

Research ICT Africa!
8-10 May 2008, Cairo

Interconnection

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Introduction

- Importance
- WTO commitments
- Obligations on major suppliers
- Calculating costs
- Public and transparent
- Dispute resolution
- Conclusion

Importance

- Enables communications: public interest, right to communications, consumer choice
- Enables fair competitive entry and provides for more and higher quality services
- Leads to increased access
- Necessary for both:
 - infrastructure-based competition
 - service-based competition

WTO Reference Paper

- Interconnection to be ensured
- Public availability of the procedures for interconnection negotiations
- Transparency of interconnection arrangements
- Dispute settlement

Reference paper 2.2

Interconnection **with a major supplier** will be ensured at any technically feasible point in the network. Such interconnection is provided:

- (a) under non-discriminatory terms, conditions (including technical standards and specifications) and rates and of a quality no less favourable than that provided for its own like services or for like services of non-affiliated service suppliers or for its subsidiaries or other affiliates;

In practice

- Reference Paper requires interconnection by **major suppliers**
- Different countries may require interconnection from **incumbents** or **dominant operators** or **operators with SMP**
- Increasingly, countries take a technology neutral approach and impose interconnection obligations on **all network operators**
- Still **asymmetric regulation** places heavier interconnection obligations placed on major suppliers

Para 2.2

(b) in a **timely fashion**, on terms, conditions (including technical standards and specifications) and **cost-oriented rates** that are **transparent**, reasonable, having regard to economic feasibility, and sufficiently **unbundled** so that the supplier need not pay for network components or facilities that it does not require for the service to be provided;

Why cost-oriented & transparent?

- Interconnection charges can be a substantial part of new entrants' total costs.
- Interconnection charges are a critical factor for the survival of new entrants.
- Incumbents view interconnection as running counter to their interests
- Incumbents often inflate interconnection charges to a level that deters new market entrants

Calculations

- Many different Methods of calculation:
 - retail minus
 - Fully Allocated Costs
 - Long Run Incremental Costs (LRIC)
 - Forward Looking LRIC
- Benchmarking
- Allocation of common costs

Retail-minus

- Not a cost-based approach
- Advantages – ensures new entrants will be at least as efficient as incumbents
- Disadvantages – preserves the inefficiencies of incumbents and hinders the reduction of retail prices towards costs

Fully allocated costs

- Total cost for providing service, including historical and depreciated investment costs is divided by volume of service provided
- Advantages – information is readily available in the right form from the incumbent
- Disadvantages – includes common costs, preserves the inefficiencies of the incumbent, allows the control over pricing to be controlled solely by the incumbent

Long-run incremental cost

- Cost of providing an additional unit of service over the long run
- Advantages:
 - looks like cost calculations to make business decisions
 - it is forward looking - it does not relate to old equipment or old inefficiencies
 - a rough balance between under and over recovery
 - it incorporates a reasonable rate of return
- Disadvantages:
 - the calculation requires preparation of correct input figures – which takes time
 - the concept is relatively new and requires cost models to be developed

Disaggregation

ensuring that the network elements that may be used by an interconnecting party are unbundled to their smallest degree so that the costs being paid are for only those elements required or desired and none others bundled into the service/facility

Unbundling network elements

- Local switching
- Signaling networks
- Interoffice transport
- Back office functions

Procedures and transparency

- **2.3** Public availability of the procedures for interconnection negotiations. The procedures applicable for interconnection to a major supplier will be made publicly available
- **2.4** Transparency of interconnection arrangements. It is ensured that a major supplier will make publicly available either its interconnection agreements or a reference interconnection offer

Why public?

- Incumbents may have incentives to withhold important information from their competitors
- To avoid delays in negotiations . . . which means delayed competition
- To give parties a framework to facilitate agreement
- To level the playing field—helps those with less market power from potential abuse of those with greater market power

Why transparent?

- All parties operating on same terms
- Avoids discrimination in favor of incumbent's affiliates or subsidiaries
- Avoids discrimination between new market entrants

Dispute resolution

2.5 A service supplier requesting interconnection with a major supplier will have recourse, either:

(a) at any time, or

(b) after a reasonable period of time which has been made publicly known,

to an independent domestic body, which may be a regulatory body as referred to in paragraph 5 below, to resolve disputes regarding appropriate terms, conditions and rates for interconnection within a reasonable period of time, to the extent that these have not been established previously.

Alternative dispute resolution

- Formal negotiations - regulator plays an active part
- Mediation - a neutral third party facilitates agreement by interconnecting parties
- Third party expert - assigned by the regulator
- Arbitration - either a third party selected by disputants or an officially approved arbitrator resolves disputes in legally enforceable but non-public proceeding

Dispute avoidance

- A credible regulator
- Incentives for interconnection
- Allocating direct costs of dispute resolution to the parties to discourage frivolous disputes
- Industry forums

Conclusions

- A very widespread commitment
- Many ways to implement the commitment
 - reflect national cultural and legal traditions
- Important to track global best practice

Thank you

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