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TELIKOM PNG

Telikom PNG Limited
Office of Chief Executive Officer
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Date: 27th August 2013
Ref:

Mr. Charles S. Punaha
Chief Executive Officer
National Information & Communication Technology Authority
P.O Box 8444
BOROKO
National Capital District

DECIA
For your attention & action
CEO 02/09

Noted
CEO
02/09/13

Dear Mr. Punaha,

REF: PUBLIC CONSULTATION DOCUMENT ON SERVICE - SPECIFIC PRICING PRINCILES

Telikom PNG Limited refers to NICTA's request for views, comments and submission regarding the above matter and hereby submits its views and comments accordingly.

Whilst Telikom PNG notes NICTA's desire to develop a robust pricing principle applicable for the International Submarine Cable Transmission Capacity Service and the International Submarine Cable Gateway Access Service, Telikom PNG urges NICTA to be mindful of the broader business principles that are impacted by intervention and pricing determinations, namely the justness of such notions, and its likely impact in stifling major infrastructure investments. Telikom PNG undertook these major investments at its own risk and at great cost for its own business interests. It is unfortunate that this is now being coveted by other operators who could have done the same if they considered such investments of value. The inability to recover costs and gain an economic return from investments will impact considerations of future investments.

The pricing principle developed should not attempt to cannibalise the cost incurred by Telikom PNG in maintaining the Submarine Cable over the years. Telikom PNG would be supportive of any pricing principles that would improve the efficiency of the submarine cable while allowing access seekers to share the cost of maintaining the submarine cable and ensuring a fair economic return to itself for undertaking this risky venture.

While the wholesale market is open under the current licensing framework, the imposition of regulations on the submarine cable service and cable entry station services appear as if Telikom PNG itself is being regulated since it is currently the only supplier of submarine cable services and is deemed by NICTA to be the case for some time yet. For this reason, Telikom PNG considers the imposition of such regulation is akin to application of regulatory contracts, hence Telikom PNG strongly requests that any decision on principles and methodologies to be applied to determine prices and costs must first be presented in detail to Telikom PNG for its further consideration before it is approved. In particular, the presentation should demonstrate that such proposed principles and methodologies will actually assist with achieving an acceptable return on investment.

Telikom PNG hereby submits its comments in the attached submission for NICTA's consideration and subsequent adoption should NICTA consider it appropriate. However, should you require further clarification and/or explanation on any aspect of our submission, please do not hesitate to contact us.

Yours Truly,

....

Mr. Phillip Aeava
ACTING CHIEF EXECUTIVE OFFICER

SUBMISSION ON SERVICE SPECIFIC PRICING PRINCILES

Telikom PNG notes the content of the Public Consultation Document on Service - Specific Pricing Principles pursuant to Subsection 135(3) of the National ICT Act 2009 and hereby offers the following comments.

The comments are arranged in the order of NICTA's Public Consultation Document. Telikom PNG's comments are shown in blue colour.

1. Name of the Determination

   Noted

2. Purpose

   Noted

3. Commencement and Expiry

   Telikom PNG as the provider of both the International Submarine Cable Transmission Capacity Service and International Submarine Cable Gateway Access Service should be informed in advance of any determinations.

   This is to allow Telikom PNG to prepare itself for any determination NICTA intends to make in relation to the expiry and determination of this wholesale services.

4. Interpretation

   No comments

Part I - International Submarine Cable Transmission Capacity Service

5. Application

   No Comments

6. Pricing Principles

   (1) Telikom PNG states that the price of the transmission capacity is different in terms of price per megabit per second with different transmission capacities and therefore Telikom PNG should be allowed to price it accordingly to reflect its cost.

   (2) Telikom PNG agrees that costs associated with any defaults that reduce the capacity available for the period should be borne propositionally by all the customers.

7. Pricing Principles - Interim and Final Determination

   1) Noted

   2) Telikom PNG is of the view that NICTA should decide now on what cost model(s) it intends to rely on to determine the price of the transmission capacity service rather than proposing to rely on (a), (b) and (c).

Preferably, Telikom PNG as the wholesaler should be allowed to provide its costs model and NICTA should use this as a basis at this initial stages.

3) Telikom PNG seeks some explanation from NICTA on the basis of choosing TSLRIC, FAC and a hybrid of TSLRIC and FAC.

   i. TSLRIC (Total Service Long-Run Incremental Cost)

   Telikom PNG notes that the NICTA's proposal to use the TSLRIC methodology. While Telikom PNG agrees that this method is conceptually most suited to calculate the efficient costs of an efficient operator, such a position is likely to occur in the future (which is the right benchmark for efficient investment signals). In addition, Telikom PNG is gravely concerned with NICTA's ability to allow Telikom PNG to fully recover its costs under the TSLRIC methodology, for investments which it undertook at its own risk and for its own business interests, and which now is being considered for determination. Inability to recover costs and gain an economic return from investments will stifle investments in major infrastructure.

   Whilst Telikom PNG notes NICTA's desire to adopt such cost standard, it is also equally important to note that most Telecommunication operators around the world have now moved away from the TSLRIC because of the difficulties in relating computed prices to real investment recovery. Telikom PNG refers to a Report by the ACCC, titled. "Review of the 1997 telecommunications access pricing principles for fixed line services - Draft report September 2010".

   The main reason for them moving away is that the regulators are not allowing the operators to fully recover their common cost and its inability to include historical cost data for cost recovery whilst it places more emphasis on forward looking cost and that leads to economic losses to the operators. The end-effect is detrimental to operators and more so to developing country operators such as Telikom PNG.

   Telikom PNG would like to as much as possible avoid this scenario, if NICTA prefers adopting this cost approach. However, if NICTA insist that it would apply the TSLRIC methodology then Telikom PNG has the following concerns.

   - if NICTA were to allow Telikom PNG to receive revenue equal to TSLRIC on all its services then Telikom PNG would be making a loss equal to its common costs. This is because TSLRIC only considers product specific costs but makes no allowance for common costs associated with multiple services.

   - Therefore, Telikom PNG suggest that if NICA agrees to use TSLRIC then TSLRIC estimates need not be based on forward-looking costs but should be based on actual or historic costs rather than on forward looking costs solely.

- However, if NICTA prefers the forward looking cost then NICTA would need to define in a prudent and realistic way (cost calculations cannot, for instance, be based on untested or yet unavailable technologies or on hypothetical conditions, network structures etc.).

- TSLRIC would need to be calculated in such a way that Telikom PNG has the opportunity to recover all its associated costs in providing the submarine cable;

ii. Fully Allocated Cost (FAC)

Telikom PNG understands that the fully-allocated costs methodology will cover all cost components, i.e. this methodology will require a full allocation of common or joint costs to the individual products and services.

However, Telikom PNG is concerned that this allocation method is based on accounting principles rather than on economic ones. In addition, normally historical cost data is used to allocate costs, and such information does not bear much resemblance to the actual or prospective cost situation.

Another important criticism of prices based on fully-allocated costs is that they tend to encourage inefficient operation and investment, even providing incentives for increasing costs. For example, a firm which receives a price for its product based on its total costs would tend to report to the regulator, or even actually incur, higher costs in order to be allowed higher prices. Though such (adverse) incentives are likely to be present in other cases of cost-based pricing also, they are much stronger under the fully-allocated cost methodology.

Therefore, Telikom PNG would be happy to know how NICTA would apply this methodology.

iii. A hybrid of TSLRIC and FAC

Telikom PNG is unable to offer its views and comments as it does not know how a hybrid TSLRIC and FAC pricing methodology will be applied. Telikom PNG suggests that NICTA inform it in advance of a hybrid pricing methodology it intends to adopt.

Apart from i, ii and iii proposed by NICTA, Telikom PNG is proposing the use of the "Building Block Methodology (**BBM**)".

In recent times, a consensus appears to have been reached among industry participants that a BBM should be the appropriate pricing methodology or approach to telecommunications services.

The BBM is an established approach used to determine the revenue required by regulated businesses and has been widely adopted by Australian regulators in other sectors and it is also adopted by the

Independent Consumer and Competition Commission in PNG for other sectors.

An advantage of the BBM is that it allows the access provider to recover its efficient actual costs as well as a reasonable rate of return on, and a return of, its investments in existing sunk assets.

4) Telikom PNG suggests that NICTA inform the Operators/Licencees of the basis of any cost adjustment, and the efficiencies gains it intends to achieve as a result of the costs adjustment.

   Any cost adjustments proposed must not place the operators/Licencees in a disadvantage position to recover the adjusted cost. Hence, NICTA should provide some incentive for the Operators to benefit should the adjusted cost is not recovered over the intended regulatory period.

5) Telikom PNG would be inclined to know what form of efficiencies it intends to achieve.

6) Telikom PNG is of the firm view that in considering the economic life of the transmission capacity asset, NICTA should rely entirely on Telikom PNG's costs incurred in maintaining the asset. For any benchmarking, Telikom PNG must be given the opportunity to access the cost details and its operating jurisdiction.

7) In determining the reasonable return on investment, NICTA should not understate the entire investment Telikom PNG has undertaken over the years and should give considerable attention to the whole transmission capacity services.

   Telikom PNG will dispute any piecemeal assessment of the transmission capacity services.

   The commercial arrangement between the equity and debt providers on the commercial risks and returns is a matter between Telikom PNG and the equity and debt contributors, Telikom PNG suggest that NICTA source these information from Telikom and not directly from them.

<u>Part II - International Submarine Cable Gateway Access Service</u>

8. Applications

   No Comments

9. Pricing Principles

   (1) Noted

   (2) Telikom PNG considers that the choice between actual collocation and virtual collocation as part of the international submarine cable gateway access service should be mutually agreed by access provider and access seeker.

(3) Telikom PNG agrees that costs associated with separation of collocated equipment should be borne by the access seeker.

10. Pricing Principles - Interim and Final Determination

1) Noted

2) Telikom PNG is of the view that NICTA should decide now on what cost model(s) it intends to rely on to determine the price of the transmission capacity service rather than proposing to rely on (a), (b) and (c).

   Preferably, Telikom PNG as the wholesaler should be allowed to provide its costs model and NICTA should use this as a basis at this initial stages.

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