

TEO LT, AB

To: European Regulators Group
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Cc: The Communications Regulatory Authority of the Republic of Lithuania
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RE: POSITION ON NEXT GENERATION NETWORKS FUTURE CHARGING MECHANISMS / LONG TERM TERMINATION ISSUES

TEO LT, AB welcomes the opportunity to comment on the ERG's Draft Common Position on Next Generation Networks Future Charging Mechanisms/ Long Term Termination Issues (Hereinafter – Common Position). We would also like to note that despite the fact that TEO LT, AB is a member of ETNO, this time, TEO LT, AB additionally will submit its comments directly to the European Regulators Group.

Before reacting to the substance of the draft Common Position and commenting special issues on BaK (Bill&Keep), TEO would like to point out that, at present, the rates for call termination on respective public mobile telephone communication networks are too high, so they not only discriminate against fixed telephone operator TEO LT, AB as well as other fixed telephone operators, but also are to the detriment of end-users of voice services, because such call termination rates have a negative impact on the final price of the retail services provided to the end-users of public fixed telephone services. When the difference of call termination rates between mobile networks and public fixed telephone networks is high – fixed operators cannot offer similar low tariffs for their services as mobile operators can, for example, calls to fixed telephone networks.

Due to the reasons mentioned above, fixed telephone operators incur losses, because the presence of such price difference accordingly affects consumer behaviour: more and consumers use mobile communication services only when they need to reach other mobile users. According to the data of the survey conducted by the market research company TNS Gallup, only 11% of businesses uses fixed telephone lines as the main means for making telephone calls from offices to other mobile users. Thus, as a result of unfavourable prices, the value of fixed telephony falls markedly and fixed operators incur significant losses due to customer disconnections.

One of the possible options to solve the above-mentioned problems is the BaK pricing principle or symmetric and low termination rates. According to preliminary evaluations, these models could eliminate the problem of the call termination rate difference between fixed and mobile operators that will be relevant in Lithuania even in 2012, because despite a decrease in call termination rates, the difference between call termination rates of mobile and fixed operators will still remain the same (to



the detriment of fixed operators). The pricing principles referred to above could also prevent the flawed situation, which is due to the apparent difference between wholesale and retail tariffs for the provision of mobile telephone services. We mean the situation, when for several years retail tariffs for mobile telephone services have been much lower than wholesale tariffs - interconnection charges. For example, the currently existing interconnection charge (between mobile operators) is LTL 0.288 during peak hours (excluding VAT), while the tariffs for calls to other operators' networks of the most popular retail plans for residents are LTL 0.07 - 0.19 (including VAT).

However, we would like to draw the attention of the European Regulators Group to some specific aspects of the BaK model:

- **Expected impact on regulatory certainty and the risk of legal disputes**

We believe that, in principle, we agree with ERG conclusion that BaK will decrease the regulatory uncertainty and the risk of legal disputes. As already mentioned above, the application of BaK should possibly eliminate potential problems associated with cross-subsidisation of services, as applied by the operators having higher termination rates today. We think that the application the BaK model should lead to less legal regulation of call termination services; however interconnection between operators should be more strongly regulated.

Many operators inside and outside BaK domain would like to interconnect directly to avoid transit calls. Termination to operator should be done either directly connecting to local layer with BaK conditions or using operator offered concentrated transit option connecting to all national operators. Moreover current regulation rules and fees for all type of service should be updated according BaK specific. BaK domain should have single regulation.

As a result of this regulation, a level playing field should be established for all operators. At the same time, this means that price control and access obligations should be amended for some operators already having SMP on relevant call termination markets.

Also, in our view, the overall number of legal disputes between different operators should decrease. We have in mind the disputes over termination rates. However, there will be an increase in the possibility of legal disputes over interconnection between operators, such as the terms of connection.

- **Relationship between the charging mechanism and penetration, usage and price level**

Interconnection charges have a direct impact on pricing. When a mobile interconnection charge is high (in excess of a fixed interconnection charge), calls to mobile networks become more expensive for subscribers of other networks, while mobile network operators receive additional revenues. In some cases (such situation is now in Lithuania), these additional revenues are used to subsidize the outgoing calls of mobile operators that are typically sold below the interconnection charge. Thus, the services provided by mobile operators – calls to mobile networks – become cheaper than those (calls to mobile networks) provided by fixed operators. Since calls to mobile networks/subscribers in Lithuania comprise about 80% of all telephone traffic, the fixed-to-mobile substitution is being accelerated, while limiting competition on the market for mobile operators (fixed operators cannot effectively compete, the competition is between 3 oligopolistic mobile operators). This system no longer has any positive impact on both mobile penetration (penetration is about 140%, there is actual saturation of the market) and on the usage of telecommunications services (it is difficult

to create "flat-rate" plans). Having implemented the BaK system or symmetrically reduced interconnection charges to the level about LTL 0.03, the competition on the calls market would increase, as fixed and mobile operators would be able to compete equally, within 2-3 years call prices would fall by up to 50%. As a result of that, favourable conditions would be created to develop new offers for consumers, for example, unlimited calls to mobile networks, etc. The market would promote competition and at the same time higher consumption. This would not in any way influence mobile penetration, since consumers would not really refuse mobile services. Mobile operators would no longer be able to subsidize outgoing calls at the expense of incoming calls, so pricing would become balanced.

- **The likely impact on electronic communications business**

The BaK model or a low symmetrical interconnection charge should start as quickly as possible to the maximum. The national regulator should strongly contribute to the implementation of this task. Following its implementation, prices would gradually decrease, but the volume of calls to mobile networks would grow. The fixed-to-mobile substitution would slow down significantly.

- **Quantitative relevance of call and network externalities**

It is clear that mobile operators will have to balance their pricing and to cover the incoming call handling costs, as well as fixed operators will have to do the same. For this reason, mobile operators will have to introduce charges for receiving calls or, what is more likely, subscription charges. Although these will be additional charges to consumers, but due to 50% lower prices for outgoing calls, consumers will spend less in total. For this reason, it is unlikely that the number of mobile subscribers will decrease.

- **Quality of service**

Much more operators will connect BaK domain which will seek near to free termination of calls (e.g., private enterprises, government administrations and etc). Lack of knowledge and experience could lead to longer fault resolution times and lower availability than usual practice.

- **Number portability**

Number portability complicates routing of calls and proper update of portability base is vital to achieve subscriber reachability. Central BaK domain database availability for domain's carries should be addressed.

- **Malicious calls and calling party identification**

Malicious calls could increase dramatically due free of charge termination. This issue should be addressed to provide legal instruments for managing related threats.

Malicious calls and other issues could increase cases when A number is incorrect or unavailable and degrade quality of experience. This issue should be addressed to provide legal instruments for managing related threats.

Given the above considerations, we believe that, although the implementation of the BaK model is, in principle a positive development, the application of the BaK model in practice can also give rise to a number of problematic issues, without solving which, after the introduction of the new model, the electronic communications market will not get as much benefit as expected. So, taking this into consideration, TEO would welcome low interconnection rates, ensuring symmetric rates between fixed and mobile telephone operators. These symmetric rates would no doubt eliminate the market

distortion issues mentioned at the beginning of this letter, including also the problem of mobile operators providing retail services below their cost, and would not create unnecessary additional problems. In particular, this would have a positive impact on the market if fully symmetric rates between fixed and mobile telephone operators were ensured as soon as possible, before the year 2014.

Respectfully,

General Manager

A handwritten signature in black ink, consisting of several sharp, intersecting lines that form a stylized, abstract shape.

Arūnas Šikšta