# Regional Seminar on Costs and Tariffs for Member Countries of the Regional Group for Asia and Oceania (SG3RG-AO) (former TAS Group)

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## **Document 3**



# Market mechanism and cost reportingExperience from Indonesia

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### **Indonesian Telco Overview**



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



#### **Fixed Telephone**

- •8.717.872 subcribers with 2 operators
- •43.000 USO subcriber



#### **Fixed Wireless**

- •16.598.550 subcribers with 4 operators
- •Including limited mobility with CDMA 1X



#### Mobile

- •126.994.871 subcribers 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 subcriber is around 153 millions and at firts semester of year of 2009 approximately around 180 millions;

### **Retail Tarif Calculation**



#### For all services (basic telephony and broadband):

= (

#### **Retail Tariff**

- End user tariff
- National Effective price per services

#### **Network Cost**

- FL and efficient;
- LRIC prefer;

#### Retail Activities Cost

 Allocated to each services;

+

# Corporate margin

Cover corporate overhead

) X

Usually max 10%

#### Implementation of Retail Tarif

bundling by region, segment, product etc.;

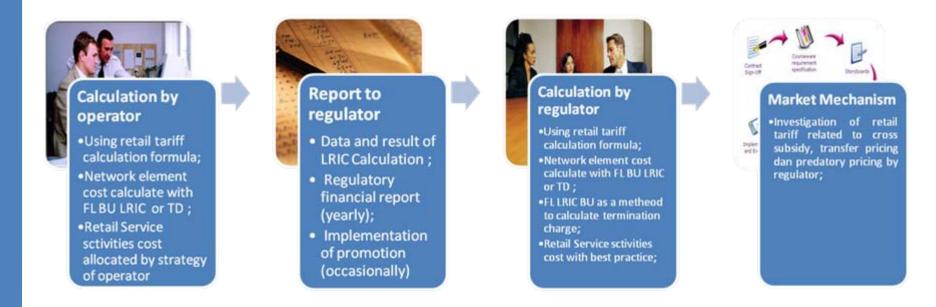
De-everage by time, region and product;

Promotion per product per time period; Extension of promotion should be approved by regulator

# **Retail Tariff Regulation**



#### As follows:

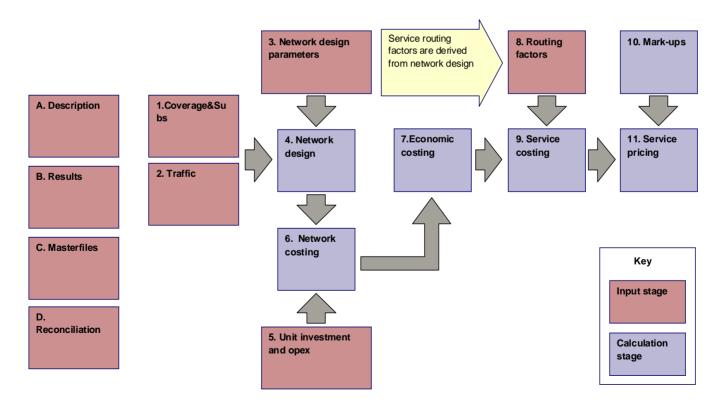


- To increase growth of subcriber and volume of traffic, for this moment, regulator does not regulate floor pricing;
- Opportunity for public to enjoy affordable tariff;
- Boosted tariff competition among operators;
- Transparancy of cost;

### **Termination 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 :



### **Market Mechanism Process**

OR



#### As follows:

# Operator's claim

- One operator claim on other operator's tariff;
- Claim submitted to regulator;

#### Public's claim

- Public's claim on other operator's tariff;
- Claim submitted to regulator;

# 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 Decission;
- Public and expert consultation;
- Evaluation by regulator;
- Final decission;

# Implementation of final decission

- Decission could be an order to calcellation of tariff or penalti;
- Operator could appeal to court;
- Regulator decission should be implemented during appeal process.

- Presumption of fact

   predatory pricing,
   cross subsidy and
   transfer pricing;
- Fact : data, bisnis and academic analysis, benchmark, best practice;
- Presumption of fact : over price
- Fact : data, bisnis and academic analysis, benchmark, best practice;

# Competition Comission

- CC could make direct investigation to operator's tariff;
- CC's decission will be registered in court

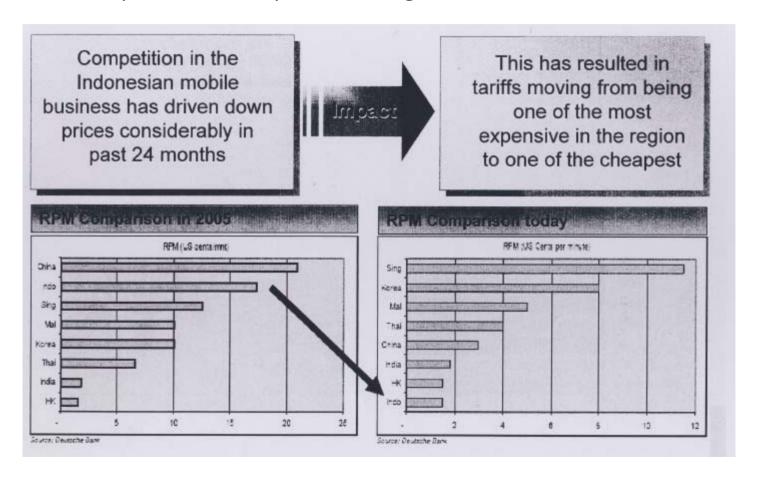
# Court Jurisdiction Process

 Court, higher court and supreme court;

# Impact of tariff regulation



From most expensive to cheapest in the region:



Source: Deutsche Bank

# Impact of tariff regulation



#### To reach unreachable:

Region	Population	Monthly expense for telco services (Rp)			
		> 150 K	> 200 K	> 300 K	> 500 K
Sumatra	49,198,036	39,344,763	30,747,679	18,146,969	6,794,795
DKI Jakarta	8,998,314	8,972,219	8,821,947	7,604,475	4,008,749
Jabar & Banten	50,034,765	40,733,302	30,969,018	17,864,913	6,754,693
Jateng & DIY	36,372,841	26,079,327	18,288,265	9,969,796	4,284,721
Jatim	36,768,974	24,495,490	16,226,148	7,846,499	2,798,119
Kalimantan	13,014,458	10,541,711	8,073,194	4,432,399	1,484,624
Sulawesi	16,546,555	10,756,585	7,281,477	3,356,634	1,088,432
Bali & IBT Lainya	17,103,003	11,129,209	7,681,814	3,844,185	1,299,258
Total	228,036,947	172,052,607	128,089,542	73,065,870	28,513,392

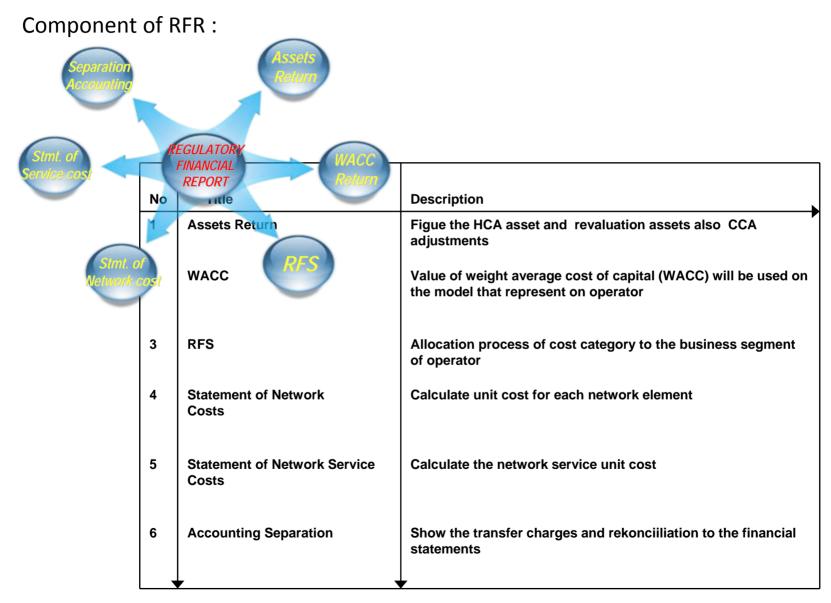
Target Market for Telco Services

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

Source: IMT consulting group

# **Regulatory Financial Report**

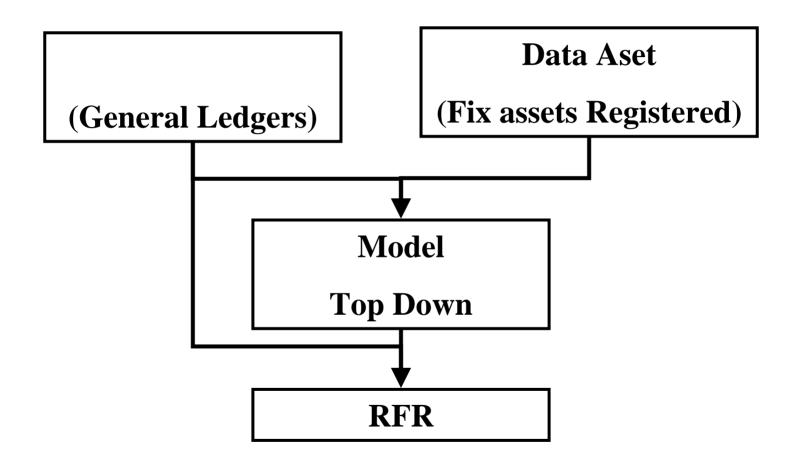




# **Regulatory Financial Report**

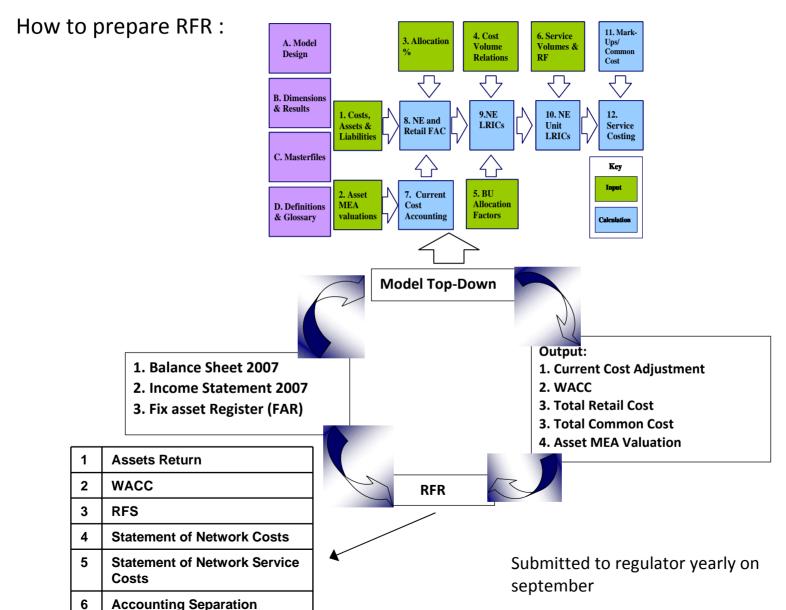


How to prepare RFR:



# **Regulatory Financial Report**





### **Conclusion:**



### Market mechanism and cost reporting regulation will:

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



# Thank You.

### Terima kasih!



