



COST MODEL FOR INTERCONNECTION TARIFFS IN BRAZIL

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- *Policy:*
- *“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”.*
- (Decree 4.733 of 10 June 2003.)

“With effect from 1 January 2008, the local network usage tariff (LNUT) will be expressed in values that take account of the long-run cost model established under the terms of the relevant regulations in force”.

(Chapter XXV of new licence contracts 2006-2026)

Instrument regulating the bringing into effect of that public policy: Resolution 396 of 31 March 2005:

Accounts Separation and Allocation Document (ASAD)

Cost-oriented tariffs and values in the Brazilian Telecommunication Sector

TARIFFS/VALUES	CRITERION	EXPECTED DATE	LEGAL BASIS
FIXED INTERCONNECTION (LNUT/LDUT)	LRIC	01.01.2008	Chapter XXV of licence contracts
CIRCUIT LEASING <i>Standard</i> EILD reference value	LRIC	To be established in Anatel Resolution	Art. 15 of Res. 402 of 27/04/2005 regulating the operations of EILD
MOBILE INTERCONNECTION VU-M reference value of the group holding SMP in mobile network interconnection	FAC-CCA	To be established in Anatel Resolution	Art. 14 of Res. 438 of 10/07/2006 regulating remuneration for the use of mobile networks

Two remarks need to be made:

- The context that the existing regulations are seeking to embrace is fairly ambitious
- The ASADs submitted by each of the six licence-holders cover four geographic regions



First submission of the ASAD

Resolution 419 of 24 November 2005:
30 April 2006

Components of the ASAD

- **Historical cost accounting (HCA)**
Activity-based costing (ABC) methodology
- **Current cost accounting (CCA)**
- **Long-run incremental costs (LRIC)**

For the first submission of the ASAD:

Only:

Historical cost accounting (HCA)

Activity-based costing (ABC) methodology

Challenges

Strategic aspects:

- Differing perception among licence-holders as to the priority of the model
- Delay in the hiring of consultancy firms by ANATEL
- IT solutions adopted by the licence-holders

Challenges

Operational aspects:

- Problems with the ASAD submission interface
- Incompleteness of the submitted ASAD
- Main omissions in the first submission of the ASAD (next slide):

LICENCE-HOLDER	Type of omission	Regulations infringed
1	Incomplete entry, lacking: Audit report; ASAD for Regions I and III; in the ASAD for Region II: data conciliation; cost and capital matrix; network usage matrix, cost per product and entry of internal transfer.	Art. 96 §§ I, II and V of Act 9.472 of 16/07/1997; Art. 3 of Res. 396 of 31/03/06; Art. 1 of Res. 419 of 24/11/2006; § 16.1 of the licence contract (local).
2	Incomplete entry, lacking: Appendix A - Request and physical data information, Introductory report. Appendices C and D, report on methodology, report on fully-allocated costs	Art. 96, §§ I, II and V of Act 9.472 of 16/07/1997; Art. 3 of Res. 396 of 31/03/06; Art. 1 of Res. 419 of 24/11/2006; § 16.1 of the licence contract (local).
3	Incomplete entry, lacking: Audit report, Appendix A, Tables 4, 5, 6 Appendix A, Tables partly completed	Art. 96, §§ I, II and V of Act 9.472 of 16/07/1997; Art. 3 of Res. 396 of 31/03/06; Art. 1 of Res. 419 of 24/11/2006; § 16.1 of the licence contract (NDL/ILD).
4	Incomplete entry, lacking: Audit report; additional information items 7.1 to 7.4; Appendix D; detailed report on methodology; copy contracts; cost and capital matrix; network usage matrix; cost and capital value per product supplied; proof of result by business sector.	Art. 96, §§ I, II and V of Act 9.472 of 16/07/1997; Art. 3 of Res. 396 of 31/03/06; Art. 1 of Res. 419 of 24/11/2006; § 16.1 of the licence contract (local).
5	Incomplete entry, lacking: The licence-holder submitted only the copy of the contracts for the joint use of infrastructure investments and services, failing to submit the whole ASAD.	Art. 96, §§ I, II and V of Act 9.472 of 16/07/1997; Art. 3 of Res. 396 of 31/03/06; Art. 1 of Res. 419 of 24/11/2006; § 16.1 of the licence contract (local).

Prospects as from 2007

Taking 1 January 2008 as the starting date for use of the long-run cost model as the basis for charging for fixed interconnection is not considered to be viable.

Prospects as from 2007

Consultancy contracts are expected to be concluded in 2007, enabling, among other things: Construction of the bottom-up (efficient network) version, to be reconciled with the top-down version submitted by the licence-holders.

Prospects as from 2007

Licence-holders to submit an improved version of the ASADs for 2005 and 2006, and commencement of construction of the current cost accounting (CCA) and long-run incremental cost (LRIC) versions.



Thank you!

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