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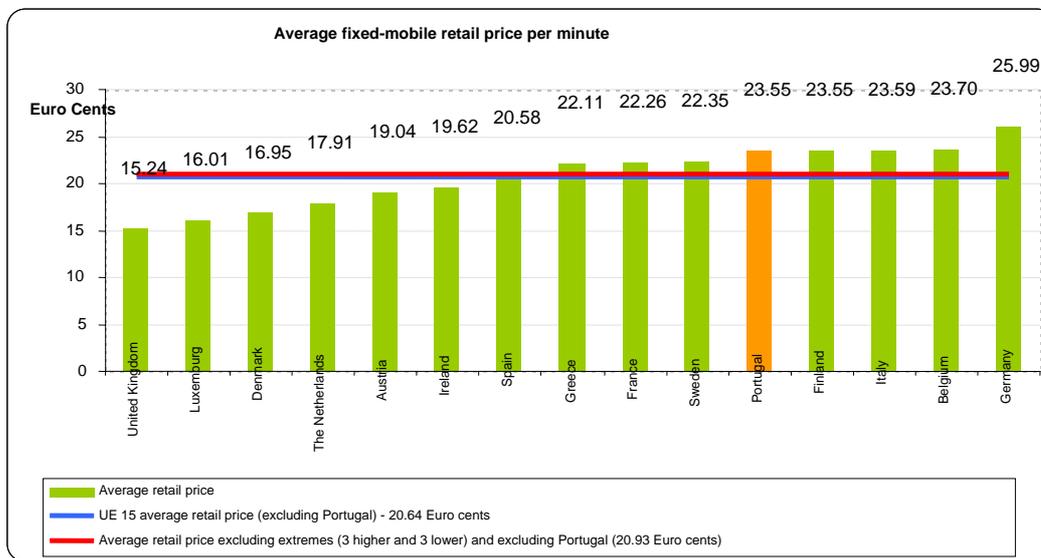
Determination of 1.9.2005

## DECISION ON THE RETENTION OF PTC IN THE FIXED-MOBILE TRAFFIC

### A. BACKGROUND

1. Average prices per minute, applied in Portugal to Fixed-Mobile traffic (F-M) originating from the historic operator network, are currently among the highest in Europe (see chart below), approximately 14.1% higher than the European average<sup>1</sup>, according to figures of May 2005.

Chart I. Average retail prices, per minute, for F-M traffic.



2. The retail prices represent values associated to, on the one hand, the call termination cost on mobile operator networks, and on the other, the retention

<sup>1</sup> Estimates of ICP-ANACOM, based on data obtained from Tarifica publications, dated January 2005, and on the results of a survey carried out by this Authority of National Regulatory Authorities (NRAs) of other Member States. For Portugal, the price resulting for the tariffs introduced on 11/05/05 was considered.

amount of the fixed operator (in the case under consideration, PT Comunicações, S.A. - PTC).

- ANACOM established, by determination of 25/02/05<sup>2</sup>, regarding the obligation to control prices in voice call termination wholesale markets on individual mobile networks, the termination price evolution which mobile operators must comply with, for the period from March 2005 to December 2006, according to the table below.

**Table 1.** Termination Prices established by ICP-ANACOM

Amounts in euro cents	Fixed-Mobile termination		International-Mobile Termination (all operators)	Mobile-Mobile Termination (all operators)
	TMN and Vodafone	Optimus		
Current price	18,50	27,79	18,70	18,50
7 Mar 2005	14,00	20,50	14,00	14,00
1 Jul 2005	13,50	19,50	13,50	13,50
1 Oct 2005	13,00	18,20	13,00	13,00
1 Jan 2006	12,50	17,00	12,50	12,50
1 Apr 2006	12,00	15,00	12,00	12,00
1 Jul 2006	11,50	13,00	11,50	11,50
1 Oct 2006	11,00	11,00	11,00	11,00

- For the period from 07/03/05 to 01/07/05, the average termination amounts corresponds to 15,00 Euro cents (14,00 Euro cents per minute for TMN and Vodafone and 20.50 Euro cents per minute for Optimus<sup>3</sup>), which represents approximately 64% of the retail price resulting from the F-M retail tariff introduced on 11/05/05<sup>4</sup>).
- The average PTC retention figure in F-M traffic implicit in the tariff introduced on 11/05/05 amounts to 8.55 Euro cents, representing 36% of the retail price.
- The determination of ANACOM of 14/12/04, regarding the application of obligations in the narrowband retail markets<sup>5</sup>, established that, with regard to calls originating in a fixed network to mobile networks, the obligation of cost-orientation of prices and of maintenance of accessible prices should be implemented, as far as the retention for F-M calls are concerned, with rates within reasonable levels, applied in order to ensure also that reasonable final prices are charged to end users, PT Comunicações, S.A. (PTC) being bound to reflect the determined evolution of F-M termination prices in the ruling retail prices.

<sup>2</sup>

[http://www.anacom.pt/streaming/dec.contrprecos.pdf?categoryId=143262&contentId=258996&field=ATTACHED\\_FILE](http://www.anacom.pt/streaming/dec.contrprecos.pdf?categoryId=143262&contentId=258996&field=ATTACHED_FILE).

<sup>3</sup> Amounts resulting from the tariff defined by ANACOM to be in force from 07/03/05 to 01/07/05.

<sup>4</sup> Estimated amounts based on the F-M retail tariff introduced by PTC on 11/05/05, after ICP-ANACOM's non-opposition to the tariff proposal for fixed-mobile calls presented by PTC, in its deliberation of 09/05/05 - see <http://www.anacom.pt/template12.jsp?categoryId=150862>

<sup>5</sup>

[http://www.anacom.pt/streaming/OMR29.11.20041.pdf?categoryId=120742&contentId=246306&field=ATTACHED\\_FILE](http://www.anacom.pt/streaming/OMR29.11.20041.pdf?categoryId=120742&contentId=246306&field=ATTACHED_FILE).

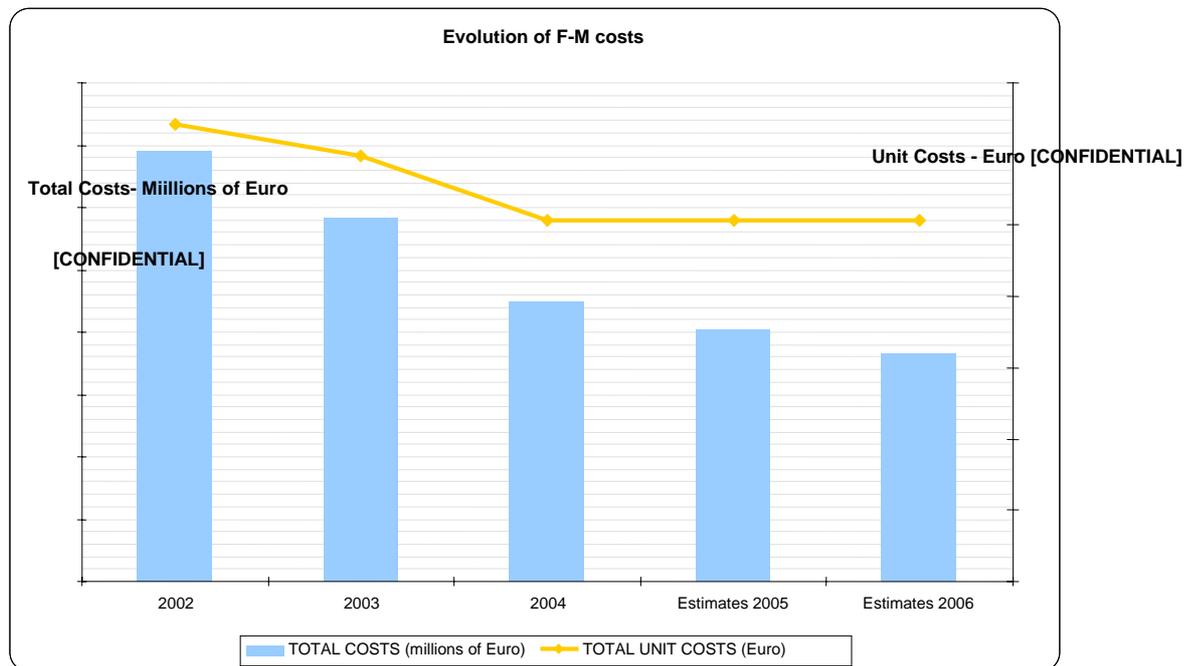
7. As stated in the determination of 09/05/05<sup>6</sup>, regarding PTC's F-M retail tariff, any other measures ICP-ANACOM deemed necessary relating to PTC F-M traffic retention amount, in line with applicable regulatory principles and a possible alteration of the tariff structure, would not be prejudiced.

## B. ASSESSMENT

### B.1. COST ORIENTATION OF RETENTION AMOUNTS

8. Based on PTC's analytical accounting system results for 2002, 2003 and 2004, an assessment was made on the evolution of total costs, unit costs and F-M traffic quantities. The data for 2005 and 2006 were estimated using unit costs estimates<sup>7</sup> and assuming that traffic volumes vary according to the variation registered in the previous year (annual reduction of 9,7%<sup>8</sup>).
9. The charts below summarize the performed assessment, showing a steady decline in the number of minutes of F-M traffic from 2002 to 2006, with an estimated total reduction of approximately 33% over this period.

**Chart II.** Evolution of total and unit costs associated to F-M traffic (2002-2006)



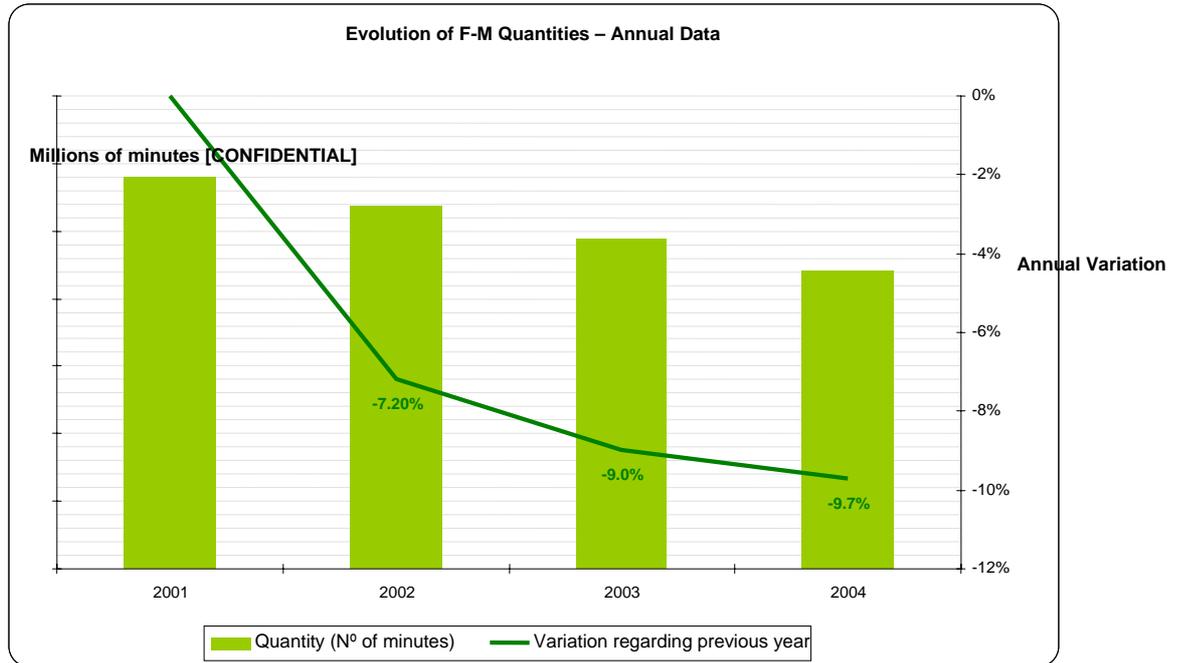
**Source:** Data of PTC's analytical accounting system and estimates of ICP-ANACOM based thereon.

<sup>6</sup> <http://www.anacom.pt/template12.jsp?categoryId=150862>.

<sup>7</sup> Unit costs estimated for 2004 were maintained, since they showed a reduction of direct costs and unit sets of around (CONFIDENTIAL) regarding the results of the previous year.

<sup>8</sup> Please note that this approach does not take into account a potential traffic increase resulting from tariff change elasticity in the F-M traffic.

**Chart III.** Evolution of quantities associated to F-M traffic (2002-2006).



Source: Data of PTC’s analytical accounting system

- Given that the results of PTC’s analytical accounting system present, as from 2002, a clear representation of the costs associated with “operator remuneration”<sup>9</sup>, the group of the other cost components constitutes an appropriate base for comparison with PTC retention on F-M traffic. The values associated with 2002 and 2003 and 2004, as well as estimates for 2005 and 2006 (assuming the maintenance of costs identified in 2004 for the estimates regarding 2005 and 2006), excluding the “operator remuneration” component, are summarized in the following table:

**Table 2.** PTC’s unit costs associated with traffic for mobile operators

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Source: Data of PTC’s analytical accounting system

- Based on the results presented in the preceding table, the estimated value of unit costs, excluding the “operator remuneration” component, for 2005 and 2006 is [CONFIDENTIAL], which results from the maintenance of values identified for 2004, considering that, as previously mentioned, the estimated values may represent a decline greater than that which actually did occur. The following chart illustrates the expected evolution.

<sup>9</sup> Resulting from the fact that the ownership of Fixed-Mobile traffic changed in October 2000.

**Chart IV.** Evolution of PTC's unit costs associated with traffic for mobile operators (excluding the "operator remuneration" component)

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Source: Data of PTC's analytical accounting system; estimates of ICP-ANACOM based on referred assumptions.

## **B.2. INTERNATIONAL COMPARISONS**

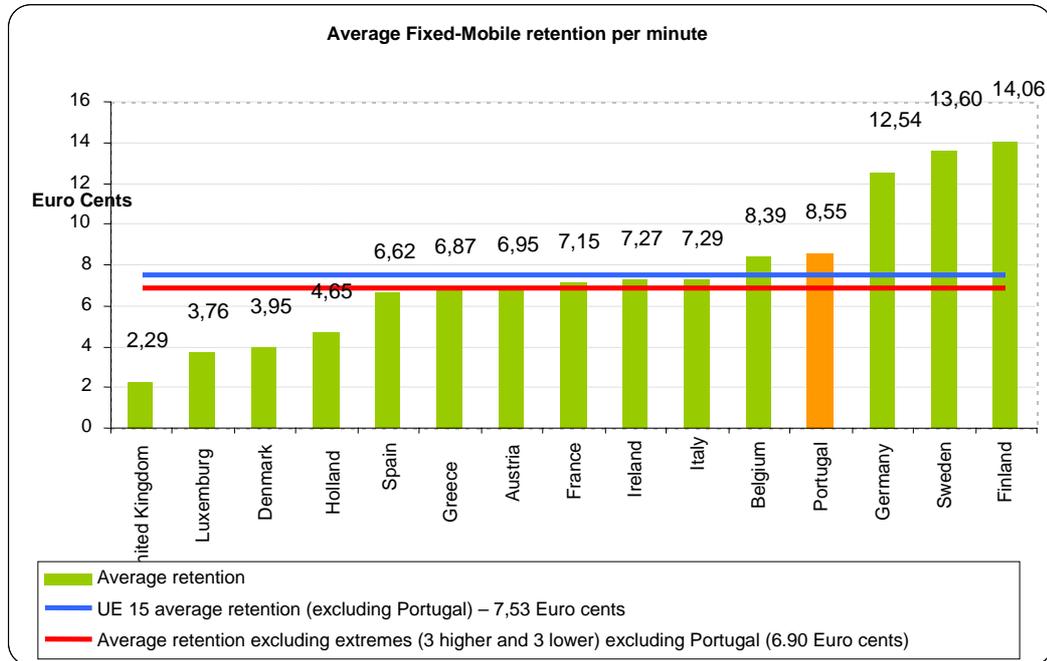
12. As mentioned above, the average retail price applied to F-M traffic, resulting from the tariff introduced on 11/05/05, is approximately 14.1% higher than the European average (EU 15, excluding Portugal).
13. Follows a comparison of the average retention amounts at European level<sup>10</sup>. In the absence of specific information on F-M traffic profiles for each mobile operator, in each country, the information provided by PTC as regards the situation in Portugal is considered to represent a proxy for traffic in other Member States<sup>11</sup>. As far as Portugal is concerned, the average unit amount for retention was set at 8,55, as mentioned above (see point 5).
14. The comparison of the retention amounts of the fixed operator on F-M traffic, at EU 15 level, enables the assessment of the reasonability of the retention amount and, indirectly, of prices. The following chart thus summarizes the results, in terms of average retention amounts for each EU 15 country.

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<sup>10</sup> By means of a non-parametric estimate, based on the breakdown of the distribution of call duration.

<sup>11</sup> The traffic of PTC-mobile operators (TMN, Vodafone and Optimus) was deemed to constitute a proxy of the traffic between the historic operator in each country and the three largest mobile operators (calculation based on information regarding market share in terms of number of subscribers of each operator).

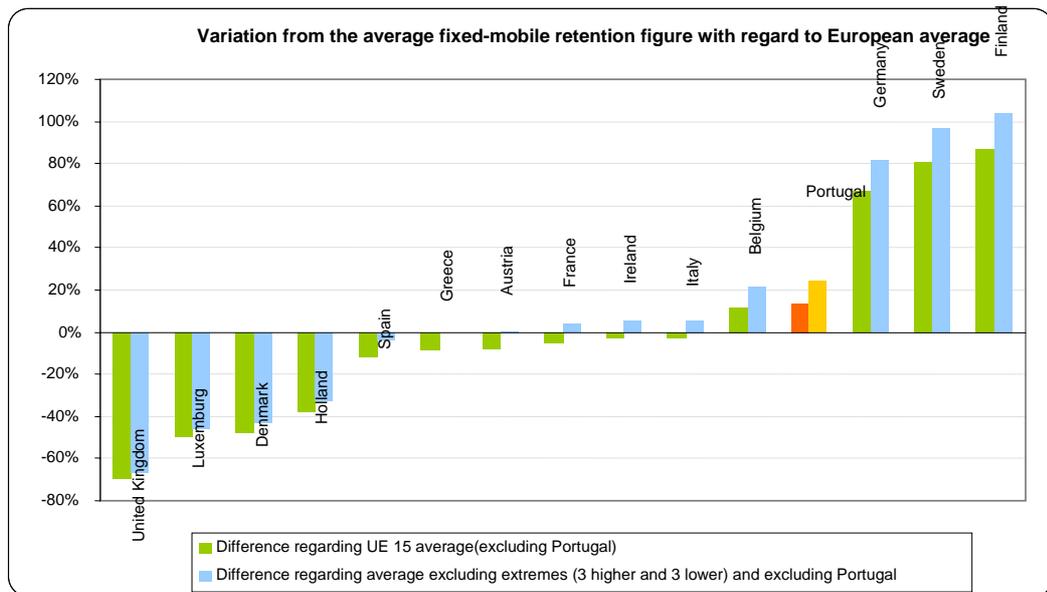
**Chart V.** Average retention per minute for F-M traffic, according to figures verified in May 2005



Source: *Tarifica*, January 2005; IRG (05) 27 “Market survey on the mobile termination market”; Results of an ICP-ANACOM survey of NRAs of other Member States.

- The comparison between PTC’s average retention amount per minute and amounts of historic operators in the EU, shows that the average retention of 8.55 Euro cents per minute earned by PTC is higher than the EU average by approximately 13.6% (see chart below).

**Chart VI:** Variations in relation to the European average, according to figures verified in May 2005



Source: *Tarifica*, January 2005; IRG (05) 27 “Market survey on the mobile termination market”; Results of an ICP-ANACOM survey of NRAs of other Member States.

16. Note that if the countries with the 3 highest and 3 lowest average retention amounts were removed from the assessment, in order to eliminate the effect of extreme average amounts, the average retention amount for Europe (EU 15, excluding Portugal) would be of approximately 6.90 Euro cents, and thus retention in Portugal would be higher than this average by 23.9%.
17. It should also be stressed that the average retention amount for EU 15 is expected to decrease in the near future, as a result of the application of regulatory measures in several Member States (for example, note the fact that the tariff for F-M calls in Spain and Holland are regulated through their inclusion in a service basket, the average price of which is controlled by the respective NRAs; and that in Italy there is a price-cap on F-M calls of the Consumer Price Index - 6%<sup>12</sup>).
18. Having thus regard to the principle of cost orientation of prices, to the presented international comparison and to user interest, there are grounds, *vis-à-vis* the draft decision, for a slight additional reduction of F-M retail price, reflected in a balanced variation of retention and mobile termination. Likewise there are grounds, as with termination, for a heavier initial reduction in retention, than the subsequent reductions.

### C. CONCLUSION AND DECISION

19. PTC's average retention amount, per minute, is about 14% higher than the European average.
20. As regards the cost orientation of PTC's retention amount, it should be concluded that such amount, resulting from PTC's retail tariff for F-M traffic, is significantly higher than the estimated costs for 2005.
21. It is therefore justified that the reduction of retail prices for F-M traffic, resulting from the termination reduction determined by ICP-ANACOM on 25/02/05, should be accompanied by a decrease in the retention amount.

In the light of the above, and following the prior hearing of interested parties, in the scope of the assignments provided for in points b), f) and h) of paragraph 1 of article 6 of the Statutes, approved by Decree-Law no. 309/2001, of 7 December, and having regard to the regulation objectives provided for in point a) and c) of paragraph 1 and to point a) and b) of paragraph 2 of article 5 of Law no. 5/2004, of 10 February, the Board of Directors of ICP-ANACOM, pursuant to the determination of 14/12/04, regarding the application of obligations in narrowband retail markets, hereby determines:

1<sup>o</sup>) To determine upon PTC to gradually reduce the retention amount achieved in the fixed-mobile traffic, in order to approximate this value to costs and to current European practices, according to the following time-tabling:

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<sup>12</sup> Information obtained through an ANACOM survey of the NRAs of other Member States.

**Table 3.** Maximum amounts established for retention

Dates	Maximum amount
1 Oct 2005	7,50
1 Jan 2006	7,20
1 Apr 2006	6,90
1 Jul 2006	6,60
1 Oct 2006	6,30

2º) To provide for the review in 2007 of the level of cost orientation of the retention amount, without prejudice to any additional intervention on this subject deemed appropriate and timely by this Authority.