

China Resources Peoples Telephone Company Limited ("Peoples")

Response to

Guidelines on the Principles and Methodologies for the Interconnection Charges to Mobile Virtual Network Operators and Tariffs for Content or Service Providers by Mobile Carrier Licensees Operating in the 1.9-2.2 GHz Band

Date of Submission : 6 October 2004.

Peoples welcomes the opportunity to provide comments to OFTA with regard to the Industry Consultation Paper issued on 6 August 2004.

Charging principles

1. Costing principles - LRAIC or FDC ? (paragraph 17)

Peoples agrees with the TA's preliminary view that *"the ONA charges to MVNOs, tariffs to CSPs and the internal transfer prices should be based on a single and consistent set of principles"*.

2. Relevant costs - short run or long run ? (paragraph 23)

Peoples does NOT agree that corporate overheads as indirect fixed costs should be included in the costing calculation for interconnection charges.

Peoples maintains that an MNO providing network capacity to a MVNO / CSP will not significantly impact the corporate overheads, especially since this is not a core business activity in the early stages of MVNO service offering.

3. Reference carrier - efficient, average, marginal or individual ? (paragraph 24)

Peoples agrees to TA's view that *"the relevant costs of ONA charges should be the cost of individual carriers"*.

4. Cost standard - Current or historical cost ? (paragraph 26)

Peoples agrees to TA's view that "*the current cost standard should be adopted in the calculation of ONA charges*".

5. Current cost of network assets - revaluation or replacement? (paragraph 29)

Peoples agrees to TA's view that "*an accounting depreciation method based on the replacement costs approach should be adopted*".

6. Modern equipment assets - 'scorched node approach' (SNA) or 'scorched earth approach' (SEA)? (paragraph 33)

Peoples has no particular preference as to whether the replacement costs should be based on the SNA or SEA approach.

7. Asset life - physical or economic? (paragraph 34)

Peoples submits that both the physical and economic life of an asset may not be accurately predicted in advance. Peoples proposes that the asset life used for ONA cost calculation should be based on the actual depreciation period adopted by the MNO. This will fully reflect the MNO's expectation in its decision to invest in network equipment.

8. Annualisation methods - straight-line, accelerated or flat annuity? (paragraph 35)

Peoples agrees to the TA's view that the straight-line method of annualisation should be adopted as it is simple and the most commonly adopted in statutory accounts.

9. Holding gain or loss - financial capital maintenance (FCM) or operation capital maintenance (OCM)?

Peoples does NOT agree to the TA's view that "*the ONA charges should incorporate the holding gain/loss*" as the investment incentive will be reflected in the cost of capital.

10. Depreciation - summary of preliminary considerations (paragraph 39)

Peoples submits that, in summary, the depreciation of network assets for the calculation of ONA charges should be based on :

- the current cost standard;
- the replacement cost of 'modern equivalent assets';
- the 'scorch node approach' **or 'scorched earth approach'**;
- the **actual depreciation period adopted by the MNO**;
- the straight-line depreciation method;
- the **operation capital maintenance (OCM) approach - excluding any holding gain/loss** ;
- adopting a weighted average cost of capital (WACC) **in line with the market average of existing 2G mobile services.**

11. Network capacity (paragraphs 40-48)

In the course of normal commercial discussions between a MNO and a MVNO, both operators may consider different approaches for the sale and purchase of network capacity, including busy-hour traffic, total traffic over a defined period or any other methods. In case of TA intervention, the TA should not limit all the MVNOs and CSP to a single methodology of purchase as this will limit the innovation of service offerings. Instead, Peoples recommends that the TA should allow for a few (say 2 to 3) commonly preferred alternatives and all these alternative charging methodology must be consistent with the MNO's own internal transfer price.

Discount factors (paragraph 43)

Peoples agrees that the following discount factors should be taken into account in the calculation of ONA charges.

- Bulk purchases in terms of traffic volume, data rate or contract duration; and
- Peak / off-peak usage;

In addition, the TA should also allow for any other relevant factors, e.g. geographical or location based costing.

Discount factors should be clearly specified in commercial agreements so that the TA can satisfy itself that no discriminatory / avoidance activities are being practiced.

Actual utilization vs. efficient capacity (paragraph 44)

It is at the full discretion of the MNO to decide on the scale and timing of making investment in its network in order to capture the market opportunities at the right time while the MVNO/CSP has no control on the MNO's network rollout. The MVNO/CSP should not be required to bear the risk taken by the MNO. Therefore, Peoples submits that '**efficient capacity**' should be used for calculation of ONA charges with cost of capital at market average as for existing mobile services.

12. Cost of capital (paragraph 50)

Peoples does NOT agree with the TA's view that "*the WACC for the 3G network business should be above market average*", given that there are no empirical statistics showing that a 3G network faces higher capital investment, competitive pressure and technology risk as compared with a 2G network. Both the 2G and 3G networks start their respective product technology cycle at different times. In fact, 2G networks are facing a higher risk of obsolescence at present as the market is migrating towards 3G services.

Cost of capital allowed for 3G network should not be higher than that allowed for 2G network.

13. Periodic review (paragraph 52)

Peoples agrees that "*the guidelines will be reviewed no less frequent than every three years*".