Market mechanism and cost reporting – Experience from Indonesia

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Indonesian Telco Overview

Per year of 2007 as follows (based on regulatory performance report):

- **Fixed Telephone**
  - 8.717.872 subscribers with 2 operators
  - 43.000 USO subscriber

- **Fixed Wireless**
  - 16.598.550 subscribers with 4 operators
  - Including limited mobility with CDMA 1X

- **Mobile**
  - 126.994.871 subscribers with 5 operators
  - Including 3G and HSDPA

- **Internet**
  - Up Link : 8.101.087 kbps
  - Down Link : 9.296.325 kbps

- **Internet User**
  - 56.763.560 users
  - Including internet cafe

- Indonesia Population is around 220 million;
- Total subscriber is around 153 millions and at first semester of year of 2009 approximately around 180 millions;
For all services (basic telephony and broadband):

\[
\text{Retail Tariff} = (\text{Network Cost} + \text{Retail Activities Cost}) \times \text{Corporate margin}
\]

<table>
<thead>
<tr>
<th>Retail Tariff</th>
<th>Network Cost</th>
<th>Retail Activities Cost</th>
<th>Corporate margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>• End user tariff</td>
<td>• FL and efficient;</td>
<td>• Allocated to each services;</td>
<td>• Cover corporate overhead</td>
</tr>
<tr>
<td>• National Effective price per services</td>
<td>• LRIC prefer;</td>
<td></td>
<td>• Usually max 10%</td>
</tr>
</tbody>
</table>

**Implementation of Retail Tarif**

- Bundling by region, segment, product etc.;
- De-everage by time, region and product;
- Promotion per product per time period;
- Extension of promotion should be approved by regulator.
As follows:

- To increase growth of subscriber and volume of traffic, for this moment, regulator does not regulate floor pricing;
- Opportunity for public to enjoy affordable tariff;
- Boosted tariff competition among operators;
- Transparancy of cost;
• Termination costs calculate with LRIC FL BU;
• Regulator and operator will calculate termination costs by using data from industry.
• Result of calculation will be implemented by all operator (symetric termination cost);
• Practical Indonesian LRIC FL BU as follows:

**Termination Cost**

- **A. Description**
- **B. Results**
- **C. Masterfiles**
- **D. Reconciliation**

**Key**
- Input stage
- Calculation stage
Market Mechanism Process

As follows:

Operator’s claim
- One operator claim on other operator’s tariff;
- Claim submitted to regulator;
- Presumption of fact: predatory pricing, cross subsidy and transfer pricing;
- Fact: data, bisnis and academic analysis, benchmark, best practice;

Public’s claim
- Public’s claim on other operator’s tariff;
- Claim submitted to regulator;
- Presumption of fact: over price
- Fact: data, bisnis and academic analysis, benchmark, best practice;

Pre-Investigation by regulator
- Evaluation of claims, including data and facts;
- Result of evaluation could be disregard claim or be continued to investigation process;

Investigation by regulator
- Confirmation of calculation and implementation of tariff;
- Interim Decision;
- Public and expert consultation;
- Evaluation by regulator;
- Final decision;

Competition Comission
- CC could make direct investigation to operator’s tariff;
- CC’s decision will be registered in court

Implementation of final decision
- Decision could be an order to cancellation of tariff or penalty;
- Operator could appeal to court;
- Regulator decision should be implemented during appeal process.

Competition Commission
- Court, higher court and supreme court;

Pre-Investigation by regulator
Impact of tariff regulation

From most expensive to cheapest in the region:

Source: Deutsche Bank
Impact of tariff regulation

To reach unreachable:

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Monthly expense for telco services (Rp)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>&gt; 150 K</td>
</tr>
<tr>
<td>Sumatra</td>
<td>49,198,036</td>
<td>39,344,763</td>
</tr>
<tr>
<td>DKI Jakarta</td>
<td>8,998,314</td>
<td>8,972,219</td>
</tr>
<tr>
<td>Jabar &amp; Banten</td>
<td>50,034,765</td>
<td>40,733,302</td>
</tr>
<tr>
<td>Jateng &amp; DIY</td>
<td>36,372,841</td>
<td>26,079,327</td>
</tr>
<tr>
<td>Jatim</td>
<td>36,768,974</td>
<td>24,495,490</td>
</tr>
<tr>
<td>Kalimantan</td>
<td>13,014,458</td>
<td>10,541,711</td>
</tr>
<tr>
<td>Sulawesi</td>
<td>16,546,555</td>
<td>10,756,585</td>
</tr>
<tr>
<td>Bali &amp; IBT Lainya</td>
<td>17,103,003</td>
<td>11,129,209</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>228,036,947</strong></td>
<td><strong>172,052,607</strong></td>
</tr>
</tbody>
</table>

Lower purchasing power parity will be effect to the target market for Telecommunication services.

Source: IMT consulting group
### Component of RFR:

<table>
<thead>
<tr>
<th>No.</th>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Assets Return</td>
<td>Figure the HCA asset and revaluation assets also CCA adjustments</td>
</tr>
<tr>
<td>2</td>
<td>WACC</td>
<td>Value of weight average cost of capital (WACC) will be used on the model that represent on operator</td>
</tr>
<tr>
<td>3</td>
<td>RFS</td>
<td>Allocation process of cost category to the business segment of operator</td>
</tr>
<tr>
<td>4</td>
<td>Statement of Network Costs</td>
<td>Calculate unit cost for each network element</td>
</tr>
<tr>
<td>5</td>
<td>Statement of Network Service Costs</td>
<td>Calculate the network service unit cost</td>
</tr>
<tr>
<td>6</td>
<td>Accounting Separation</td>
<td>Show the transfer charges and reconciliation to the financial statements</td>
</tr>
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</table>
How to prepare RFR:

- (General Ledgers)
- Data Aset (Fix assets Registered)

Model
Top Down

RFR
How to prepare RFR:

1. Balance Sheet 2007
2. Income Statement 2007
3. Fix asset Register (FAR)

Output:
1. Current Cost Adjustment
2. WACC
3. Total Retail Cost
4. Total Common Cost
5. Asset MEA Valuation

Submitted to regulator yearly on September.
Conclusion:

Market mechanism and cost reporting regulation will:

• be an opportunity for public to enjoy affordable tariff;
• Boost tariff competition among operators;
• Be a transparency of cost;
• Create a smart business strategy by operator;
• Increase efficiency of industry (encourage operator for consolidation i.e infrastructure sharing, open access and merger);
Thank You.

Terima kasih!