



Commission for
Communications Regulation

Mobile Termination Rates:

Draft Bottom Up Pure Long Run Incremental Cost Model

Information Notice

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An Coimisiún um Rialáil Cumarsáide

Commission for Communications Regulation

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Additional Information

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1 Introduction

1.1 Extension requests

1. This Information Notice relates to mobile termination rates ('**MTRs**'). Following requests from industry (namely Vodafone Ireland Limited ('**Vodafone**'), Telefonica Ireland Limited and Tesco Mobile Ireland Limited), the Commission for Communications Regulation ('**ComReg**') extended the deadline via ComReg Information Notice 14/40¹ for the submission of responses to ComReg Document No 14/29 "*Mobile Termination Rates: Draft Bottom Up Pure Long Run Incremental Cost Model*"² ('**MTR Consultation**'). ComReg Information Notice 14/40 extended the deadline to Friday 6 June 2014. Correspondence received from operators in this regard is annexed to this document.

1.2 Clarification requests

Anonymised parameters

2. ComReg has recently received a further request from Vodafone to provide a list of the specific parameters that have been anonymised in the non-confidential version of the Draft Mobile Termination Rate Bottom Up Pure Long Run Incremental Cost Model ('**Draft BU Pure LRIC Model**') which was provided to the mobile service providers ('**MSPs**') designated with significant market power ('**SMP**'). To this end, ComReg notes that the only parameters that have been changed between the confidential and the non-confidential versions of the Draft BU draft Pure LRIC Model relate to the direct unit capital expenditure ('**capex**') costs. All other parameters, including the percentages for deriving operating expenditure ('**opex**') unit costs and the level of indirect costs associated with each network element, are consistent in both models.

¹ ComReg Document No 14/40: Mobile Termination Rates: Draft Bottom Up Pure Long Run Incremental Cost Model – ComReg grants extension to consultation period for ComReg Document 14/29; published on 1 May 2014 at the following link

<http://www.comreg.ie/fileupload/publications/ComReg1440.pdf> ('**MTR Information Notice**')

² ComReg Document No 14/29: Mobile Termination Rates: Draft Bottom Up Pure Long Run Incremental Cost Model; published on 11 April 2014 at the following link

<http://www.comreg.ie/fileupload/publications/ComReg1429.pdf> ('**MTR Consultation**')

3. In the interests of openness and transparency, ComReg provided an analysis of pure LRIC costs (Euro) by network element in Table 15 of the MTR Consultation. Table 15 is based on the confidential version of the Draft BU Pure LRIC model and it indicates the extent that the costs of the various network elements contribute to the draft MTR rate. This table should provide a useful reference point for MSPs with SMP to inform their review of the Draft BU Pure LRIC Model. It indicates the extent that the costs of the various network elements contribute to the draft MTR. In reviewing the Draft BU Pure LRIC Model, MSPs with SMP are able to substitute alternative values to the capex unit costs currently in the non-confidential version of the Draft BU Pure LRIC Model and assess the impact this would have on the MTRs produced by the model. The review process can also determine the network element contributions to the MTR produced by the non-confidential BU Pure LRIC Model and compare these with the results in Table 15 to determine how any updates to the non-confidential version Draft BU Pure LRIC Model, including updates to direct unit capex costs, are likely to impact the MTR rates produced by the confidential version of the Draft BU Pure LRIC Model.
4. ComReg believes that MSPs with SMP have sufficient information between the MTR Consultation, the Deloitte Model Specification Document³ and the non-confidential version of the Draft BU Pure LRIC Model to assess the appropriateness of all modeling parameters adopted in the modeling process including the cost parameters that have been anonymised in the non-confidential version of the model.

Form and sequencing of the consultation process

5. The MTR Consultation follows the same process as any other consultation that ComReg publishes on its website in line with the procedures set out in ComReg Document No 11/34⁴.
6. ComReg conducted a financial impact assessment to quantify the financial impact of the proposed MTR on each MSP with SMP. ComReg provided this confidential information separately to each MSP with SMP to ensure that ComReg was using the most up to date financial information. It was sent to each MSP with SMP bilaterally in order to maintain confidentiality.

³ ComReg Document No 14/29a: MTR Model Specification Document for Ireland. A draft for Consultation Report for ComReg published at http://www.comreg.ie/_fileupload/publications/ComReg1429a.pdf

⁴ ComReg Document No 11/34: Information Notice on ComReg Consultation Procedures; published on 6 May 2011 at http://www.comreg.ie/_fileupload/publications/ComReg_1134.pdf

7. ComReg has received a request from Vodafone to meet on a bilateral basis see Appendix 1. ComReg is amenable to meeting respondents to explain the workings of the Draft BU Pure LRIC Model on a bilateral basis if such a meeting is formally requested in writing. In advance of any meeting, ComReg would require a list of the specific questions to be raised at any potential bilateral meeting including where appropriate the specific parameters / cell references to be discussed. A draft agenda will be circulated in advance of any bilateral meeting. ComReg should be informed in advance of the meeting of the attendees and whether a presentation or similar will be provided. After such meetings, ComReg may publish the questions raised and the answers provided, together with a non-confidential version of any such presentation. Finally ComReg reserves its right to publish the minutes and/ or notes of any bilateral meetings, if it believes this would be appropriate and would contribute to the openness of the consultation process.

Appendix: 1 Correspondence from Respondents received between 14 April 2014 to 14 May 2014

Vodafone letter of 25 April 2014



25 April 2014

Fergal Mulligan,
Senior Manager,
Commission for Communications Regulation,
Block DEF
Abbey Court,
Irish Life Centre,
Lower Abbey Street,
Dublin1

Dear Fergal,

Request for Extension for response to Consultations on WACC and MTR model

I am writing in connection with ComReg Consultations 14/28 and 14/29 which deal with a Review of Cost of Capital for the Mobile and fixed sectors and Mobile Termination Rates: Draft Bottom Up Pure Long Run Incremental Cost Model respectively.

Vodafone has conducted a preliminary review of these documents and given their subject matter, the complexity of the issues, the potential materiality of the market impact and the time horizon over which this regulatory intervention will be active in the market we are of the view that the timescale currently specified for responding to the consultations is insufficient to allow a fully reasoned and informed response to be formulated.

Given the materiality of the impact on operators and the duration for which measures flowing from this consultation will potentially be in place a detailed level of analysis of the consultation issues is required so that potential respondents can fully assess the implications of the consultation issues.

The calculation logical in the spreadsheets is necessarily complex but there are no notes, annotations or other comments explaining the formula and their inter-relationships. The document 14/29a "Mobile Termination Rates: Deloitte Draft Bottom Up Pure Long Run Incremental Cost Model" explains the general principles underpinning the model but not the logic for individual formulae nor the mechanics of their inter-relationship. In order to make an intelligent assessment and response to the draft model potential respondents must reverse engineer the workings of the spreadsheets to derive this information. This cannot be adequately achieved in the response time allotted by ComReg.

By way of example the model consists of 3 excel workbooks – each with over twenty worksheets. The worksheet labelled "d1. Inputs" in the workbook relating to Network alone has 12,994 non-blank entries.

Vodafone Ireland Limited

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It would appear that the model and associated spreadsheets were worked on by ComReg's consultants Deloitte from August 2013 to April 2014 a period of 8 months. By contrast ComReg has proposed a six week period during which respondents must fully familiarise themselves with the detailed operation of the model and then assess their position relative to this in order to formulate and draft a meaningful response. Vodafone believes that in the case of this consultation this period is inadequate to afford respondents a genuine opportunity to participate in the consultation process.

In the light of this and as a party directly affected by the proposed regulatory measures which might flow from this consultation Vodafone wishes to formally request an extension to the response periods for both consultations. It believes that a 2 week extension to the WACC consultation is necessary and justified to allow a proper engagement in the consultation process and that a 4 week extension to the MTR model consultation is similarly necessary and justified.

Given the extremely short timeframe for response which has been initially specified by ComReg, please confirm by Wednesday 30th April that ComReg will agree to extend the deadline as requested above, in order to allow Vodafone to provide a more detailed response to this consultation.

Yours sincerely



Kieran Meskill
Regulatory and Business Strategy Manager

Vodafone letter of 2 May 2014



2 May 2014

Fergal Mulligan,
Senior Manager,
Commission for Communications Regulation,
Block DEF
Abbey Court,
Irish Life Centre,
Lower Abbey Street,
Dublin 1

Dear Fergal,

ComReg letter of 11 April accompanying the Draft Mobile Termination Rate Bottom Up Pure Long Run Incremental Cost Model

I am writing in connection with your letter of 11 April regarding the Draft Mobile Termination Rate Bottom Up Pure Long Run Incremental Cost Model.

In this letter ComReg sets out that there are in fact two models; (1) an “illustrative” non confidential model and (2) a confidential model. Further ComReg sets out that “*the **non confidential** [emphasis added] draft BU Pure LRIC model ... reflects the mobile termination rates (‘MTRs’) quoted in ComReg’s Consultation Document*”.

In paragraph 1.17 of consultation document 14/29 ComReg states

“Where operator data was used in this way the inputs to the Draft BU Pure LRIC Model as currently proposed are in all cases within the range of the upper and lower bounds of the actual data provided by the Irish MSPs²¹”

Footnote 21 referenced in this paragraph clarifies that

“However, the inputs to the illustrative model may not necessarily fall within this range due to data being anonymised for the purposes of the illustrative non-confidential Draft BU Pure LRIC Model.”

Taken together, these matters seem to indicate that ComReg has chosen to use parameters for the “hypothetically efficient” operator in the illustrative model which are outside the range that might be found in the Irish market. This implies that respondents are being asked to comment on parameters which will not underpin any final decision.

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Vodafone requests that ComReg urgently provide a list of the specific parameters which have been anonymised in the manner set out above. Otherwise, it is Vodafone's position that using input parameters which lie outside the range which will ultimately be used to determine the level of MTR and consulting on the resulting output from these illustrative figures as if it were the actual preliminary view does not afford respondents a genuine opportunity to comment on the consultation issues and in fact will lead to a flawed and incorrect outcome in this process.

Separately in your letter of 11 April, ComReg sets out its estimate of financial impact on Vodafone of moving from the current MTR of 2.60c per minute to the rate of 0.57c per minute proposed in the Consultation document. ComReg then invites Vodafone to provide "*any updated financial information that you would like considered in our financial impact assessment...*".

The solicitation of inputs to an impact assessment in a letter regarding a consultation on a draft measure would seem to indicate that the impact assessment is related to the public consultation process. However no draft impact assessment is included in the consultation document. Neither is there any indication that there will be a further stage of consultation which would allow comment on an impact assessment prior to the adoption of a final measure.

Either ComReg has embarked on a staged approach to consultation, with a further stage to follow this one affording an opportunity to further comment on the proposed measure and associated impact assessment, or there will be no further stages and respondents will not be afforded any opportunity further review or comment on the draft measure, including any private impact assessment carried out by ComReg in connection with the public consultation, prior to its adoption.

In both cases potential respondents require clarity as to the form and sequencing of the overall consultation process so that they can properly engage with each stage.

Given the uncertainty as to the overall format of the consultation process introduced by your request for inputs to an impact assessment we request that ComReg urgently set out the steps it proposes to follow for this consultation process so that we can properly engage with each stage of the process.

Yours sincerely



Kieran Meskill
Regulatory and Business Strategy Manager

Vodafone email of 14 May 2014

From: Meskell, Kieran, Vodafone Ireland [<mailto:Kieran.Meskell@vodafone.com>]
Sent: 14 May 2014 16:49
To: Samantha Mooney
Cc: Farrell, Eamon, Vodafone Ireland
Subject: Request for meeting/call in realltion to MTR modelling consultation

Dear Samantha,

As discussed Vodafone wishes to request a call or meeting with ComReg and its consultants to seek clarification on various aspects of the draft BU-LRIC MTR cost model. We believe that this meeting would be the most efficient way for both sides to seeks and give the clarification required.

We would like to propose the morning of Wednesday 21 May if this is suitable. In order to make the meeting productive we will provide a list of topics we wish to discuss by lunchtime Monday 19 May.

I would be grateful if you could advise if ComReg will be in a position to facilitate this meeting

Regards

Kieran



Kieran Meskell

Regulatory & Business Strategy Manager

Vodafone Ireland Limited

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Telefonica email of 1 May 2014

From: Gary Healy
Sent: 01 May 2014 08:31
To: Paul Johnson; wholesaleconsult
Cc: Tom Hickey
Subject: Re Request for extension to Comreg 14/29

Paul,

Telefonica would request that ComReg extend the consultation period for the above consultation document on Mobile termination rates for at least a further 4 weeks given the volume and detail of information provided in the consultation, supporting documents and spreadsheets. Telefonica notes ComReg's request to provide updated financial data by the 30th April, 2014, however Telefonica are not in a position at this stage to provide such update but may do so as part of the consultation response.

Telefonica would also note its concern that ComReg are proceeding with this cost modelling at a time when two of the mobile companies are, subject to clearance, proposing to merge which would have significant impacts on both operators networks costs and design and a significant constraint on resources and ability to engage with ComReg effectively on such a major regulatory and commercial project.

Best

Gary

Gary Healy | Telefónica Ireland Limited

Head of Regulatory & Public Policy

Tesco Mobile Ireland Limited letter of 30 April 2014



Tesco Mobile Ireland Ltd.
Gresham House,
Marine Road,
Dun Laoghaire,
Co Dublin

30th April, 2014

Ms Claire Kelly
Commission for Communications Regulation
Irish Life Centre, Abbey Street
Dublin 1, Ireland
Email: wholesaleconsult@comreg.ie

Dear Ms Kelly,

I am writing in relation to ComReg's consultation reference 14/29: *Mobile Termination Rates: Draft Bottom Up Pure Long Run Incremental Cost Model*.

The closing date for submissions on this consultation is Friday 23 May 2014. Tesco Mobile Ireland would respectfully like to request an extension to this closing date such that it could submit its response by Monday 30 June 2014. The reason for the request is that Tesco Mobile Ireland is in the process of gathering information relevant to its response but does not anticipate being able to obtain such information before late May.

I would be grateful if you could let me know if this would be possible.

Thank you in advance for your consideration.

Kind regards,

A handwritten signature in black ink, appearing to read 'S Gallagher'.

Sarah Gallagher
Company Secretary
Tesco Mobile Ireland Ltd
Email: sarah.gallagher@tesco.ie