

**ITU Regional Economic Dialogue for Africa RED20-AFR:
Meaningful and Affordable Digital Connectivity for Africa**
Virtual 11-12 November 2020

ITU-D Q4/1 Guidelines on Cost Modelling

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The objective is to complement Regulatory Accounting Guide with more practical details for NRAs

- ITU published in 2009 its [Regulatory Accounting Guide](#)
- This document provides an overview of cost modelling topics, but does not enter into much detail about relevant technical methodological aspects
- With the Guidelines on Cost Modelling we wanted to provide more level of detail that will be useful for implementing cost models, especially for NRAs

But... For what can a cost model be used?

Wholesale Markets



Price setting



Reference Offers

Retail Markets



Price floors



Price ceilings



Tariff approval



Tariff replicability

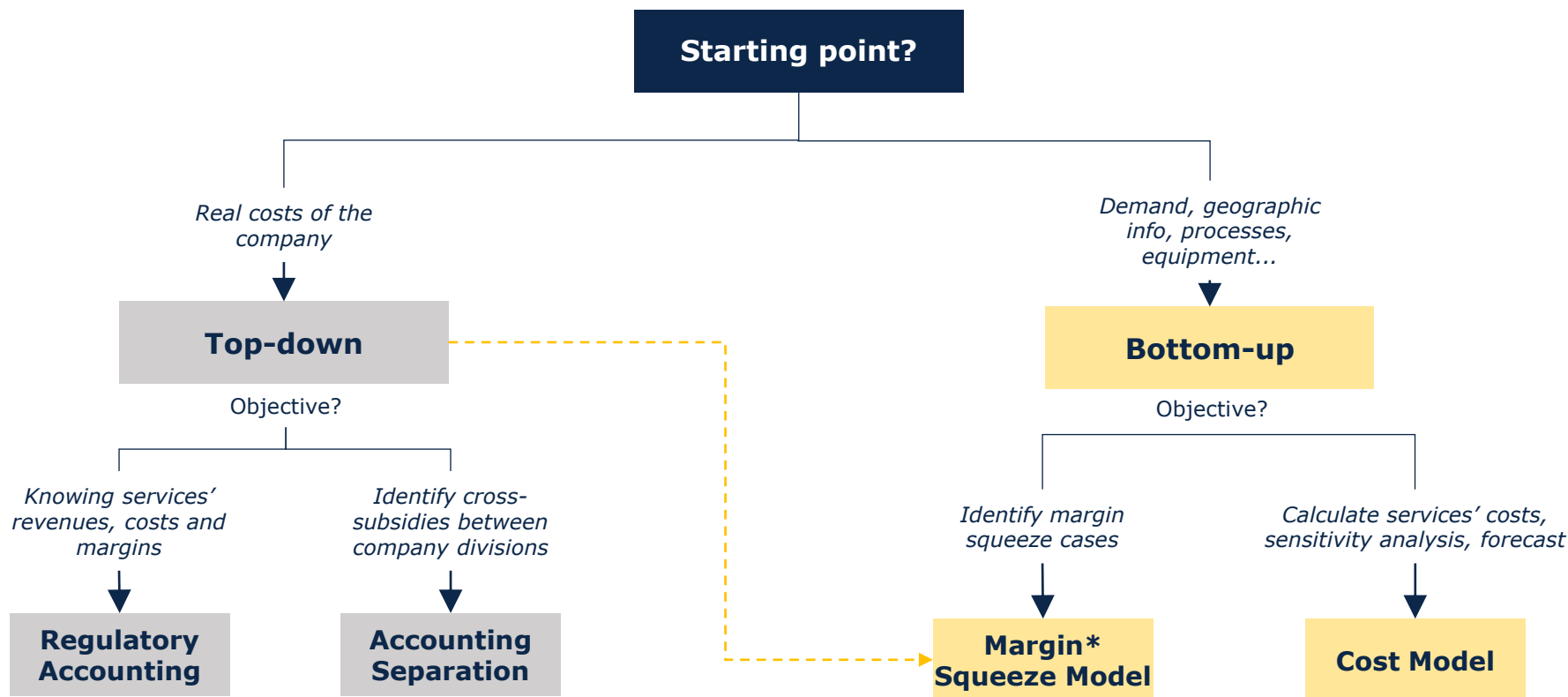


Non-discrimination



Supervision of other anticompetitive practices

The first methodological aspect is the general approach



Once the approach is selected, it is important to define several methodological aspects

	Relevant topics and options			Bottom-Up	Top-Down
Cost Standard	▶ Fully Distributed (FAC/FDC)	▶ Pure Incremental (LRIC)	▶ Incremental+ (LRIC+)	✓	✓
Cost elements to consider	▶ Network ▶ Licenses and spectrum	▶ Retail ▶ General and Admin.	▶ Cost of Capital	✓	✓
Treatment of capital	▶ Assets valuation	▶ Modern Equivalent Assets	▶ Annualisation method	✓	✓
Treatment of revenues	▶ Financial information and granularity ▶ Treatment of bundles			-	✓
Reference operator	▶ Real Operators	▶ Hypothetical operator	▶ Hypothetical new entrant	✓	-
Services and increments	▶ Services to include	▶ Definition of increments (only for LRIC/LRIC+)		✓	✓
Geographical modelling	▶ Geotypes definition	▶ Modelling based the information available		✓	-
Network topology design	▶ Scorched node	▶ Modified Scorched Node	▶ Scorched earth	✓	-

Legend:  Applicable  Not applicable

Is crucial to define properly the process to implement cost models

Bottom-up

1. Kick-off

2. Methodology

3. Consultation
on Methodology

4. Data
gathering

5. Data
validation

6. Model
development

7. Consultation
on the Model

8. Regulatory
decision

Top-down

1. Regulatory framework
definition

2. Development of
implementation manual

3. Model implementation

4. Audit/revision

Next steps

- The Draft Guidelines on Cost Modelling are available in ITU-D Study Group 1 – Contribution:
<https://www.itu.int/md/D18-SG01.RGQ-C-0324/>
- The document was approved after the revision of participants in Rapporteur Group meeting for ITU-D Q4/1 on 25-28 September 2020
- The final document will be published soon in the ITU's 6 official languages

THANK YOU