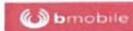


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Our Ref: NIC_01/22

Date: 6th JUNE, 2022

BY EMAIL TO: kgulovui@nicta.gov.pg

Mr. Kila Gulo-Vui

Chief Executive Officer

National Information & Communication Technology Authority

P.O Box 8444

BOROKO

National Capital District

Dear Mr. Gulo-Vui,

Re: NICTA's Public Inquiry into Potential Retail Service Determination (RSD) in Relation to Voice and Data

We thank NICTA for the opportunity to make a submission in this inquiry.

We have requested for a further extension of the due-date because we feel that we needed extra time to adequately address certain matters in the inquiry.

However, in light of your advice against further extension, we enclose Telikom Limited's (amalgamation of Telikom PNG and Bemobile) responses, which answers the two sets of questions interspersed in the Inquiry's discussion paper and raises other concerns and suggestions for NICTA's consideration.

Telikom considers that a Retail Service Determination should only be imposed on retail mobile services, namely, mobile voice services (including the differential between on-net and off-net mobile voice calls) and mobile data services supplied by Digicel PNG because Digicel is a dominant market player that is able and has been promoting anti-competition. Anti-competition is an area where we would ask NICTA to address.

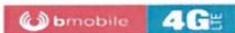
On the other hand, Telikom considers that fixed data services supplied by Telikom should not be subject to regulation because:

1. Telikom does not believe that it has a substantial market power or that it has a larger market share by revenue in the supply of fixed data services in PNG. It is obvious that there is effective competition in this market because fixed services are now offered by mobile operators and the wholesaler (PNG DataCo). Telikom has also lost some of its major customers to the wholesaler in recent years. Therefore, Telikom requests if NICTA can validate its estimation of Telikom's market share by revenue with the most recent revenue data.

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2. Telikom's pricing is cost-based relative to its operations. International capacity makes up only a small portion of the costs that determine Telikom's fixed data services pricing. Therefore, it would be unfair to impose a Retail Service Determination on retail fixed data services solely because of the commissioning of the Coral Sea Cable (CS2) when other major fixed cost inputs are operational costs that include foreign imports. Telikom has slashed its prices to being the cheapest rates in the markets today but unless the government addresses cost issues such as subsidizing operational exchanges and towers in the area of utility, like electricity, prices are most unlikely to keep reducing.

Otherwise, Telikom's overall view on this Inquiry into a potential RSD in relation to retail voice and data services is that since a new operator has recently entered into market, NICTA should delay regulation for at least 2 to 3 years to observe the effects of market competition. Market forces should be able to self-regulate the mobile and fixed markets and effective competition among the operators is expected to improve in the next few years. Otherwise, regulation may distort market forces from enhancing competition. However, NICTA can make its assessments afterwards and impose an RSD where it seems fit.

Finally, Telikom wishes to re-emphasize that international capacity is not the only cost component in determining retail pricing. There are other fixed costs that must be considered when determining a Retail Service Determination. Therefore, a Retail Service Determination on mobile and fixed data services is considered early at this time except an RSD for the differential between on-net and off-net mobile voice calls is sufficient.

We thank NICTA again for this opportunity and look forward to the outcome of the consultation.

Yours faithfully,
Telikom Limited

Vincent Henry (Mr.)
Head of Legal & Regulatory



Telikom Limited

Response to NICTA's Public Inquiry into Potential Retail Service Determination (RSD) in Relation to Voice and Data

03 June, 2022

1. INTRODUCTION

Telikom responds to NICTA's request for the public to engage in Public Consultation in accordance with Section 229 of the NICT Act in relation to the Inquiry into whether a recommendation should be made to the Minister for a Retail Service Determination (RSD) for voice and data services.

This paper provides Telikom's responses to NICTA's two sets of questions outlined in the Inquiry; first set of questions interspersed in the main Discussion paper and the second set of questions interspersed in the Retail Pricing Study Report annexed to the discussion paper. In addition, Telikom raises other arguments, concerns, and suggestions with respect to matters discussed in the Inquiry for NICTA's consideration.

2. BACKGROUND

Telikom notes from the discussion paper that, on the 16th June 2020, the Minister for Information, Communication, and Technology has advised NICTA to look into the case for a retail pricing determination for voice and data. The Minister indicated that he wished to see benefits to customers and end-users as a result of the commissioning of the Coral Sea Submarine Cable in the first half of 2020.

As such, NICTA is now conducting this public inquiry for a potential Retail Service Determination on the following retail voice and data services:

1. National voice services supplied by Digicel
2. Mobile data services supplied by Digicel and
3. Fixed data services supplied by Telikom.

3. TELIKOMS RESPONSES TO QUESTIONS IN THE DISCUSSION PAPER

Below are Telikom's responses to the two sets of questions set out in the discussion paper:

A. First Set of Questions

Questions	Responses
<p>[Question 1]: Do you agree with the approach that NICTA is taking to voice and data services for the purposes of this public inquiry, that it considering retail voice as a single service, with retail mobile data and retail fixed data as separate services? [Please state your reasons including your reasons for any alternative approach that you consider should be adopted]</p>	<ul style="list-style-type: none">• Telikom disagrees with NICTA's approach to consider retail voice as a single service. Fixed voice and mobile voice services should be considered different services because:<ol style="list-style-type: none">1. They have different access network elements and costs structures.2. These services are supplied to different customer segments or markets that have different customer base in terms of market share. This is evident from how customers still differentiate between these two services. Fixed voice and mobile voice, however, do share some degree of substitutability. However, substitutability is absent where one service is unavailable. For instance, where there is no fixed services in the rural setting, given PNG's geography, mobile would be the obvious available choice. Customer cannot choose, hence, it can be said that

	<p>mobile voice services serves a different market from fixed voice services.</p> <ul style="list-style-type: none"> • Therefore, fixed and mobile retail voice should be considered two different services. However, a Retail Service Determination can only be made for the mobile retail voice services in accordance with the Regulation Criteria set out in Section 158 of the NICT Act. • On the other hand, Telkom agrees with NICTA's approach in considering retail mobile data and retail fixed data as separate services.
<p>[Question 2]: Do you agree that the retail regulation criteria in Section 158 of the Act are satisfied in the case of retail voice service? [Please state your reasons]</p>	<ul style="list-style-type: none"> • In relation to Section 124 (1)(a) of the Act, the competition objective, Telkom agrees that Digicel has a substantial degree of power in the retail voice service market in PNG as proven by the largest market share it holds. Digicel is a market leader and has the capacity, in the absence of regulation, to set its own terms and conditions for service in the market and for that to persist in the market over the next 3 year period. • Telkom also agrees with NICTA that it is unclear whether retail customers will be exposed to a material risk of higher prices and/or reduced service, in absence of a retail service determination because it seems that Digicel has reduced its prices for voice services over the years. • In relation to Section 124(1) (b), the efficiency objective, Telkom believes that Digicel will not be prevented from achieving a return on assets during the period sufficient to sustain investment necessary to supply the retail service. NICTA's has also affirmed that it is not contemplating any action that would do that during the next three years, via a retail service determination. • However, considering an additional new international operator (Vodafone) has recently entered into the PNG Telco industry, competition in the retail voice services market is likely to improve. Nonetheless, given Digicel's wider network coverage and financial capabilities (now that Telstra is taking over), it is likely that Digicel will remain the market leader in the next 3 years.
<p>[Question 3]: Do you agree that Digicel has a substantial degree of power in the market for retail mobile data services? Do you consider that the other retail regulation criteria in</p>	<ul style="list-style-type: none"> • Telkom agrees that Digicel has a substantial degree of power in the market for retail mobile data services, evident by the market share it holds. Digicel's data prices seem to have reduced over the years and Telkom believes that this could be due to the effects of

Section 158 of the Act are satisfied in respect of retail mobile data services? **[Please state your reasons]**

competition when Telikom reduced its data and bundle prices by 80% for both mobile and fixed data since 2014 and later in 2018.

- Telikom also agrees with NICTA that, “same assessments on the application of the retail regulation criteria made above in relation to voice services apply also to mobile data services” and that is that Digicel’s substantial degree of power is likely to persist in the market over the next 3 years. However, given the competition in the retail mobile data service market by competitors including Vodafone who recently entered the market space, it is debatable whether Digicel will maintain its position.
- Telikom also expects that Digicel may not increase prices or reduce its service quality in the mobile data market to expose retail customers to such material risks, however, Digicel may continue to charge similar prices over time.
- In relation to Section 124 (1) (a) of the Act, the efficiency objective, Telikom believes that Digicel will not be prevented from achieving a return on assets during the period sufficient to sustain investment necessary to supply the retail service.

[Question 4]: Do you consider that Telikom has a substantial degree of power in the market for retail fixed data services? Do you consider that the other retail regulation criteria in Section 158 of the Act are satisfied in relation to retail fixed data services? **[Please state your reasons]**

- Telikom disagrees that Telikom has a substantial degree of power in the market for retail fixed data services by revenue because:
 1. Telikom does not believe that it has the biggest market share by revenue. Telikom has lost many of its major customers to the Wholesaler, PNG DataCo in the recent years. DataCo has been operating in the retail space with its fixed infrastructure (fibre) at lower wholesale prices. Telikom may have higher fixed data customers compared to its competitors, however, that is certainly not substantial as Telikom’s service subscriptions are reducing. Hence, Telikom does not consider that it has a substantial degree of power in the market for retail fixed data services based on revenue share alone. Therefore, Telikom requests that NICTA validate its estimation to the most recent revenue data.
 2. The retail fixed data market is very competitive. Digicel is investing in its Fixed Data infrastructure and with the largest market share it currently has, it is already in a position to be perceived as having a substantial degree of market power. In any case, Digicel still has a substantial degree of market power in this space where Market Share is concerned.

	<ul style="list-style-type: none"> • Therefore, the competition objective criterion under Section 158 of the Act, including the other regulation criteria are not satisfied in relation to retail fixed data services. • It is Telkom's view that the Retail Regulation criteria alone should not warrant a Retail Service Determination of fixed internet pricing as it is only turning a blind eye on the costs of delivering fixed internet services. The Operational Costs are the main cost components contributing to Retail Pricing and if any Retail Service Determination is necessary, the Government has to address the issue of Cost of providing such needed services. For instance, subsidizing or meeting the cost of operating exchanges and towers in the area of Utility, such as power or electricity which is one of the main cost components of operating such vital services. • The costs for providing fixed and mobile services (Capex & Opex) should be considered in the Retail Service Determination and not the Wholesale component of costs ONLY because the wholesale component of Telkom's fixed internet prices make up a small portion of the pricing components. Telkom has reduced its fixed data prices by 80% in 2019 and introduced best combos and cheaper satellite data in 2021 and continue to do so.
<p>[Question 5]: Do you agree with NICTA's preliminary conclusions that, in respect of price and quality terms and conditions of service, the retail regulation criteria in Section 158 of the Act are not met or are unlikely to be met for retail voice and data services? [Please state your reasons]</p>	<ul style="list-style-type: none"> • Yes, Telkom agrees with NICTA's preliminary conclusions that, in respect of price and quality terms and conditions of service, the retail regulation criteria in Section 158 of the Act are not met or are unlikely to be met for retail voice and data services because competition in the retail voice and data markets is seen to be improving with market forces in play and the evidence being the affordable prices of services for all types of customers.
<p>[Question 6]: Do you agree with each of the conclusions of the retail price study as set out above? If not, which do you disagree with? [Please state your reasons] [Note]: Please consider the additional set of questions included in the study report annexed.]</p>	<ul style="list-style-type: none"> • Telkom agrees with conclusions #2 – 7 except conclusion #1 because Telkom made considerable changes in 2019. 80% of Mobile & Fixed data prices were reduced. Fixed voice standard prices were also reduced in 2020.
<p>[Question 7]: Do you wish to make any comments or observations in relation to new entry and change of ownership in relation to the retail service markets under discussion? In particular, do you consider that these are relevant matters for NICTA to take into account in considering regulatory</p>	<ul style="list-style-type: none"> • Yes, Telkom agrees that new entry and change of ownership in relation to the retail service markets under discussion are relevant matters for NICTA to take into account in considering regulatory intervention in these markets. • A second internationally and privately owned Mobile Entrant may lead to an Oligopoly/Oligarchy which will see the aggregate majority of the Market Share being

intervention in these markets? [Please state your reasons]	negotiated and shared between two Internationally Owned Telcos. There is already evidence of such practices in the Media Industry world-wide and such may occur, not just in PNG but in the Pacific.
[Question 8]: Do you agree that the retail regulation criteria in Section 158 of the Act are satisfied in relation to a retail service determination to prohibit on-net/off-net price discrimination of retail voice calls, or, at least, retail mobile voice calls? [Please state your reasons]	<ul style="list-style-type: none"> • In relation to the competition objective in Section 158 of the Act, Digicel has a significant market power in the retail mobile voice service market, as outlined in question 2. • Therefore, Telikom agrees with NICTA's statements in points 9.2-9.5 and considers that the retail regulation criteria in Section 158 of the Act are satisfied in relation to a Retail Service Determination to prohibit on-net/off-net price discrimination of retail voice calls, or, at least, retail mobile voice calls. • There has to be a price difference in On-net and Off-net calls because of the interconnect charges for off-net calls. This difference must not be substantial to prevent the consumer generating calls off-net.
[Question 9]: Do you agree that no action needs to be taken in relation to the price or other terms of low usage voice or data service offers or bundles at this time? [Please state your reasons]	<ul style="list-style-type: none"> • Yes, Telikom agrees that no action needs to be taken in relation to the price or other terms of low usage voice or data service offers or bundles at this time because Digicel nor Telikom's prices (data only bundles) show any significant difference in value based on the capacity purchased.

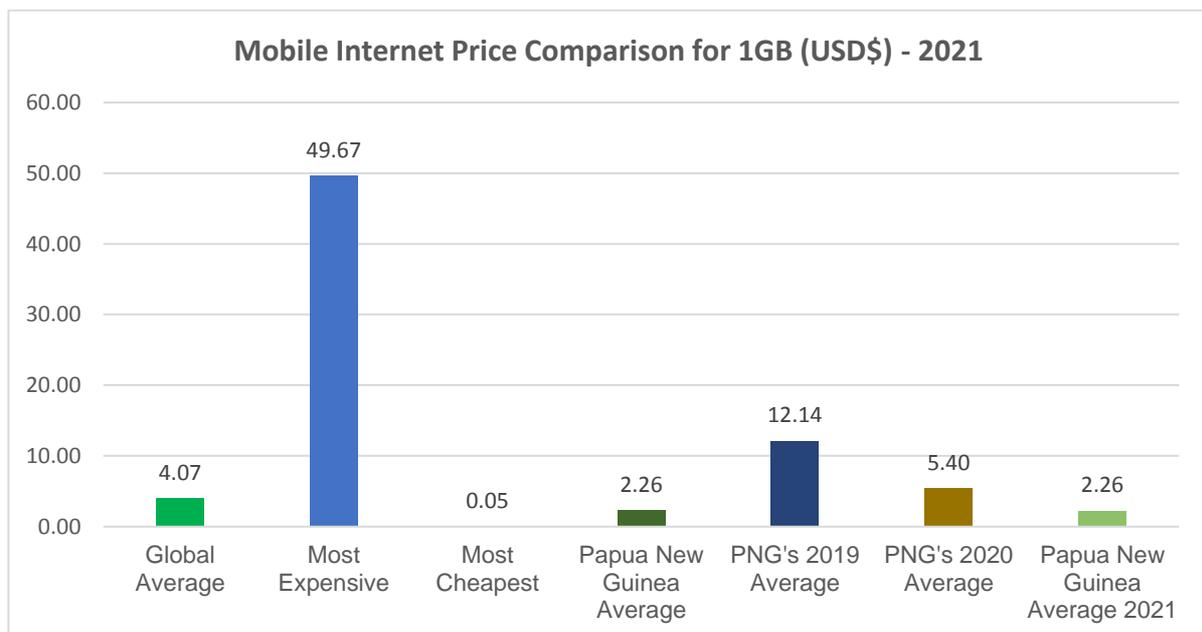
2. Second Set of Questions

Questions	Responses
Questions 1. [For network operators only] What proportion of minutes, SMS and data MB are currently billed at standard tariffs? 2. Do you agree that it is reasonable to expect some reduction in standard tariffs over time, even if the reductions are not as great as can be obtained by customers migrating to bundled offers?	1. Data is not ready. Telikom hopes to submit later. 2. Yes, Telikom agrees that it is reasonable to expect some reduction in standard tariffs over time, even if the reductions are not as great as can be obtained by customers migrating to bundled offers.
Questions 3. Do you agree that the number and frequency of changes in tariff bundles is a sign of healthy competition in the PNG telecommunications market?	<ul style="list-style-type: none"> • If the frequency of changes have indicated reduced prices and increased volumes of data/voice/sms to cater for all end-user groups, then, that would be a sign of healthy competition. • Otherwise, all operators have costs apart from international capacity (CS2).

<p>Questions</p> <p>4. Please comment on this analysis of the value of tariff bundles. Do you agree that the market seems to be providing bundles to suit each segment of users – from large to small - without the need for regulatory intervention?</p>	<ul style="list-style-type: none"> • The analysis of the value of tariff bundles show that retail customers enjoy greater value for their money from using data bundles and combos than if they were to make the same usage at standard data tariffs. • And yes Telikom agrees that the market seems to be providing bundles to suit each segment of users – from large to small - without the need for regulatory intervention.
<p>Questions</p> <p>5. Please comment on this analysis of the affordability of data-only tariff bundles.</p> <p>6. Do you agree that, with CS2 now providing the operators with access to vastly increased international capacity at much lower unit costs, the effective price per GB should fall rapidly towards the internationally agreed affordability target? If not, please explain your answer and suggest an alternative affordability target for PNG.</p>	<p>5. It is apparent that Telikom’s fixed data bundles is more affordable than Digicel’s mobile bundles.</p> <p>6. Telikom disagrees that with CS2 now providing the operators with access to vastly increased international capacity at much lower unit costs, the effective price per GB should fall rapidly towards the internationally agreed affordability target. This is because CS2 makes only a small portion of the cost components for Telikom retail mobile and fixed services that determine its prices. Operational Costs are the biggest cost components contributing to Retail Pricing.</p>
<p>Questions</p> <p>7. Please comment on this regional benchmark of data-only tariff bundles</p> <p>8. Do you agree that, with CS2 now providing the operators with access to vastly increased international capacity at lower unit costs, the effective price per GB of data should now fall rapidly towards the Regional benchmark level? If not, please explain your answer and suggest an alternative benchmark for PNG.</p>	<p>7. Digicel PNG’s prices remain higher than the other Pacific countries which could be because the cost of operation in PNG is very high.</p> <p>8. Telikom disagrees that with CS2 now providing the operators with access to vastly increased international capacity at lower unit costs, the effective price per GB of data should now fall rapidly towards the Regional benchmark level because CS2 is a small portion of cost components for operators.</p>
<p>Questions</p> <p>9. Please comment on the proposal to adopt a “wait and see” regulatory approach in anticipation of a significant fall in voice and data tariffs now that CS2 is operational. What is appropriate timeframe for this approach?</p> <p>10. To what level should NICTA expect retail prices to fall, relative to international benchmarks and broadband affordability targets?</p>	<p>9. Telikom agrees with NICTA’s proposal to adopt a “wait and see” regulatory approach in anticipation of a significant fall in voice and data tariffs now that CS2 is operational in the next 2-3 years.</p> <p>10. Telikom’s retail pricing is cost-based relative to its operations as mentioned earlier. Hence, Telikom considers that international benchmarks or price trends and broadband affordability targets should not necessarily be used as a measure to influence or set prices.</p>

4. OTHER ARGUMENTS/CONCERNS

- The cost of Wholesale Internet Bandwidth is not the only cost input factored in the determination of the retail price of internet. If it was so, then Wholesale Internet Price reductions would have immediately seen a cascading reduction in the Retail prices. As such the perception that Wholesale Internet Price reduction must necessitate a reduction in Retail Internet Prices is totally misconstrued and should not serve as a basis for imposing regulation on Retail ISPs. Further reason being that Telikom Limited (the same can be said for other locally owned ISPs) is a locally owned Telco Company that also consume foreign services that are part and partial of its ongoing operations (such as network elements licensing, billing platform licenses, Inventory, POS systems, payroll systems, consulting, ICT, etc.). The infrastructures and equipment and software installed in its entire network is not home-grown but are purely foreign imports and as such requires this foreign parties to assist and maintain which come at one-off and or recurring costs. These factors are also key inputs into the determination of Retail Internet prices for business and service continuity. Therefore, if all associated costs assessed in providing per MB of internet changes (or lack of), then that will lead to a corresponding change (or lack of) in internet pricing.
- The Retail Tariff pricing study revealed that the internationally agreed affordable target price per GB is K14.91. However, another study by the Cable.co.uk shows that PNG's cost of 1GB data is 44.5% (2.26 USD/K6.64) cheaper than the global average price of data for 1GB Plan which is 4.07 USD/K13.29. This should give an indication that Retail mobile internet in PNG is affordable. See graph below.



Source: <https://www.cable.co.uk/mobiles/worldwide-data-pricing/>

5. CONCLUSION AND RECOMMENDATIONS

- Telikom highly recommend that NICTA only considers regulation on the differential between on-net and off-net mobile voice calls by Digicel as highlighted in the discussion paper.
- Other services should be left to market forces to determine competition, considering the very high costs of operators regardless of the commissioning of the Coral Sea Cable because international capacity makes only a small portion of the costing elements. In addition, now that a new entrant has entered the market, there is possibility that competition will further improve in both fixed and mobile services markets. Regulation may distort the market competition. Hence, self-regulation and competition should be encouraged at this time.
- Lastly, apart from regulation, the Government should also consider addressing costing issues that operators have.