

Enhancing access to submarine cables for Pacific Island Countries


Sessions 3–4: Workshop exercise Parts 1 & 2

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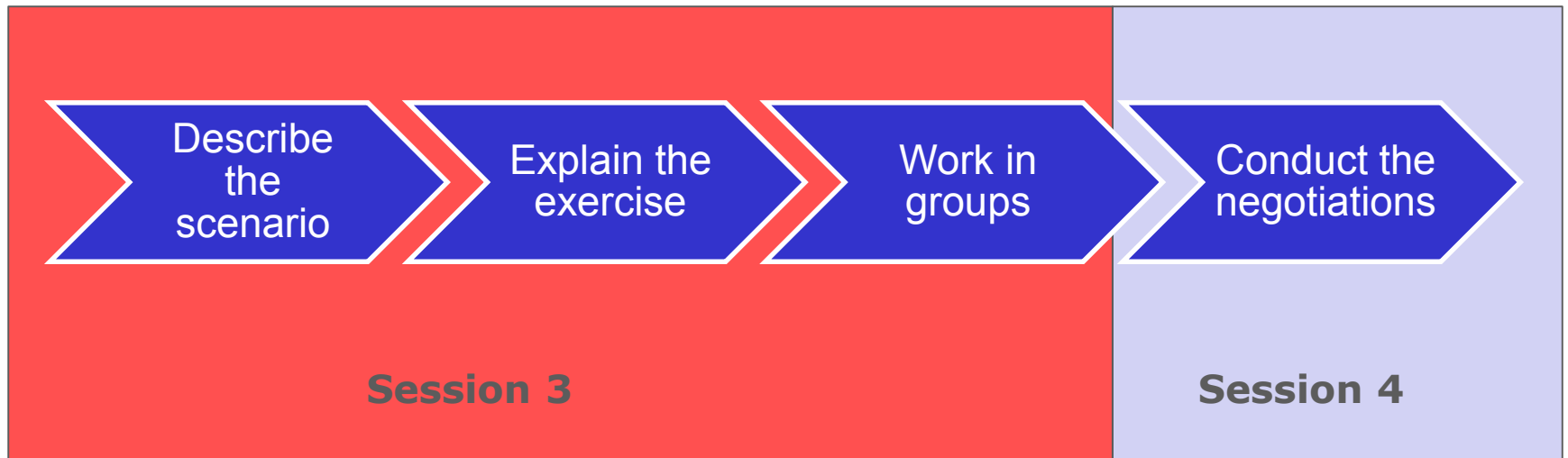




Session 3-4: Role play of a Cable Landing Station access and interconnection negotiation

Agenda

Aims and objectives for these sessions



Introducing Normalia

- This practical exercise concerns the fictitious country of Normalia.
- Normalia is a typical (“normal”) country with regulatory challenges similar to those in your country.
- The details required for each practical exercise are presented in the slides / handouts.



Telecoms in Normalia

Regulator - TRAN

(Telecom Regulatory Authority of Normalia)

Fixed Telecoms

- Telecom (100%)

Mobile Telecoms

- Telecom (70%)
- Normcell (30%)

Submarine Cable (CLS operator)

- ABC (Telecom) – current monopoly
- JKL (Normcell) – due to start operations by end 2013

Various service providers

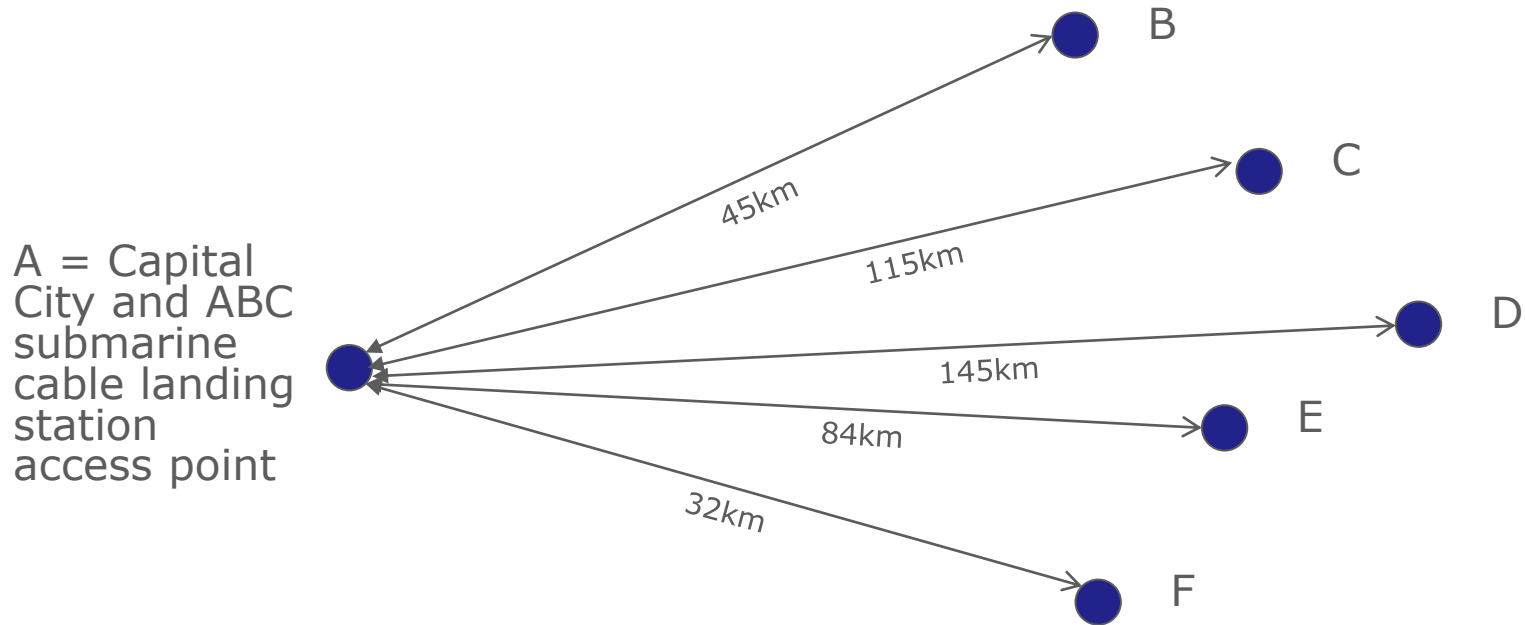
(including **ServCo** an ambitious ISP)

Background to the CLS access and interconnection negotiation

ServCo's current wholesale arrangements

- ServCo has points of presence (POPs) in the capital city and 5 other regional business centres
- Each POP is interconnected with Telecom's network using Telecom's ***Wholesale Dedicated Internet Access*** service:
 - Combines national IP backhaul with access to the ABC submarine cable system.
 - Tariffs are as shown on Slide 9.
 - No Service Level Agreement is offered – this is a “best efforts” service
 - Currently using STM1 services in three locations (A, B, C) and E3 capacity in the others (D, E, F) – see Slide 8.

ServCo's Points of Interconnection



Wholesale Dedicated Internet Access Tariffs

	E1	E3	STM1	STM4
Monthly rental				
Up to 50km from CLS	500	5,000	22,000	50,000
More than 50km from CLS	800	7,000	27,500	60,000

No Service Level Agreements (SLAs) and no volume discounts are offered as part of this service.

ServCo's approaches the operators

- ServCo has encountered many QoS problems and customer complaints are rife. Its customers are now deserting ServCo in favour of other ISPs.
- ServCo wants to offer a Premium Internet Access service to its customers offering higher bandwidths and guaranteed QoS levels, in return for usage-based tariffs.
- This requires new wholesale access terms:
 - Prices based on guaranteed QoS levels (see next slide)
 - Volume discounts.
- ServCo has received an approach from Normcell and it would like to hold discussions with Telecom. It will choose the partner that offers the best combination of lower tariffs and/or higher QoS.



ServCo's requested price list

Tariffs

	E1	E3	STM1	STM4
Monthly rental in local currency units				
Up to 50km from CLS	X	X	X	X
More than 50km from CLS	X	X	X	X

QoS offered

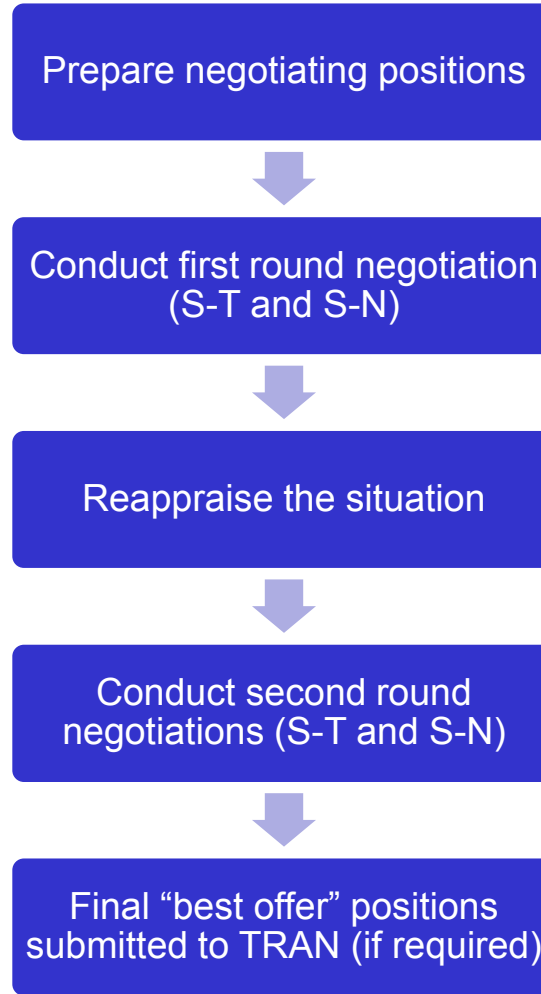
	All services
Availability = % of the time the service the customer can access the service	X%
Effective Throughput = the % of the theoretically available capacity that the customer can on average obtain in reality	X%

Conduct of the negotiations

What happens next?

- The parties have agreed to review their circumstances and prepare their negotiating positions based on the tariff structure proposed by ServCo.
- A **confidential** data sheet will be provided to each team containing further information to assist in the establishment of these proposals.
- It has been agreed that a maximum of two meetings will be held between the parties:
 - First, they will meet to exchange draft proposals using the agreed template and identify areas for further analysis.
 - After refining their proposals they will meet again to see if the situation can be resolved or whether it needs to be referred to the regulator, TRAN.
 - TRAN has said it will not mediate but will simply pick the better the final offers – so negotiate in good faith!

The negotiation process



ServCo will select its preferred CLS partner or refer dispute to TRAN

TRAN's opinion

Normcell's initial offer

Tariffs

	E1	E3	STM1	STM4
Monthly rental in local currency units				
Up to 50km from CLS	350	4,000	14,000	35,000
More than 50km from CLS	650	6,500	22,500	45,000

QoS offered

	All services
Availability = % of the time the service the customer can access the service	98%
Effective Throughput = the % of the theoretically available capacity that the customer can on average obtain in reality	70%

Telecom's equivalent prices

Tariffs

	E1	E3	STM1	STM4
Monthly rental in local currency units				
Up to 50km from CLS	410	4,105	18,061	41,048
More than 50km from CLS	657	5,747	22,576	49,258

QoS offered

	All services
Availability = % of the time the service the customer can access the service	99%
Effective Throughput = the % of the theoretically available capacity that the customer can on average obtain in reality	75%

22% price discount gives the same bill as Normcell's tariffs given current usage

Telecom’s cost-based price list

Tariffs

	E1	E3	STM1	STM4
Monthly rental in local currency units				
Up to 50km from CLS	388	3,876	17,055	38,762
More than 50km from CLS	670	5,762	22,241	48,190

QoS offered

	All services
Availability = % of the time the service the customer can access the service	99%
Effective Throughput = the % of the theoretically available capacity that the customer can on average obtain in reality	75%

Slightly more expensive than Normcell
but offering the desired service quality

Service quality and discounts

- ServCo wants to increase capacity of several routes (E3 become STM1; and capital city STM1 becomes STM4) but only increase expenditure by 15%.
- This requires further discounts from the parties:
 - 23% from Telecom; 17% from Normcell (which must also meet quality standards).
- Telecom wants to maintain overall revenue from ServCo:
 - Up to 33% price discounts will achieve this;
 - A further 25% discount can be offered for 3-year contract.
- Given expected price elasticity of demand, Normcell can offer up to 46% discount for the increased capacity.

Both best and final offers are OK for ServCo

Telecom

	E1	E3	STM1	STM4
Monthly rental in local currency units				
Up to 50km from CLS	196	1,958	8,613	19,576
More than 50km from CLS	339	2,910	11,232	24,338

Normcell

	E1	E3	STM1	STM4
Monthly rental in local currency units				
Up to 50km from CLS	189	2,160	7,560	18,900
More than 50km from CLS	351	3,510	12,150	24,300

Outcome of the negotiations

- ServCo should be able to reach an agreement with one or other of the operators
- The better option will depend on the stances taken by the parties in the negotiations
- If TRAN is forced to make a ruling it will adopt the offer that is closest to the outcomes shown on the previous slide.

Learning points

- Prices for CLS access are heavily dependent on demand forecasts.
- Strategies to increase demand will pay a major dividend since there are huge scale economies (especially where capacity upgrades in submarine cable are triggered).
- Operators need to accept low (or even negative) Return on Capital Employed (ROCE) in the first few years in order to achieve growth and obtain a reasonable WACC over the lifetime of the assets.
- Wholesale prices may be negotiable depending on the extent of competition - often 3+ operators are needed.
- The regulator needs a cost model to make decisions.