



Review of Omantel's Reference Access Offer **Findings and recommendations**

TRA (Telecommunications Regulatory Authority)

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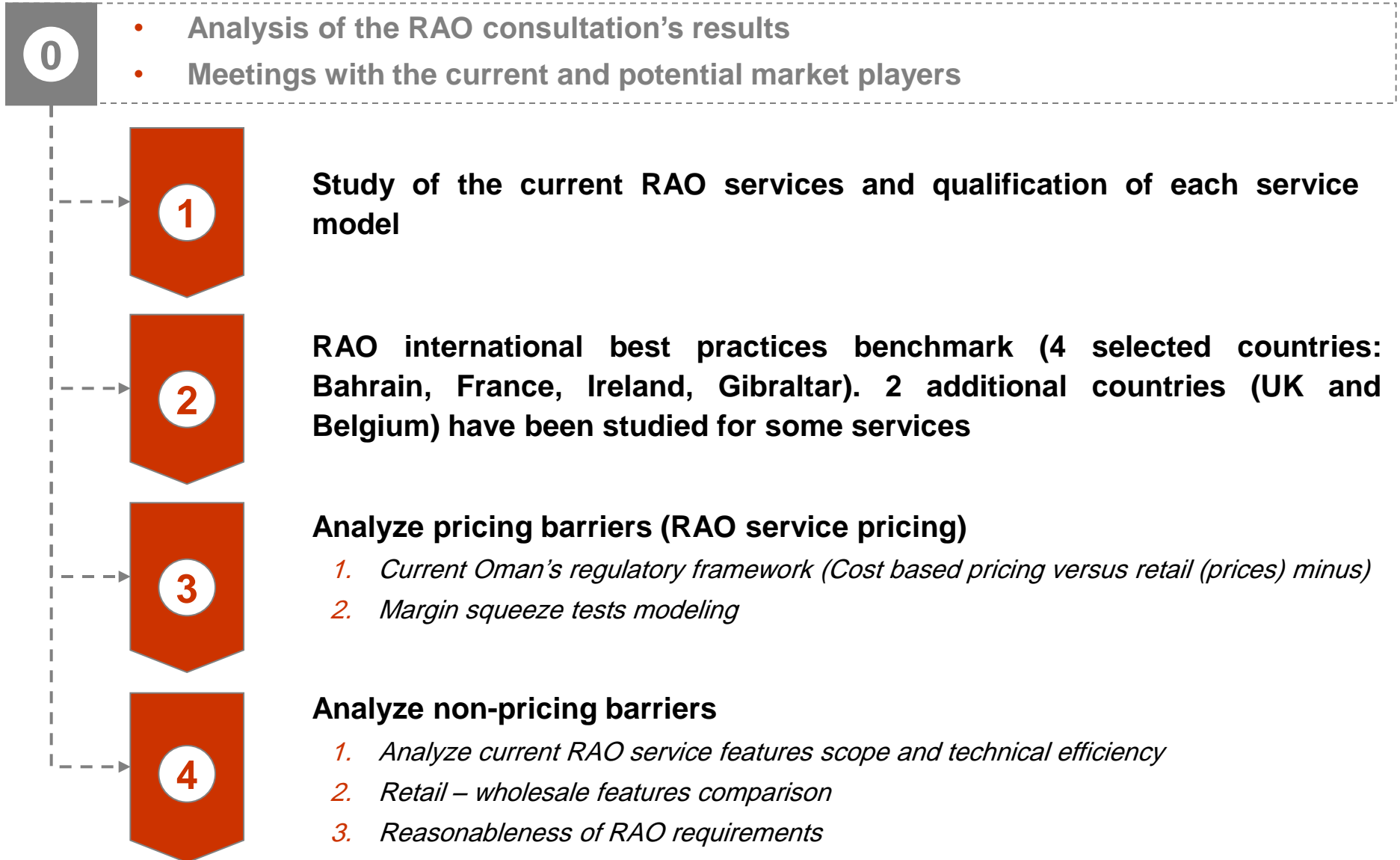
RCS Paris B 394 948 731

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2 September 2009



The project has consisted in reviewing Omantel's RAO in 4 main steps, taking into accounts the results of the RAO consultation and the discussions with the market players



This presentation is divided into 2 main sections

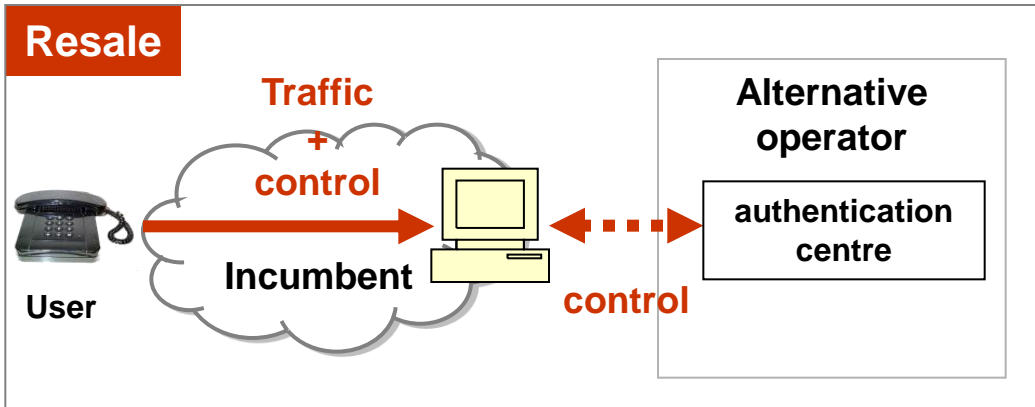
1. Evolution of the scope of Omantel's RAO

2. Pricing policy of the RAO services

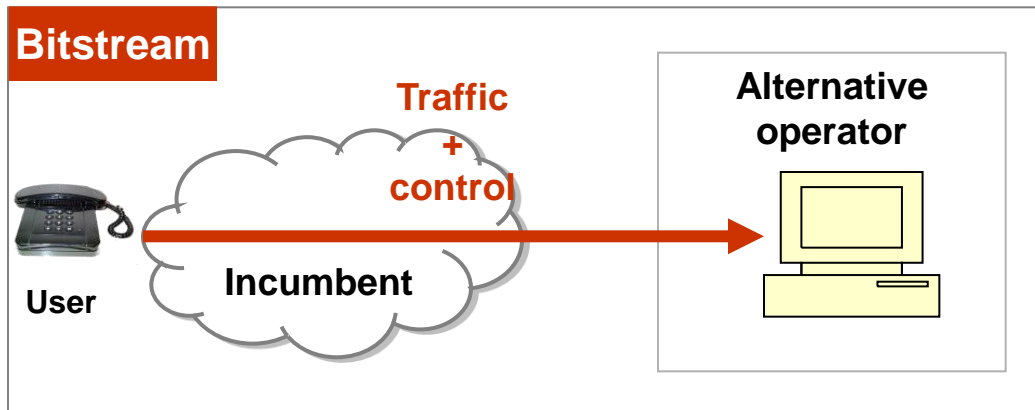
3. Annexes

In order to clarify the RAO analysis, two categories of services have been distinguished:

“Resale” services and “Bitstream” services



- The alternative operator
- receives only control
 - provides only authentication
 - does not design network service



- The alternative operator
- receives both traffic and control
 - designs network services

NB: For clarity purpose, the term “Bitstream” is not specific to broadband services in this presentation, but describes more widely an arrangement of the type described above

Contents



1. Evolution of the scope of Omantel's RAO

2. Pricing policy of the RAO services

3. Annexes

Reminder of the RAO existing main services and of the corresponding retail markets



Heading		“Resale”	“Bitstream”		Corresponding retail markets
Audiotext service package	C17		✓	▶	Value added services
CATS	C16	✓		▶	International voice communications
IP Access Service Package	C18		✓	▶	Internet dial-up services
Wholesale Virtual Dial Up service	C20	✓		▶	Internet broadband services
Wholesale ADSL service	C19	✓		▶	Internet broadband services
Voice mail service package (VMSP)	C15		✓	▶	Other services (not in the scope of the presentation)

X: services provided in Omantel’s RAO

1 existing main service should be updated and 4 new services should be added to the RAO



Heading		"Resale"	"Bitstream"	Corresponding retail markets
Update	Audiotext service package C17		✓	Value added services
New	CATS <u>Resale</u> C16.1	✓		International voice communications
	CATS <u>Bitstream</u> C16.2		✓	
	Bitstream Call-by-Call Carrier selection (CCS) Cxx		✓	
	Bitstream Carrier Preselection (CPS) Cyy		✓	
	IP Access Service Package C18		✓	Internet dial-up services
	Wholesale Virtual Dial Up service C20	✓		
New	Wholesale ADSL <u>Resale</u> service C19.1	✓		Internet broadband services
	Wholesale ADSL <u>Bitstream</u> service C19.2		✓	

Note: new annex numbers are indicated for illustrative purpose

C17

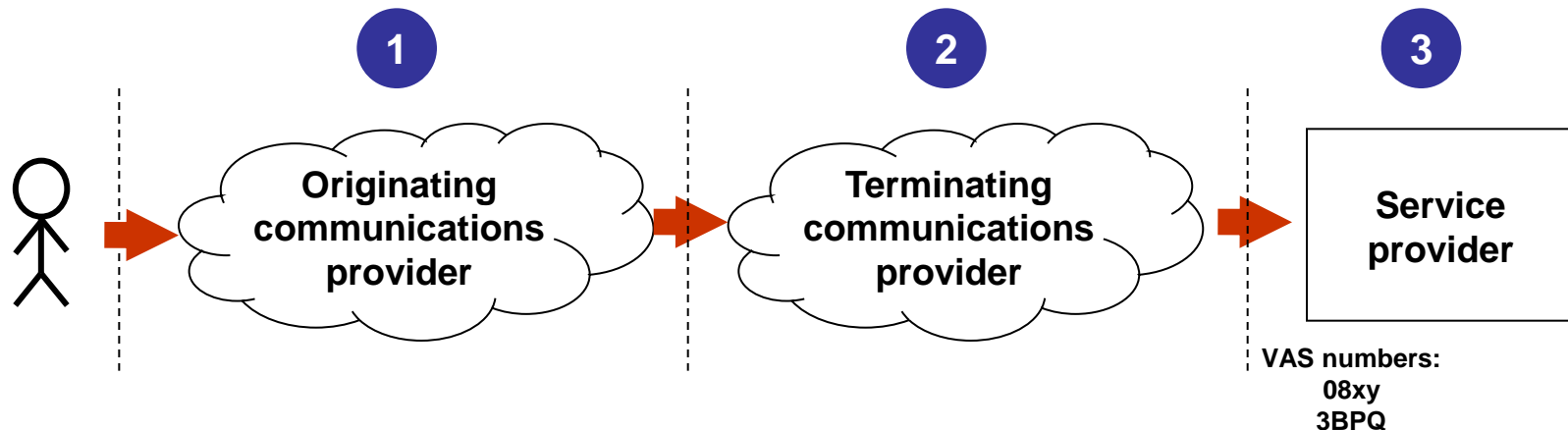
Contents: Update of the Audiotext service package

Heading		Corresponding retail markets
Audiotext service package		Value added services
CATS <u>Resale</u>	C16.1	International voice communications
CATS <u>Bitstream</u>	C16.2	
Bitstream Call-by-Call Carrier selection (CCS)	Cxx	
Bitstream Carrier Preselection (CPS)	Cyy	
IP Access Service Package	C18	Internet dial-up services
Wholesale Virtual Dial Up service	C20	
Wholesale ADSL <u>Resale</u> service	C19.1	Internet broadband services
Wholesale ADSL <u>Bitstream</u> service	C19.2	

Note: new annex numbers are indicated for illustrative purpose

Main players involved in the provision of Value Added Services (VAS)

- 1 **Originating communication provider (OCP)** refers to the operator who charges the caller for the call.
- 2 **Terminating communication provider (TCP)** refers to the operator who delivers the call to the service provider and pays the service provider for the VAS.
- 3 **Service provider** refers to the player who owns the VAS numbers. Content providers are normally not considered separately from the service provider.



C17

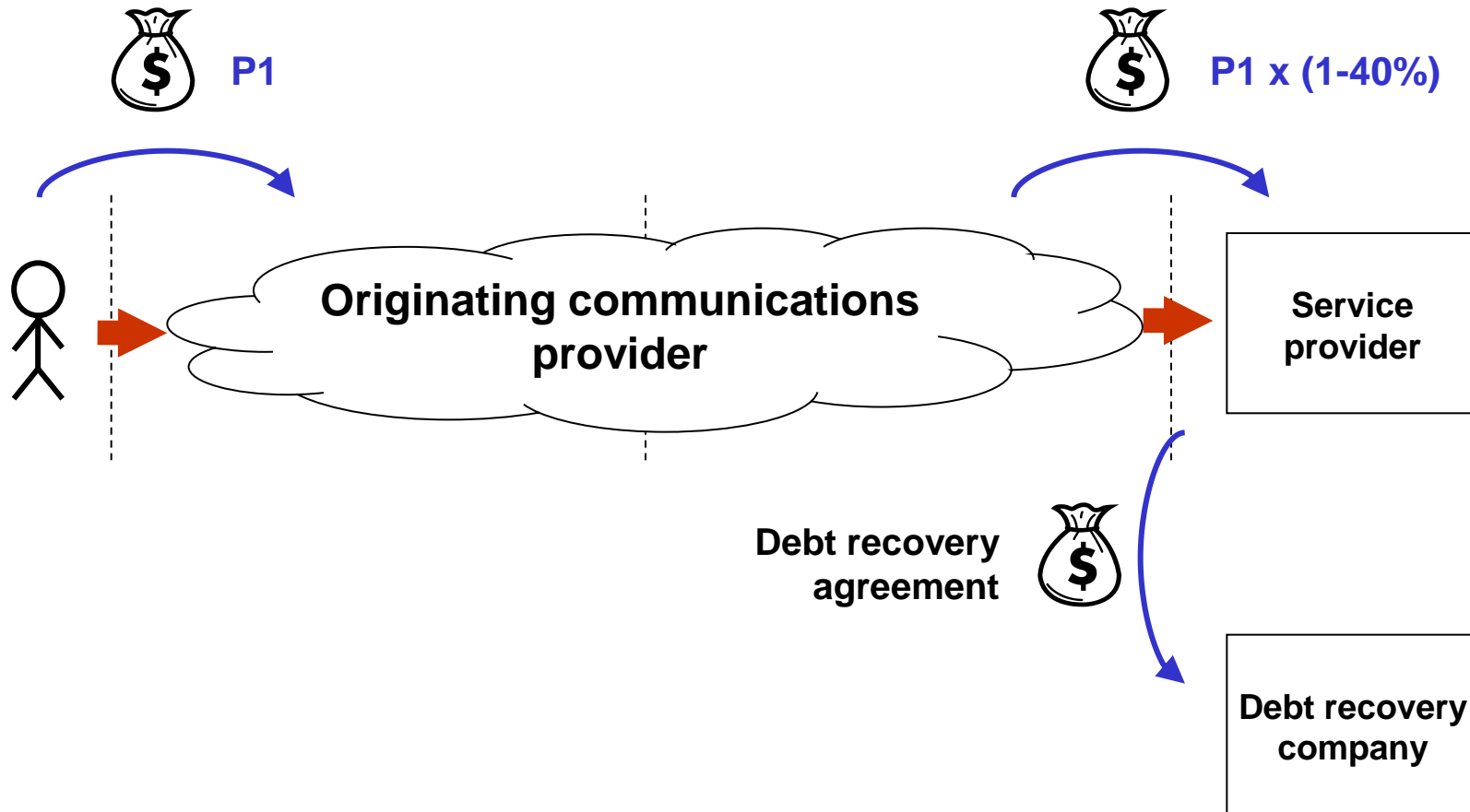
Reminder of the current arrangement set out in the Audiotext service (C17)

P1: Retail price of the VAS communication

$P1 \times (1 - 40\%)$

40% corresponds to the “billing service” that includes:

- The billing
- The call origination



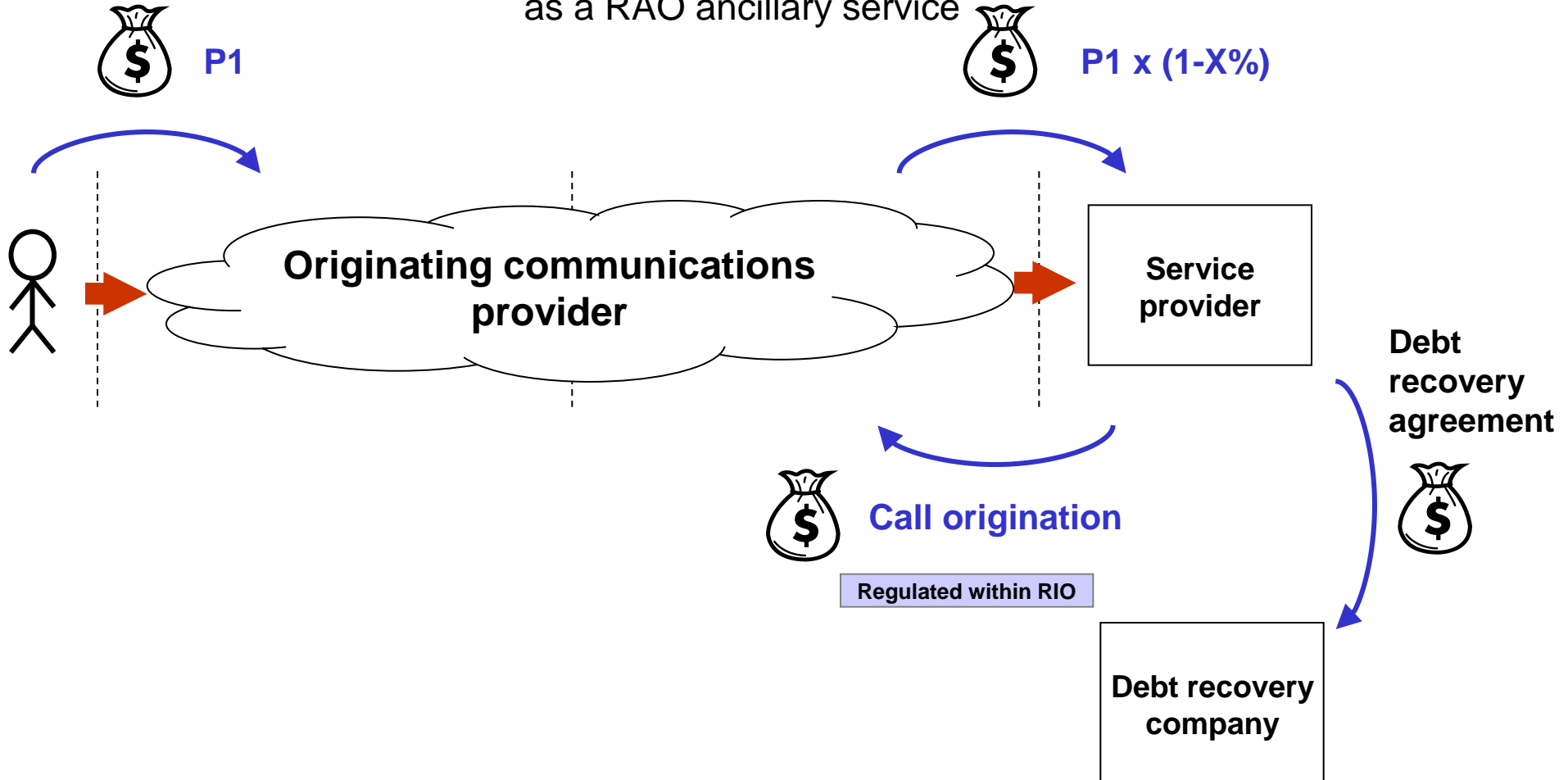
C17

New arrangement proposed for the Audiotext services in Oman

P1: Retail price of the VAS communication

$P1 \times (1-X\%)$

- X% corresponds to the “Invoice” billing service
- This service should be available for any main service as a RAO ancillary service



Contents

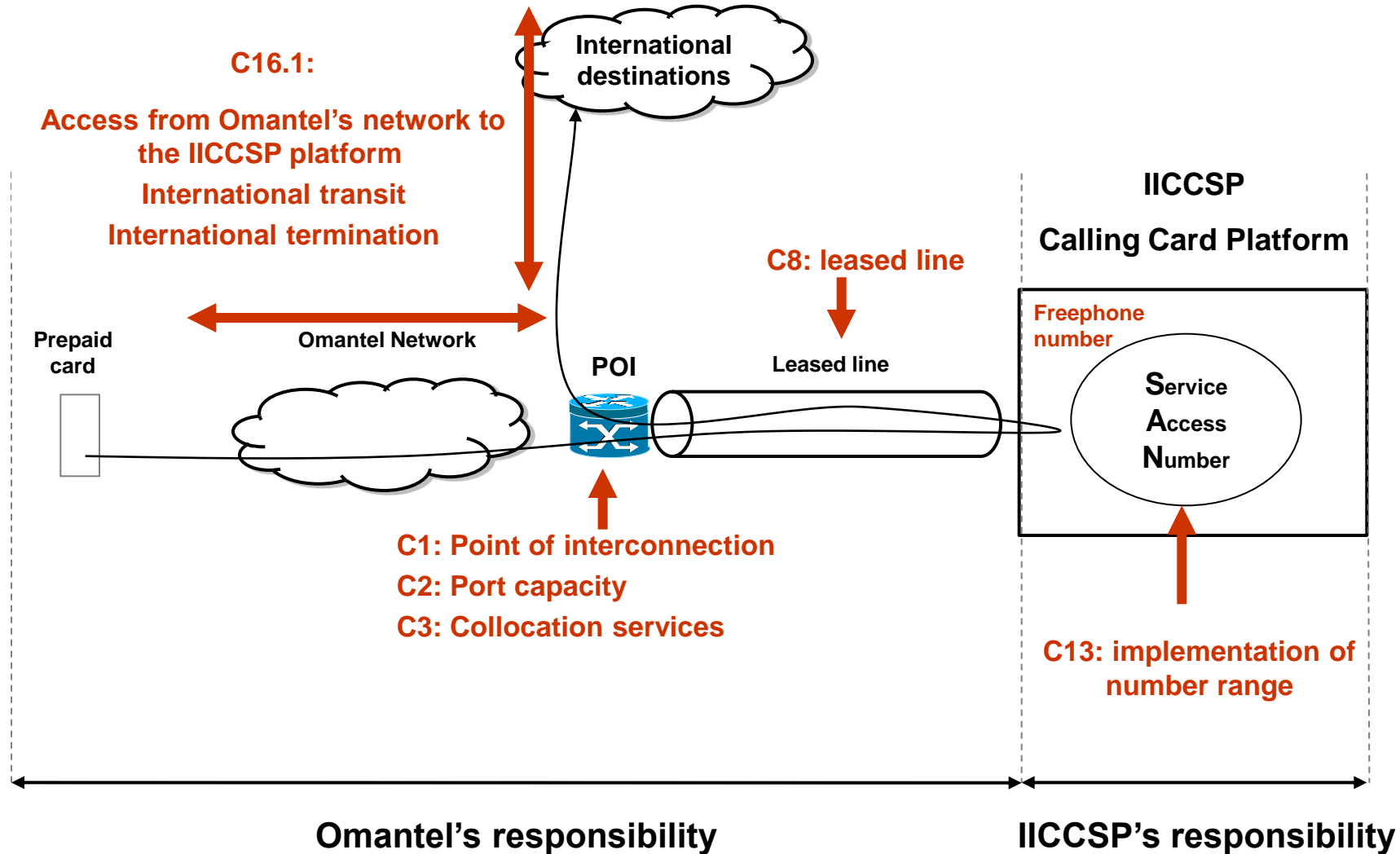


Heading		Corresponding retail markets
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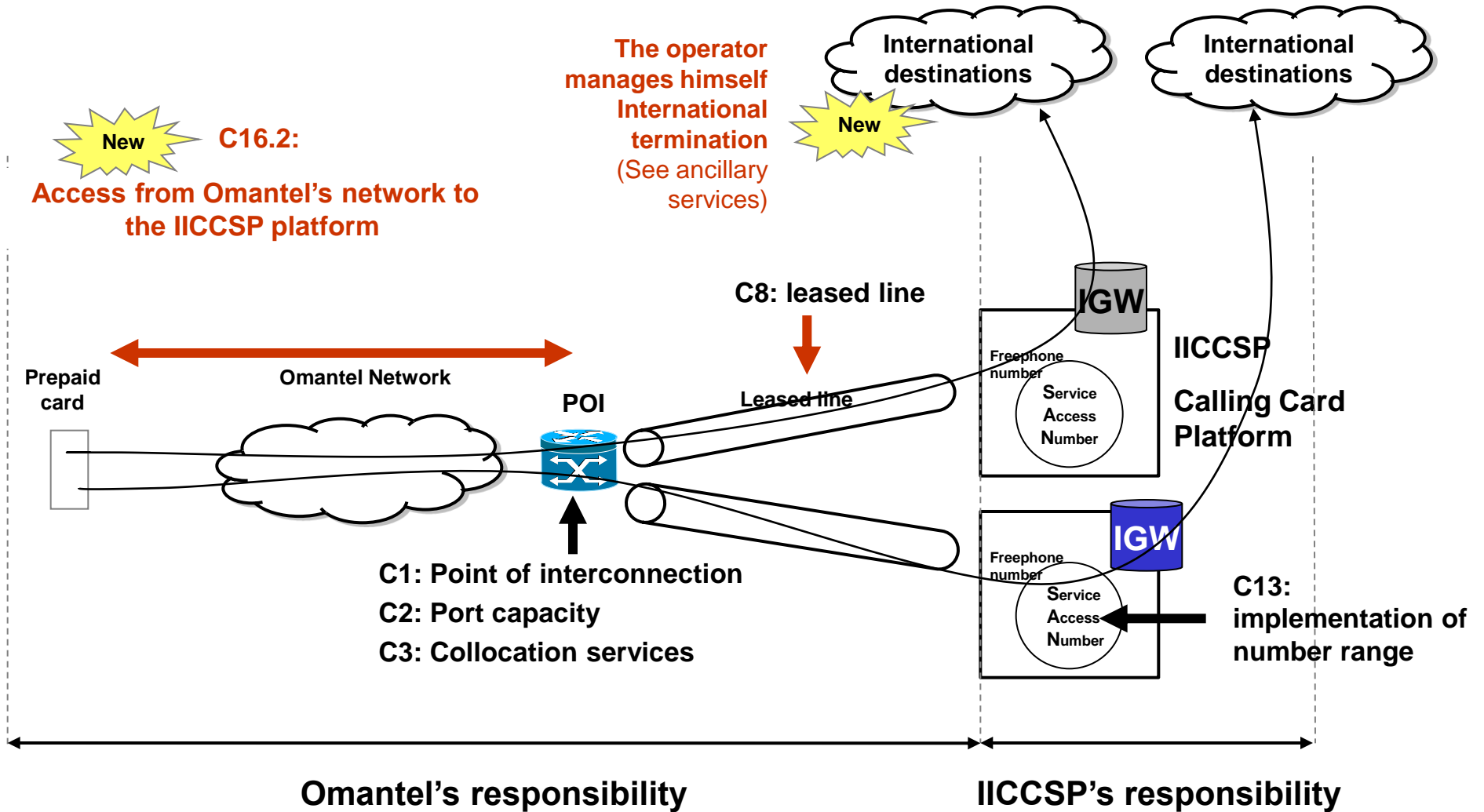
Reminder of the technical chain of the existing service “CATS Resale” (C16.1)

C16.2



C16.2

Technical chain of the new service "CATS Bitstream" (C16.2)



Contents

Heading		Corresponding retail markets
Audiotext service package	C17	Value added services
CATS <u>Resale</u>	C16.1	International voice communications
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CXX

CYY

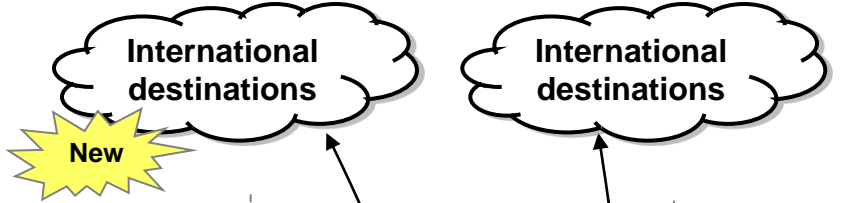
Technical chain of the new services “Bitstream” Call-by-Call Carrier Selection (Cxx) and “Bitstream” Carrier Preselection (Cyy)



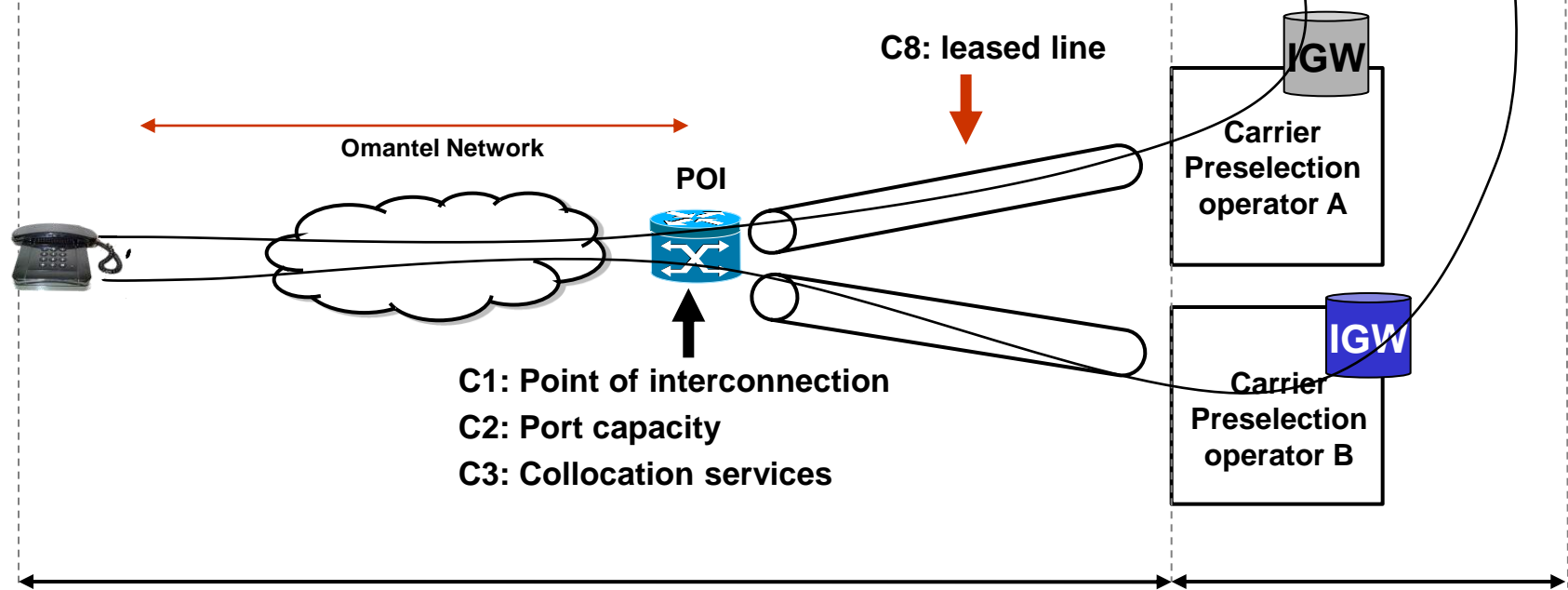
= call origination service + number selection

New Cxx or Cyy
Main service ~ Call origination service

The operator manages himself International termination (See ancillary services)



C8: leased line



- C1: Point of interconnection
- C2: Port capacity
- C3: Collocation services

Omantel's responsibility

CPS operator responsibility

Contents

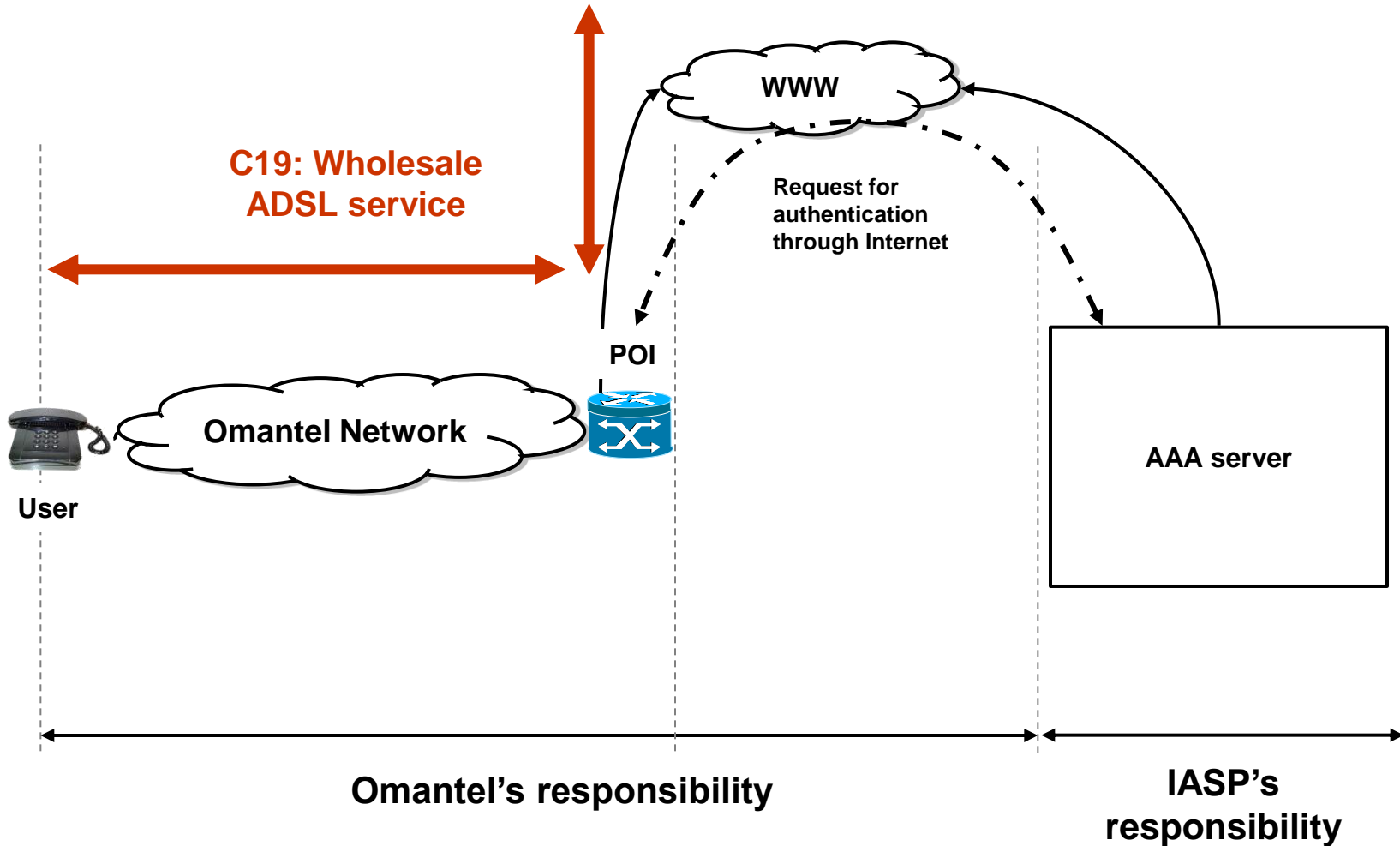
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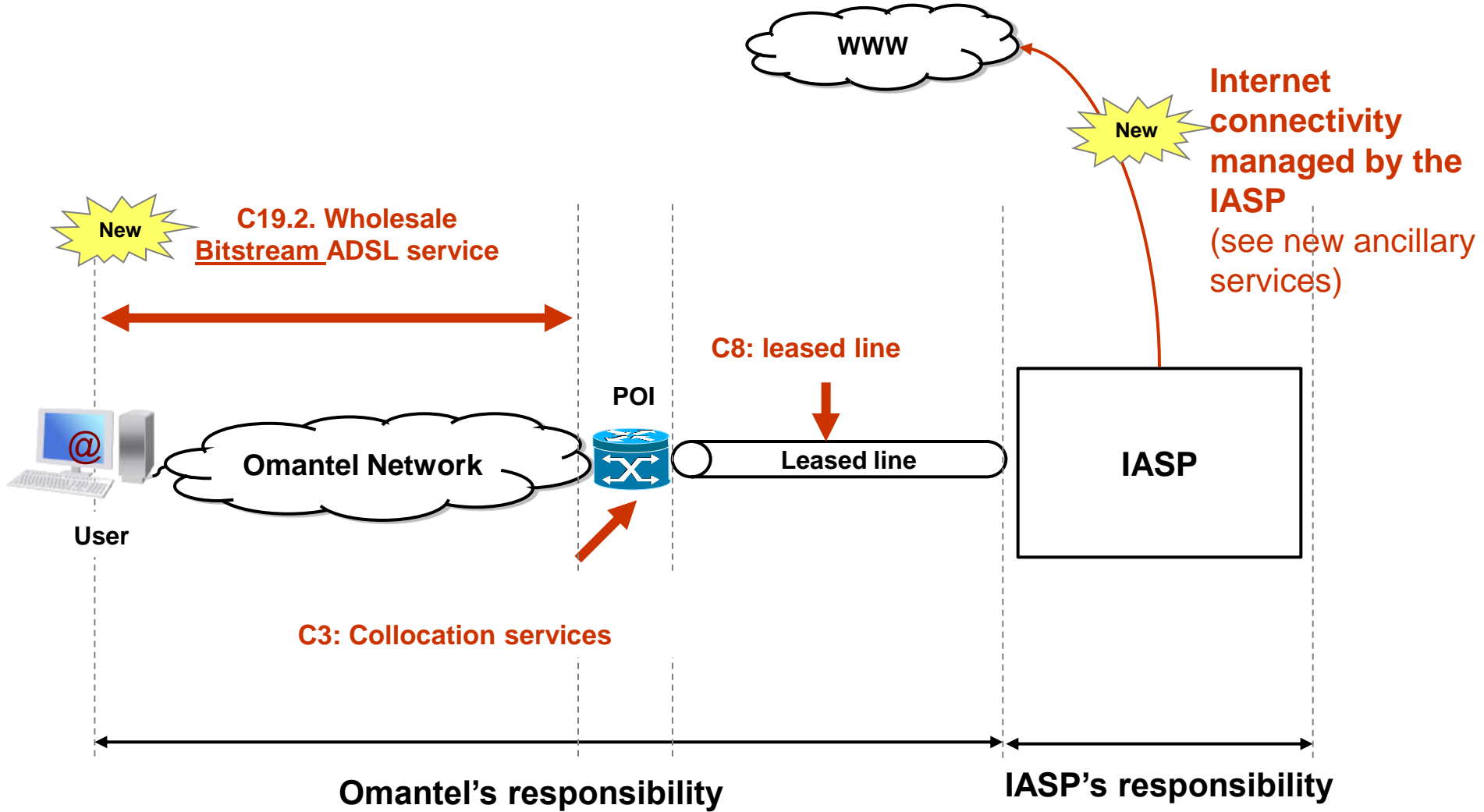
C19.2

Reminder of the wholesale resale ADSL service (C19.1)



C19.2

Technical chain of the Wholesale bitstream ADSL Access offer



Creation of new ancillary services



Heading	
Point of interconnection	C1
Port capacity	C2
Collocation services	C3
Leased Lines	C8
Internet Leased lines (peering)	C10
Implementation of number ranges	C13
New "Invoice" Billing service	Cww
New Access to the "IN platform"	Cxx
New Collocation services within the cable landing station	C3.2
New Leasing of submarine cable capacity	C8.2
New Leasing of international gateway capacity	Cyy
New Leasing of national switches	Czz

Ancillary service available for any main service addressing **postpaid** subscribers (including Audiotext)

Ancillary service available for any main service addressing **prepaid** subscribers (including CATS)

Ancillary services available for any operator intending to manage himself the **international connectivity**

Ancillary service available for any operator proposing **national voice services** (enables to avoid dealing with legal interceptions)

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Contents



1. Evolution of the scope of Omantel's RAO

2. Pricing policy of the RAO services



2.1. Understanding of the regulatory framework

2.2. Approval process of the RAO tariffs

2.3. Current main assumptions of the margin squeeze test

3. Annexes

2 tariffs regulation are possible for wholesale tariffs



Retail minus	Cost plus
Reasonable and non discriminatory rates	Cost based rates

Note: in the current regulatory framework, the choice between retail minus and cost plus regulation belongs to TRA

Non discriminatory, reasonable and cost based meaning for wholesale tariffs



Meaning in Omantel RAO's context

Non discriminatory



- Non discrimination means that Omantel should have a positive margin if it was buying the RAO to himself, e.g. if **“Omantel retail” was buying to “Omantel wholesale”**

Reasonable



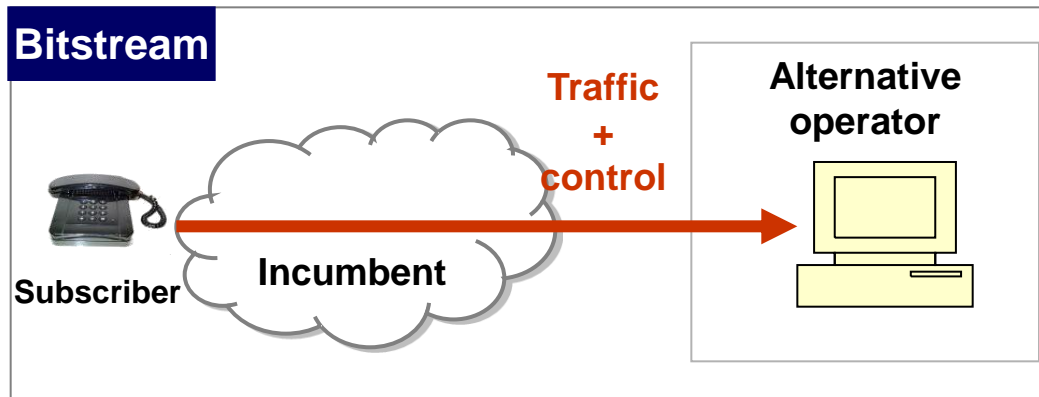
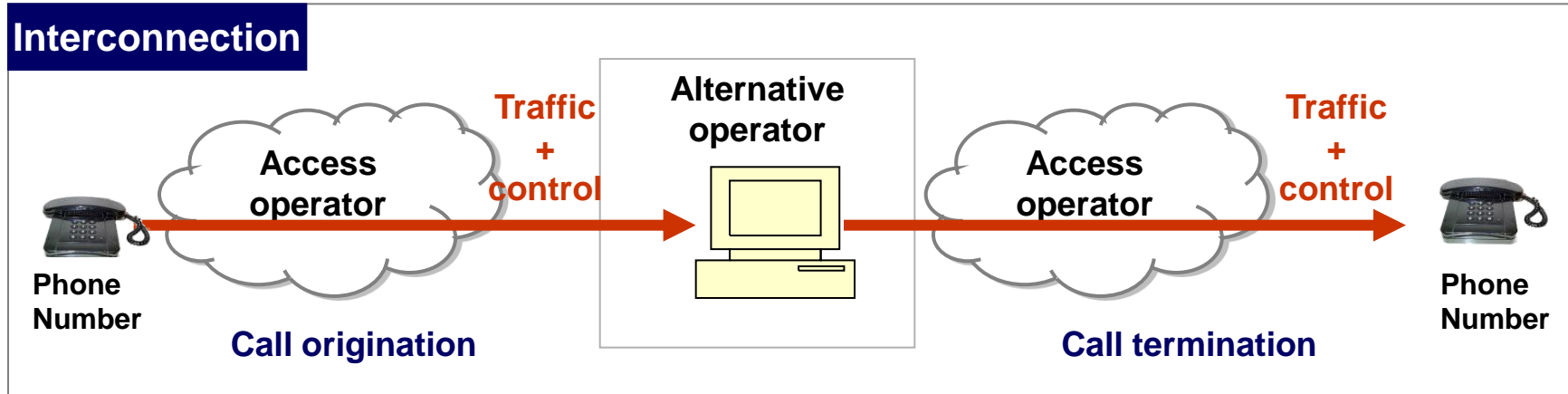
- According to the Telecom Act, article 7, *“The authority basically aims to accomplish the following:” [...] “9. To prepare suitable conditions for competition among the licensees”*
- Under these circumstance, “Reasonable” means that the wholesale rates should enable **a new entrant with reasonable market shares** to be profitable

Cost based



- Refers to interconnection regulation (currently equal to LRAIC costs)

“Bitstream services” correspond technically to “interconnection” services



The alternative operator

- receives both traffic and control
- designs network services

→ assumed to correspond to “interconnection services” in the regulatory framework

Proposal of tariff regulation for RAO services



Heading

"Resale"	"Bitstream"
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No margin squeeze	Cost based
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Update

Audiotext service package	C17
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	✓
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✓	✓
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New

CATS <u>Resale</u>	C16.1
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✓	
---	--

✓	
---	--

New

CATS <u>Bitstream</u>	C16.2
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	✓
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✓	✓
---	---

New

Bitstream Call-by-Call Carrier selection (CCS)	Cxx
--	-----

	✓
--	---

✓	✓
---	---

New

Bitstream Carrier Preselection (CPS)	Cyy
--------------------------------------	-----

	✓
--	---

✓	✓
---	---

IP Access Service Package	C18
---------------------------	-----

	✓
--	---

✓	✓
---	---

Wholesale Virtual Dial Up service	C20
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✓	
---	--

✓	
---	--

New

Wholesale ADSL <u>Resale</u> service	C19.1
--------------------------------------	-------

✓	
---	--

✓	
---	--

Wholesale ADSL <u>Bitstream</u> service	C19.2
---	-------

	✓
--	---

✓	✓
---	---

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Contents

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2.1. Understanding of the regulatory framework



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Key general recommendations



- 1. Any modification of a retail offer of Omantel should be approved *ex ante* by TRA, taking into account that a new entrant should be able to replicate this offer with the RAO**
 - *Especially, Omantel should have to demonstrate that its new retail offer does not produce margin squeeze*
 - *TRA is now able to verify the potential margin squeeze with the price squeeze model implemented during the project*
 - *Same process should be applicable on special offers*

- 2. Volume Discounts on wholesale tariffs may foreclose competition**
 - *They could be authorized only if they remain moderate and if Omantel is able to demonstrate that they generate substantial gains of efficiency (esp. economy of scales)*

Key specific recommendations

Resale services

- TRA should adopt a 3 steps methodology in order to approve the RAO resale tariffs, such as the DSL resale (C19) or CATS resale (C16) tariffs:



Ask Omantel to propose a design and tariffs for the new service (in case a new service is introduced)



Define the reasonably efficient operator for the resale service considered: Which level of market shares? Which level of margin?



Estimate the wholesale tariff of the resale service that would enable a reasonably efficient operator to reach the targeted level of margin

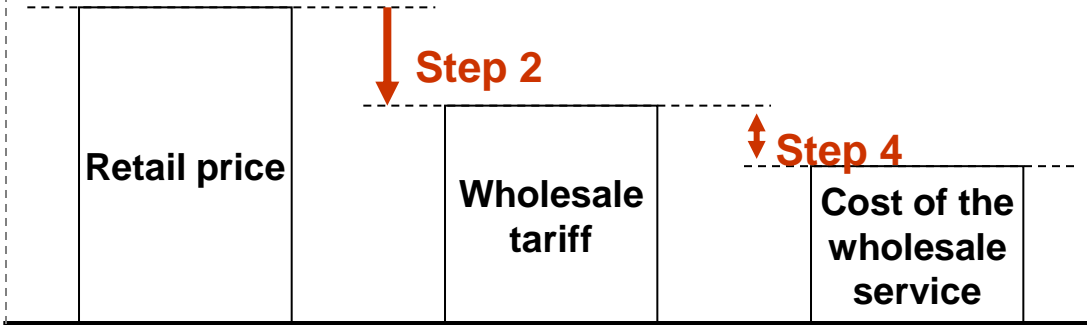


- **Verify that the new wholesale tariffs are higher than the costs**
- **In case wholesale tariffs are lower than costs, then the retail prices may be increased**

Key specific recommendations

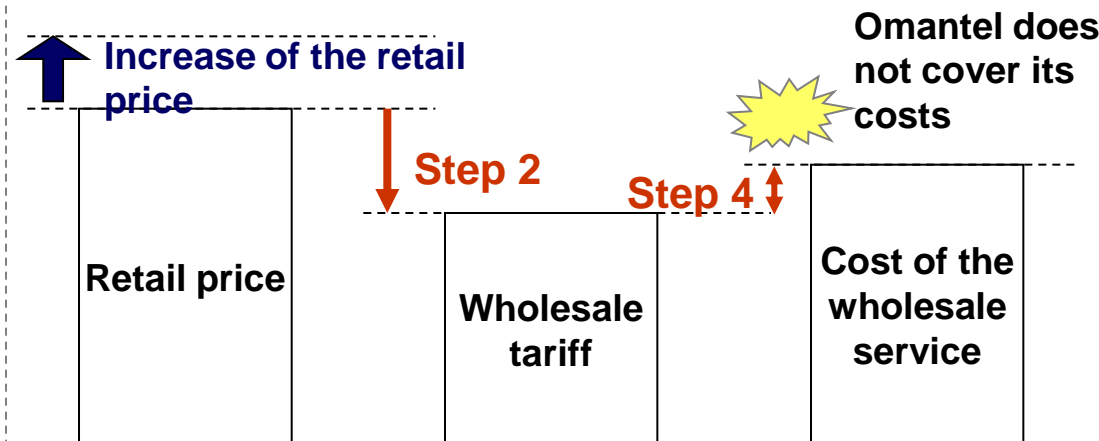
2 cases are possible for the step 4 of the process

Case 1



If the wholesale tariff is higher than the costs, then an increase of the retail tariffs should not be required

Case 2



If the wholesale tariff is lower than the costs, then an increase of the retail tariffs may be required

Key specific recommendations

Bitstream services

- TRA should adopt a 3 steps methodology in order to approve the new bitstream services, such as DSL bitstream (C.19.2) or international prepaid bitstream (C16.2) :



Ask Omantel to propose a design and tariffs for the new service (in case a new service is introduced)



Define the reasonably efficient operator for the **Bitstream service considered: Which level of market shares? Which level of margin?**



Estimate the wholesale tariff of the Bitstream service that would enable a reasonably efficient new entrant to reach the targeted level of margin



Verify that the new wholesale tariffs are cost oriented

Contents

1. Evolution of the scope of Omantel's RAO

2. Pricing policy of the RAO services

2.1. Understanding of the regulatory framework

2.2. Approval process of the RAO tariffs

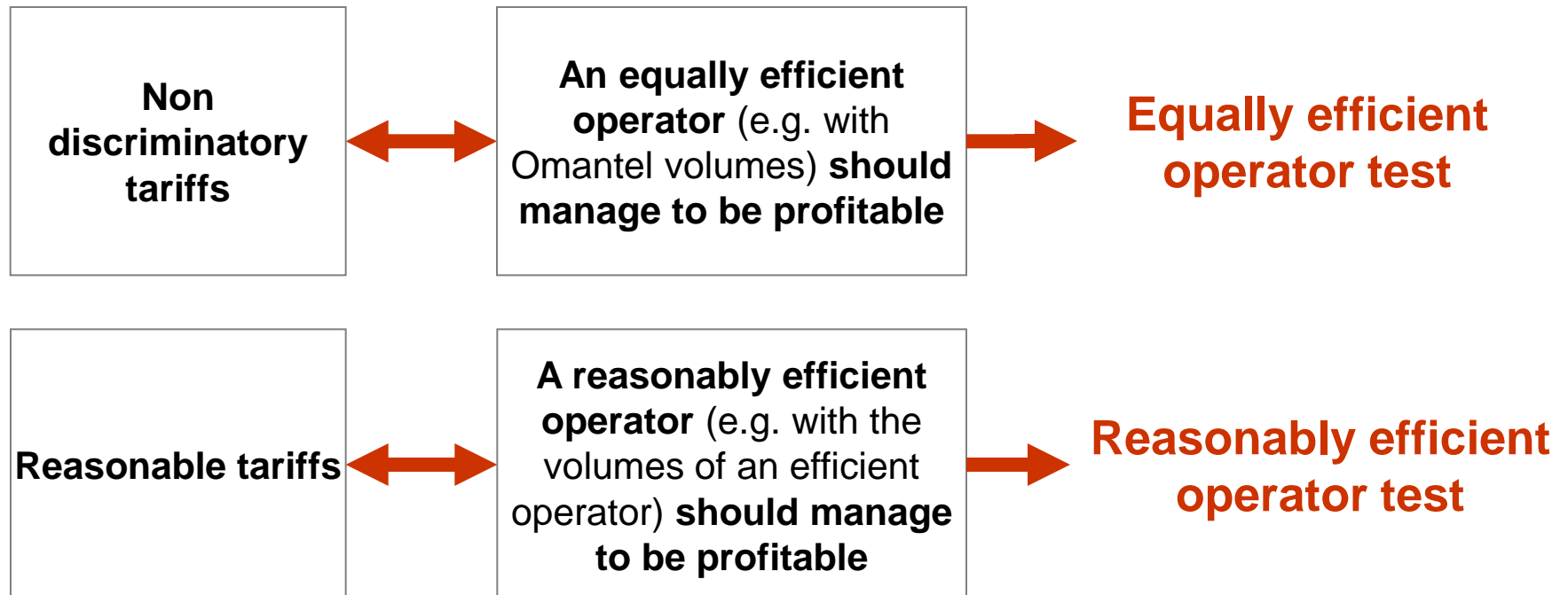


2.3. Current main assumptions of the margin squeeze test

3. Annexes

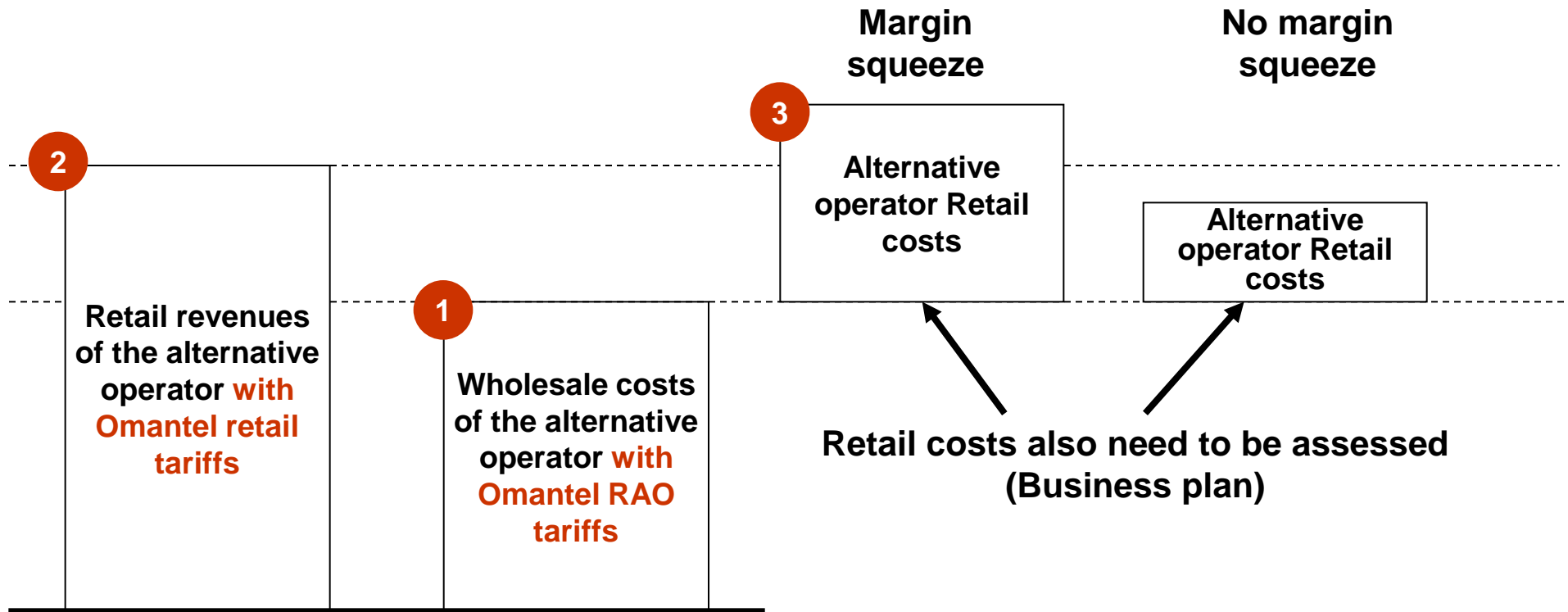
Two scenarios of volumes can be modelled in a margin squeeze test: the volumes of a reasonably efficient operator or the volumes of an equally efficient operator

- Part of the costs incurred by the new entrants are fixed. For such costs, the average costs incurred by the new entrant will depend on the **volumes**. Therefore, the assumptions on the volumes of the new entrant are critical in a margin squeeze test
- **2 distinct margin squeeze** tests can be implemented that correspond to different regulatory constraints and to different volumes:



Principle of a margin squeeze test

- The regulatory framework enables TRA to define what reasonable and non discriminatory rates are. Since TRA wants to enable the development of efficient new entrants, a margin squeeze test is the best practice to implement this dimension of the framework.



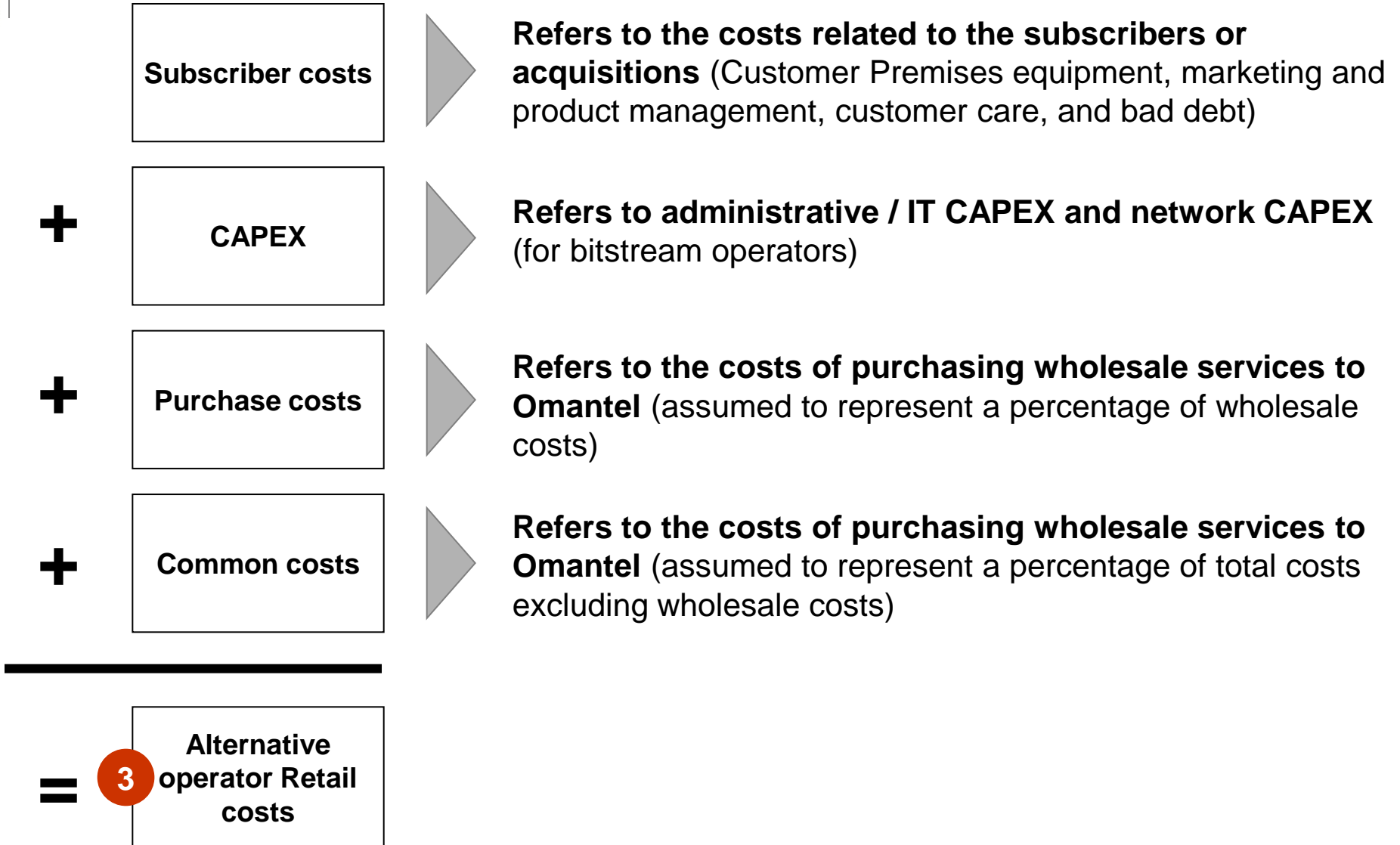
Assumptions for the modelling of retail revenues and wholesale costs



1 Wholesale costs of the alternative operator with Omantel RAO tariffs = Omantel volumes X Omantel current RAO tariffs X Market shares of a reasonably efficient new entrant

2 Retail revenues of the alternative operator with Omantel retail tariffs = Omantel volumes X Omantel current retail tariffs X Market shares of a reasonably efficient new entrant

Main assumptions of the margin squeeze model for a reasonably efficient operator



End of the presentation



**Thank you for your
attention**

Contents

1. Evolution of the scope of Omantel's RAO

2. Pricing policy of the RAO services

3. Annexes

DSL services - Assumptions on the subscriber costs



Residential

Yearly costs (/subscriber)

Customer Premises Equipments (one shot per new add)	12
Marketing & Product Management	3
Customer care	3
Website	-
Payment recoveries & Bad debts	12

Business

Yearly costs (/subscriber)

Customer Premises Equipments	12
Marketing & Product Management	49
Customer care	4
Website	-
Payment recoveries & Bad debts	124

Internet dial-up services - Assumptions on the subscriber costs



POSTPAID customers

Yearly costs (/subscriber)

Customer Premises Equipments	-
Marketing & Product Management	6
Customer care	3
Website	-
Payment recoveries & Bad debts	18

PREPAID customers

Retail price (as % of average price)	125%
Marketing & Product management (as % of retail revenues)	5%
Customer care (as % of retail revenues)	3%

CATS resale and bitstream - Assumptions on the subscriber costs



Marketing & Product management (as % of retail revenues)	5%
Customer care (as % of retail revenues)	3%

Other assumptions

- CAPEX assumptions:**

	Bitstream products			Resale products		
	DSL bitstream	Internet Dial Up Bitstream	Prepaid int. Bitstream	DSL resale	Internet Dial Up Resale	Prepaid int. Resale
CAPEX	20 000	20 000	30 000	10 000	10 000	5 000
Administration/IT CAPEX	20 000	20 000	20 000	10 000	10 000	5 000
Network CAPEX (including IGW)			10 000			

- Purchase costs:** 5% of the wholesale costs
- Common costs:** 6.7% of the total costs excluding wholesale costs