviously impossible to create a variety of COSITU for each administration, since the main purpose of this type of initiative is to develop a single model that meets the general requirements. However, in the formulation of certain specific elements which in many cases are of crucial importance and play a decisive role in the analyses, results and decisions pertaining to tariff policy, there is a need to include certain elements which enable the software user to select, from among a range of options, the calculation or formula that is best suited to the regulatory environment in question.

I should like once again, on behalf of CANTV, to express my thanks for this opportunity to express our views and to applaud the holding of such events, which, by enabling interaction between professionals from the region's regulators and operators, under the auspices of ITU, make it possible

to enrich the telecommunication sector with good ideas. At the same time, I should like to reiterate our congratulations to Ms Carmen Prado and Mr Pape Touré for the excellent work they have done throughout this event, and to give very special thanks to Subtel (Chile) for the friendly assistance provided.

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September 2004