



# **Pricing Telecommunications Services: Malaysian Experience**

**31 October 2017**

# Agenda



- Legislative background
- General costing principles
- Regulatory approach adopted by MCMC



# Legislative Background

# National Policy Objectives in the CMA



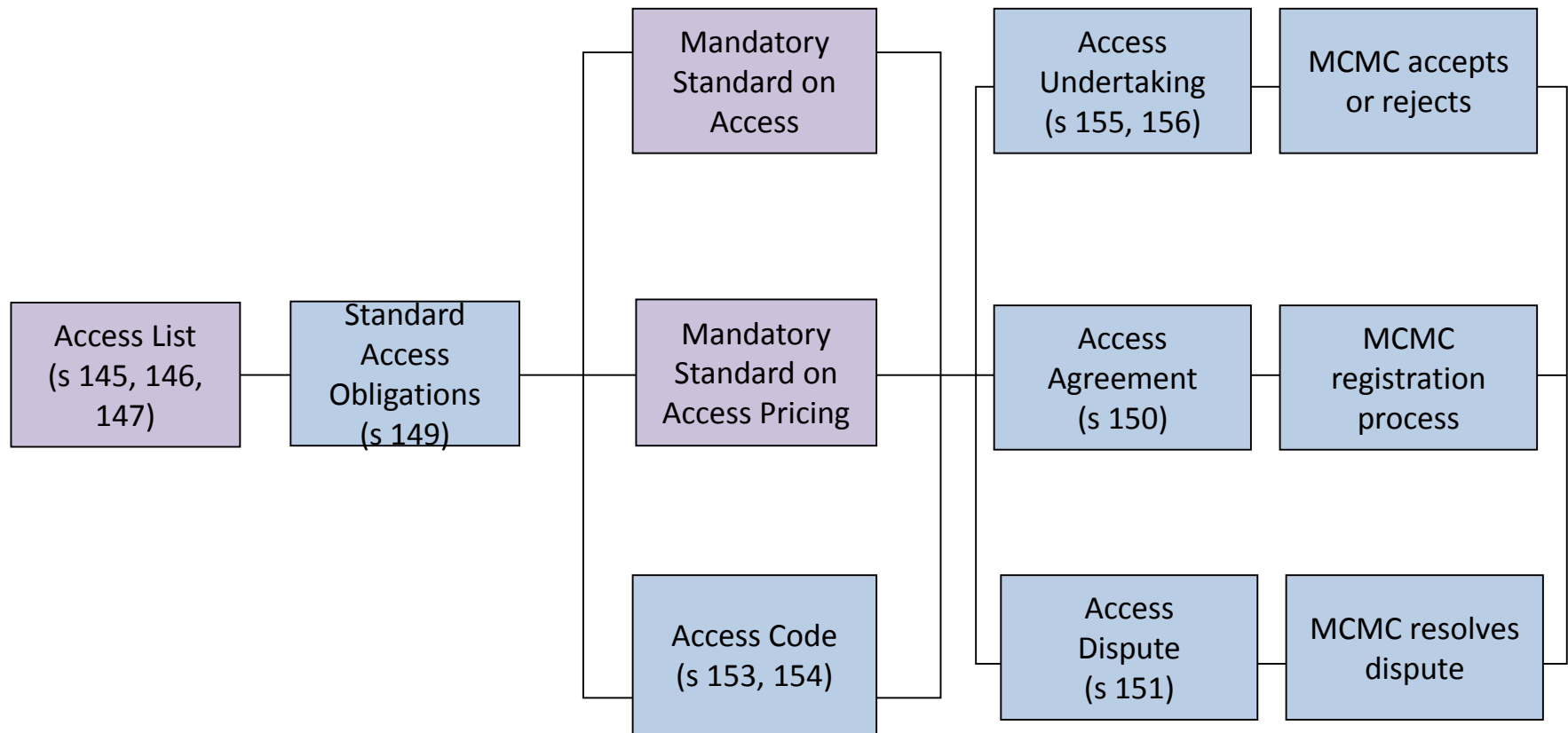
Regulate for long term benefits of end users

Ensure equitable provision of affordable services  
over ubiquitous network

Create a robust applications environment for end  
users

Facilitate efficient allocation of resources

# Access Regulation under the CMA



Scope of  
Access

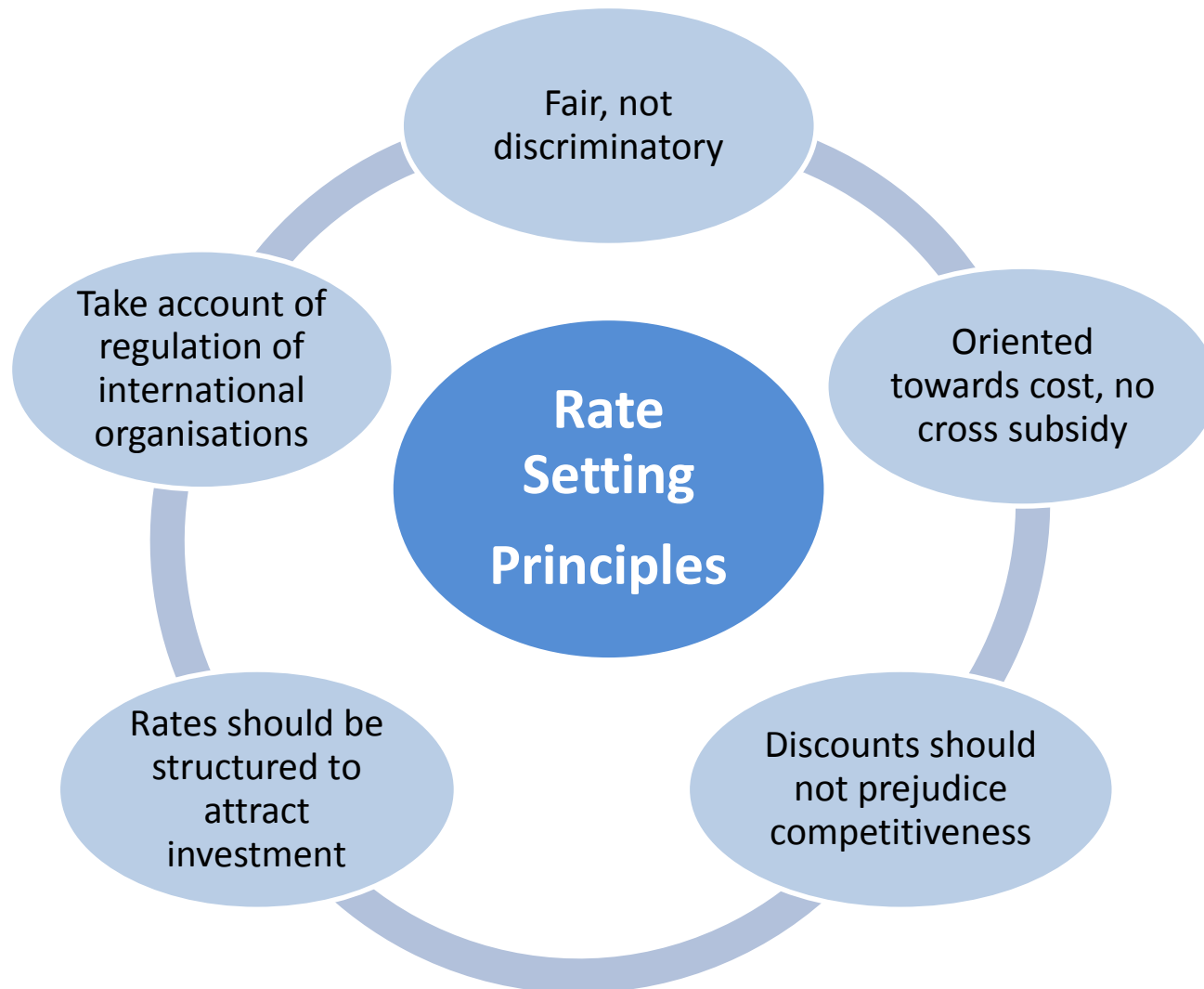
Access  
Obligation

Key industry-  
wide access  
measures

Bilateral access  
measures

MCMC role on  
bilateral access

# Rate Setting Principles in the CMA





# Costing Principles

# Historical versus Current Cost Accounting



## Historical Accounting

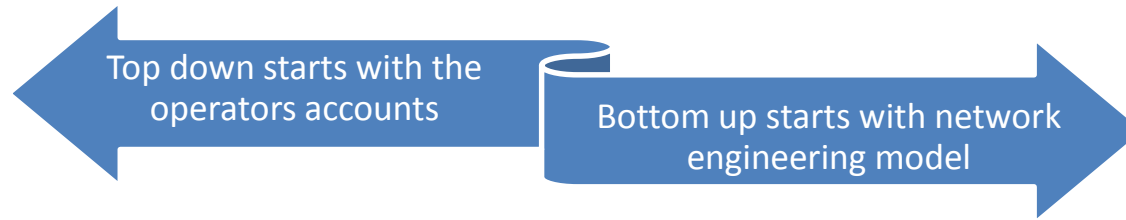
- Costs that operators have actually incurred

## Current Cost Accounting

- Takes account of changes in technology and prices
- Assets are revalued, usually using modern equivalent technology value



# Top Down and Bottom Up



Approach	Strength	Weakness
Top down	<ul style="list-style-type: none"><li>• Based on actual cost of operator</li><li>• Can reconcile the figures back to operator's audited accounts</li></ul>	<ul style="list-style-type: none"><li>• Potential for incorporating inefficiencies</li><li>• Information requirements can be burdensome</li><li>• Require extensive access to operator's information base</li></ul>
Bottom up	<ul style="list-style-type: none"><li>• Can be constructed with little input data on actual operator costs</li><li>• Reflect efficient cost of provision of service</li><li>• Can be used to calculate forward looking cost</li></ul>	<ul style="list-style-type: none"><li>• Risk of underestimating cost and may not reflect actual cost of providing services</li></ul>

# Scorched Node and Scorched Earth



## Scorched node

- Based on the locations of main network nodes
- Nodes could be sub-optimal

## Scorched earth

- New network configuration
- Based on new technology

# Cost Methodologies



## FULLY ALLOCATED COST

- Backward looking cost
- Operators recover cost at reasonable rate of return
- Closer to management accounts
- Includes inefficiency and doesn't reflect pricing behavior in competitive and contestable market

## LONG RUN INCREMENTAL COST

- Forward looking cost
- Uses current account cost
- Efficiently incurred costs are recovered
- Promotes efficient investment
- Defining increment is difficult
- In LRIC+, shared and common cost are borne by all services

## STAND ALONE COST

- Service will bear all of the fixed shared and common costs
- Maximum charge that a firm is able to in a effectively competitive market

## STEP BY STEP

- The network is modelled as a single entity
- It is a simple approach as each element of the network is not modelled in detail
- Difficulty in agreeing on the initial valuation



# Regulatory Approach by MCMC

# Basis for Regulatory Intervention



**Provide appropriate signals for investment and opportunities for new entrants**

**Efficient allocation of resources**

**Promote sustainable long term competition**

# Criteria for Intervention



**Presence of non-transitory high barriers to entry**

**Absence of trend towards effective competition**

**Ex-post controls insufficient to address concerns about access pricing**

# Criteria for Access Pricing



## Cost Recovery

- Recovery of legitimate cost
- Recovery of efficiently incurred costs
- Rate of return on capital employed
- Appropriate time period

## Economic Efficiency

- Right build or buy decisions
- Incentives to reduce costs and improve efficiency
- Incentives for innovation
- Incentives to meet suitable levels of quality

# Cost Methodologies Adopted in Malaysia

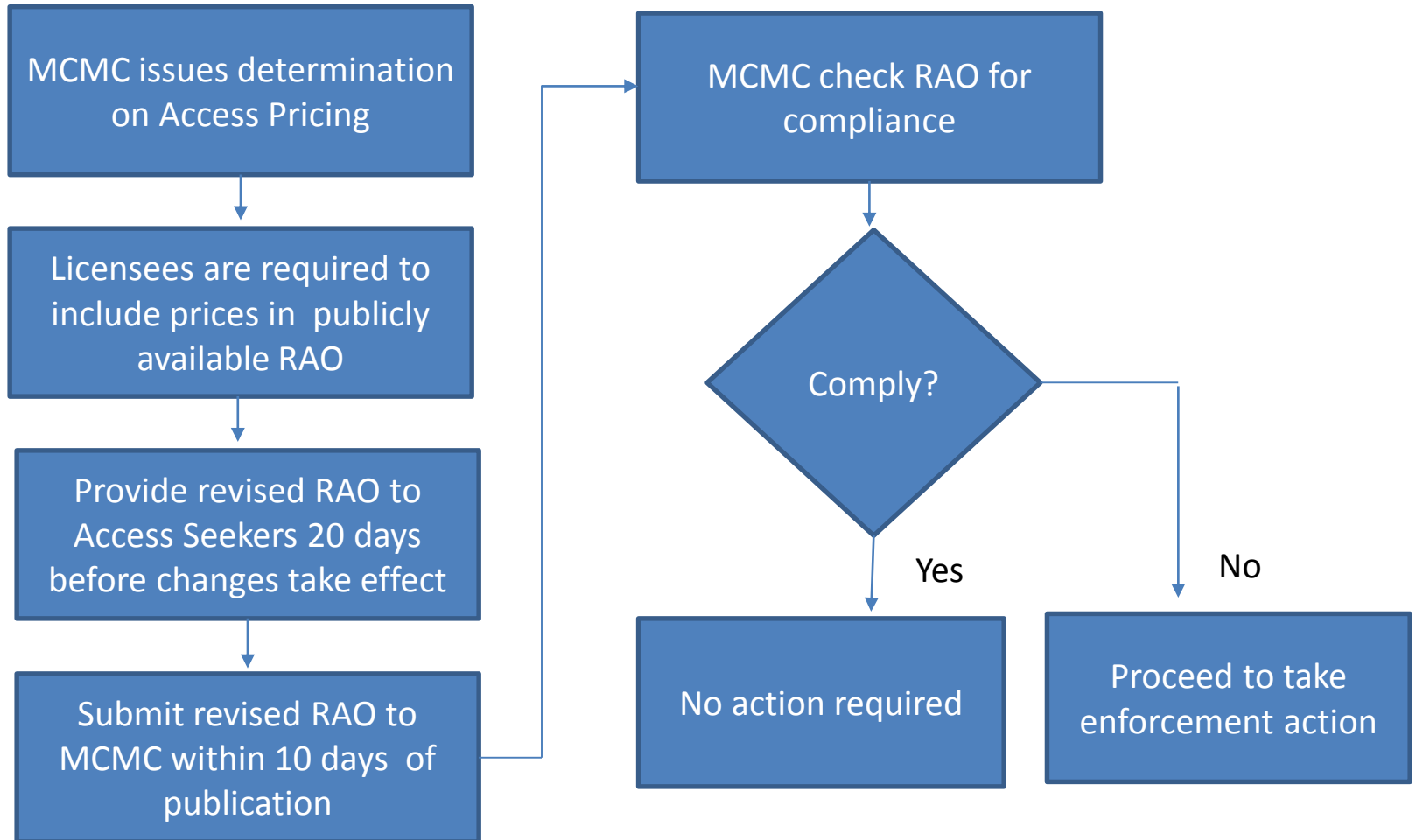


- On 13 October 2017, the MCMC released a Public Inquiry Paper on Access Pricing

Network	Costing Methodology
Mobile	The MCMC proposes to continue to use LRIC+.
Fixed Access	The MCMC proposes to use LRIC+ with asset price adjustment to reflect the presence of fully-depreciated assets.
Fixed Core	The MCMC proposes to continue to use LRIC+.



# Monitoring Compliance





THANK YOU