



Mobile Termination Rates

Further specification of the price control obligation, wholesale market for mobile call termination

22 January 2013

Contents

Executive Summary.....	3
1. Legal and Regulatory Background	4
Regulatory Background.....	4
Mobile termination rates in the Isle of Man.....	5
Further specification of the price control obligation.....	6
Next steps.....	6
How to respond.....	6
2. EU Developments in Interconnection Pricing	7
European Commission Recommendation on Termination Rates.....	7
Progress in adoption of 'pure' LRIC rates by EU NRAs	8
UK, Ireland and Channel Islands MTR developments.....	9
UK.....	9
Ireland	9
Channel Islands.....	10
3. Options for setting the MTR in the Isle of Man.....	11
Regulatory approach.....	11
Implementation options.....	12
4. Benchmarking methodology.....	13
5. Benchmarking: rates	15
Annex A.....	18
Draft Decision Notice 2013/XX	18
Statutory powers	18
Draft Decision.....	18

Executive Summary

Decision 2012/03 found that Manx Telecom (MT) and Cable and Wireless Isle of Man (C&WIOM) each has Significant Market Power (SMP) on the wholesale market for the provision of mobile call termination (MTR) on their respective networks. Decision 2012/03 imposed SMP obligations on MT and C&WIOM in relation to wholesale mobile voice call termination. A price control obligation was imposed such that MT and C&WIOM are directed to comply with MTRs as notified in writing by the Commission. The Commission noted that it would work with operators and other interested parties on the detailed implementation of this obligation.

This further specification of the price control obligation sets out the approach and methodology which the Commission proposes to use in setting MTRs. Key points of the proposed approach are:

- MTRs will be derived by benchmarking against comparator countries. These will include countries which have already followed the EC's recommended methodology in setting rates, and neighbouring countries which share similar characteristics with the Isle of Man;
- There should be a single MTR which does not vary by time period;
- MTRs will be billed on a per second basis, from the first second;
- In order to promote regulatory certainty, the regulated MTR should be set for a definitive time period;
- The approach to setting MTRs should be technologically neutral. That is, the MTR will apply to all voice calls terminated on the relevant mobile network in the Isle of Man, irrespective of whether the mobile network is 2G, 3G or 4G, and irrespective of the origination of the voice call.

The Commission proposes to set a target rate for MTRs of 1.23 pence per minute (ppm). This further specification of the price control obligation identifies a number of options as to how and when this target rate should be reached.

1. Legal and Regulatory Background

Regulatory Background

- 1.1. In 2010, the Communications Commission published its Response to Consultation on proposals for a new framework for communications regulation.¹ Having considered all responses, the Commission's recommendation was that the Isle of Man should create an approach to regulation which is specific to the Isle of Man, and which both ensures competition in the provision of services and promotes continuing infrastructure investment on the Island. The regulatory approach should be appropriate to the size of the jurisdiction, and should focus on the Isle of Man's priorities. The Communications Commission recognised that the underlying communications legislation also requires updating.
- 1.2. The Commission published its reviews of the telecommunications markets as a consultation in June 2011. The June Consultation also set out the preliminary view of the remedies or obligations that we proposed to apply.
- 1.3. A response to consultation and Decision Notice was published on 4 October 2011 but the Decision was withdrawn on 30 November 2011 to allow further review. At this time, it was decided that the Commission would issue three separate Decision Notices covering retail fixed markets, wholesale fixed markets and mobile communications markets.
- 1.4. A further consultation and notification of proposed determinations in the mobile markets was published on 18 May 2012. This was followed by a response to consultation and Decision, published on 31 October 2012², which came into effect on 30 November 2012.
- 1.5. Decision 2012/03 found that Manx Telecom (MT) and Cable and Wireless Isle of Man (C&WIOM) each has Significant Market Power (SMP) on the wholesale market for the provision of mobile call termination on their respective networks. The licences, granted under the Telecommunications Act (of Tynwald) 1984, allow for additional obligations to be imposed on operators with SMP. Decision 2012/03 imposed SMP obligations on MT and C&WIOM in relation to wholesale mobile voice call termination. A price control obligation was imposed in accordance with

¹ Response to Consultation on Proposals for a New Framework for Communications Regulation, Communications Commission, August 2010

² Response to Consultation and notification of market power Determinations and Decision Notice 2012/03: Mobile communications markets, Communications Commission, 31 October 2012

Condition 44.2.1 (MT Licence) and Condition 28.2.1 (C&WIOM Licence) such that MT and C&WIOM are directed to comply with MTRs as notified in writing by the Commission. The Commission noted that it would work with operators and other interested parties on the detailed implementation of this obligation.

Mobile termination rates in the Isle of Man

- 1.6. MTRs in the Isle of Man have come down over the last two to three years. At the beginning of 2009, C&WIOM's and MT's rates were 10.98 pence per minute (ppm) daytime and 8.74 ppm evening/weekend. MT reduced its rates to 7.44 ppm daytime, 5.76 ppm evening and 2.04 ppm weekend in early 2009. C&WIOM reduced its rates to 9.80 ppm, 7.75 ppm and 3.08 ppm in October 2010, and again to 8.62 ppm, 6.75 ppm and 2.56 in January 2011. C&WIOM adopted symmetric rates with MT in April 2011, and rates have been static since then. Over the last two to three years, then, MTRs have been voluntarily reduced (i.e. through the intervention of the Communications Commission but in the absence of ex ante regulation) to 7.44 ppm daytime, 5.76 ppm evening and 2.04 ppm weekend, and are now symmetric.
- 1.7. According to BEREC's (Body of European Regulators for Electronic Communications) snapshot of MTRs across Europe, the peak average in July 2012 was 3.6 cents per minute (cpm) and the off-peak average was 3.4 cpm³. This indicates that, in the context of the BEREC snapshot, MTRs in the Isle of Man would be in the most expensive quarter of European countries.
- 1.8. As well as measuring and comparing current MTRs many European regulators have set expectations of reductions in MTRs over the next few years. Ofcom, for example, has set a MTR cap on a four-year glide path. The cap will lead to MTRs falling from around 4.18 ppm in 2010/11 to 0.69 ppm by 1 April 2014 (in 2008/9 prices)⁴. The CICRA (Channel Islands Competition and Regulatory Authority) has recently published a Direction which will cap MTRs in Jersey at a flat rate of 4.11 ppm (ie no distinction between peak and off-peak, and no minimum call charge), backdated to April 2012⁵. When this is implemented, it will introduce a common MTR across the Channel Islands, which is almost half the current Isle of Man rate.

³ BEREC MTR Snapshot, September 2012 BoR (12) 80

⁴ Ofcom, Mobile Termination Review Statement, Statement published 15|03|11

⁵ CICRA, Mobile Termination Rates in Jersey, 12/55 23 November 2012

Further specification of the price control obligation

- 1.9. The purpose of this document is to provide further detail of the Direction which the Commission proposes to make on the setting of MTRs. The document explains the context and background to the way in which the Commission has developed its approach, and defines the methodology which is proposed. The document applies the methodology in setting out the MTR rates which are proposed.

Next steps

- 1.10. Annex A contains a Draft Decision Notice. Representations may be made to the Commission up until close of business on Friday 22 February 2013, and, following consideration of all representations, a final Decision Notice will be published, in accordance with the Licences. It is expected that any proposed changes will come into effect on 1 April 2013, and if necessary will be backdated to that date.

How to respond

- 1.11. Responses should be sent, by close of business on 22 February 2013, to:

Michael Begg
Head of Regulatory Policy
Communications Commission
2nd Floor
St Andrews House
Finch Road
Douglas IM1 2PX

Email: Michael.Begg@iomcc.im

Web: www.iomcc.im

This consultation has been sent to current telecoms licensees and the IoM Office of Fair Trading.

2. EU Developments in Interconnection Pricing

European Commission Recommendation on Termination Rates

- 2.1. The European Commission (EC) published a Recommendation in May 2009 on the regulatory treatment of fixed and mobile termination rates in the EU.⁶ The Recommendation sought to harmonise an approach to the setting of fixed and mobile termination rates across Europe, and to improve consistency in how regulators apply remedies in the termination markets.
- 2.2. The reasoning behind the EC Recommendation is that, where regulated termination rates are set above an efficient level of cost, productive inefficiencies are encouraged, and there is distortion in the market. This is particularly so in the termination of calls from fixed lines, because historically, fixed termination rates have been significantly lower than mobile termination rates. This is generally reflected in the retail price, and a customer calling a mobile from a fixed line is often disproportionately penalised.
- 2.3. The EC also notes that high (ie above cost) mobile termination rates also potentially penalise later market entrants, and smaller market operators. This is because an operator which has a smaller subscriber base would typically send a significant number of its calls to other networks. This could have the effect of magnifying financial disadvantage arising from smaller scale and traffic imbalances. For example, where regulated off-net termination rates are set above an efficient cost level, asymmetric traffic flows could make it difficult for smaller operators to match on-net offers from a larger competitor.
- 2.4. The EC's approach to termination rates recognises that wholesale termination rates are charges which operators make to each other. Termination represents both a revenue and an expense for operators, so that any decrease in termination revenue is transferred as a decrease in expenditure for another operator. This means that the principal goal of regulating termination rates is to address imbalances and distortions in the wholesale market. The EC's view is that, while the immediate impact is in the wholesale market, reducing MTRs will eventually be of consumer benefit. The EC notes that aligning termination rates to efficient costs, and addressing distortions between the fixed and mobile markets, will strengthen the competitive dynamic which in turn can be expected to generate consumer benefits through lower prices and greater service innovation.⁷

⁶ COMMISSION RECOMMENDATION of 7 May 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU (2009/396/EC)

⁷ COMMISSION STAFF WORKING DOCUMENT *accompanying the COMMISSION RECOMMENDATION* on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU *Implications for Industry, Competition and Consumers*, C(2009) 3359 final, 7.5.2009

- 2.5. The core of the EC Recommendation is that termination rates should be based on the costs incurred by an efficient operator. This implies that termination rates would be symmetric. The EC proposed that the relevant cost methodology would be based on the incremental costs of providing call termination to other providers, using long-run incremental costs (LRIC). The Recommendation defines a cost modelling methodology to be used, and provides an interim alternative methodology (benchmarking) for regulators, particularly if limited resources would prevent them creating a bottom-up cost model.
- 2.6. One of the key principles of the EC Recommendation is that the methodology proposed would favour recovering elements of common costs from the competitive retail side of the mobile market and not from wholesale termination itself. This means that the calculation of the cost of mobile termination would not include the contribution of the mobile termination charge to the joint and common costs of the network. This would have the effect of reducing mobile termination rates.

Progress in adoption of 'pure' LRIC rates by EU NRAs

- 2.7. As of 31 July 2012, 7 European member States⁸ had notified a pure BU-LRIC⁹ MTR to the European Commission under the Article 7 process. The target rates which were notified ranged from 0.8 cpm to 1.27 cpm, with implementation deadlines in Q1 and Q2 2013. These target rates mean that the countries which are basing their MTRs on modelled costs find that the rates should generally be less than 1ppm.
- 2.8. The EC has provided further guidance through its Article 7 comments to European regulators who wish to set MTRs by benchmarking¹⁰. The EC notes that rates set by Member States which have implemented BU-LRIC cost models should be taken into account by regulators seeking to benchmark. Further, the rates used should be the cost efficient target rates at the end of any glidepath and not the intermediate rate, which is an interim rate on the way to a cost efficient rate. Generally, the EC's view is that any target rate set by benchmarking should not be higher than the average of the cost efficient target rate set by means of a BU-LRIC cost model.

⁸ Belgium, France, Portugal, Italy, Spain, Denmark, UK

⁹ Bottom Up modeling using Long Run Incremental Cost is a method for understanding the incremental cost to an operator for providing a service when compared to not providing the service.

¹⁰ See, for example, Commission Decision concerning Case EE/2012/1352: Voice call termination on individual mobile networks in Estonia, 10.08.2012

UK, Ireland and Channel Islands MTR developments

2.9. The Commission has considered trends in MTRs in the Isle of Man's nearest neighbours, and this is particularly pertinent as most off-island calls to and from Isle of Man mobiles are with these jurisdictions.

UK

2.10. Ofcom in the UK designated 32 Mobile Communications Providers (MCPs) with SMP on the termination of calls on their respective networks. It required all MCPs to provide mobile termination on "fair and reasonable" rates; to publish their MTRs; and to give 28 days' notice of any changes to the rates. In addition, the 4 largest operators¹¹ were required not to unduly discriminate in their provision of MTRs, and were subject to a price control. The control is a price cap on MTRs, with a single maximum charge set on an annual basis. Ofcom set a 4-year glidepath and expected rates to fall to those consistent with pure LRIC by 1 April 2014. In 2008/9 prices, this meant that MTRs would fall from 4.18 ppm in 2010/11 to 0.69 ppm by 2014/15¹²

2.11. Ofcom's most recent annual charge statement was published on 19 January 2012, and set the MTR maximum price for 1 April 2012 to 31 March 2013 at 2.053 ppm.

Ireland

2.12. The regulation of MTRs in Ireland has been based on a cost-orientation obligation imposed on the 4 mobile operators designated with SMP on their respective networks.¹³ The price control was a voluntary glidepath where the MTRs were set in line with an expected European average, based on BEREC six-monthly snapshots. ComReg has recently published a Decision¹⁴ which confirms its intention to implement a pure LRIC approach to cost orientation, and pending the development of a suitable BU-LRIC model, to benchmark against those EU countries where a pure BU-LRIC model has been notified to the EC, where the approach has been accepted by the EC, and where the national regulator has adopted a final decision setting a BU-LRIC based MTR.

¹¹ H3G; Vodafone; O2; Everything Everywhere

¹² "Wholesale Mobile Voice Call termination: statement", Ofcom, 15 March 2011

¹³ H3G; Vodafone; O2; Meteor

¹⁴ "Mobile and Fixed Voice Call termination Rates in Ireland", ComReg, 12/125, Decision D12/12, 21 November 2012

2.13. The Decision in Ireland will take effect on 1 July 2013, when the maximum MTR will be 1.04 cpm. From 1 January 2013 till 30 June 2013, the weighted average MTR is set at a maximum of 2.60 cpm.

2.14. On 20 December 2012, ComReg confirmed¹⁵ that Vodafone Ireland had appealed its Decision (D11/12) to impose a cost orientation obligation on the company and that it had also appealed the Decision (D12/12) directing each of the mobile SMP operators to reduce the maximum MTR in the manner outlined above. Notwithstanding this appeal by Vodafone, ComReg's Decisions remain in force and, hence, the mobile SMP operators are, with effect from 1 January 2013, obliged to reduce their weighted average MTR to a maximum of 2.60 cpm.¹⁶

Channel Islands

2.15. CICRA published a Final Notice¹⁷ in November 2012 directing the 3 mobile operators in Jersey to reduce their MTRs from 5.6 ppm to 4.11 ppm, which is the MTR currently in place in Guernsey. The Direction came into effect on 24 December 2012, and was backdated to 1 April 2012. The new rate will be in effect until 30 September 2013, by which time CICRA intends to implement a common rate across the Channel Islands.

2.16. The CICRA Direction does not set out an expectation for MTRs after September 2013, but indicates that there will be no additional charges; that billing will be on a per second basis, and that the MTR applies on a technologically-neutral basis.

¹⁵ "Appeal of ComReg's Decision on Mobile Termination Rates", ComReg Information Notice, (ComReg 12/139), 20 December 2012.

¹⁶ Ibid., Para. 4.

¹⁷ "Mobile Termination Rates in Jersey: Final Notice Directions to JT (Jersey) Limited, Jersey Airtel Limited and Cable & Wireless Jersey Limited", CICRA, 23 November 2012

3. Options for setting the MTR in the Isle of Man

Regulatory approach

- 3.1. The Commission set out its proposed approach to setting MTRs in the May 2012 consultation, such that it would not propose to undertake a cost modelling exercise at this stage, but would propose to set rates by benchmarking MTRs in the Isle of Man. The Commission noted that it would take account of guidance published by the EC, including the Recommendation on mobile termination rates¹⁸, and further guidance to regulators published under the Article 7 process¹⁹. This means that the Commission would expect to draw on the example of other European regulators which have set cost-efficient MTRs based on cost modelling as well as examples from similar jurisdictions.
- 3.2. The EC Recommendation expects that termination rates are set based on costs incurred by an efficient operator, and that this is based on bottom-up modelling using long-run incremental costs (LRIC) as the cost methodology. There is some flexibility for regulators whose resources may limit their ability to put in place appropriate cost modelling within the EC's timeframe, and these regulators can set prices using alternative methodologies so long as the outcome is not higher than the average of termination rates set by cost modelling.
- 3.3. Respondents to the May 2012 consultation agreed that cost modelling was not appropriate in the Isle of Man, and noted that cost modelling of MTRs in other jurisdictions has taken a significant amount of time and resources. In the October 2012 Response to Consultation and Decision, the Commission confirmed that in the Isle of Man, the most likely and proportionate approach to setting MTRs would be by benchmarking. The Commission noted that there is considerable evidence now available within the EU on which to base a benchmarking approach.
- 3.4. The Commission therefore set out its reasoning behind setting MTRs by benchmarking rather than by cost modelling, and explained this approach with reference to the EC Recommendation on mobile termination rates. Respondents to the Consultations agreed with the Commission's proposals to benchmark. The detail of the benchmarking methodology is discussed in the next section.

¹⁸ COMMISSION RECOMMENDATION of 7 May 2009 on the Regulatory Treatment of Fixed and Mobile Termination Rates in the EU, 2009/396/EC

¹⁹ See, for example, Commission Decision concerning Case EE/2012/1352: Voice call termination on individual mobile networks in Estonia, 10.8.2012

Implementation options

- 3.5. The Commission has considered whether MTRs should vary according to time of day, or whether there should be a single rate. At present, both MT and C&WIOM have a separate MTR for daytime, evening and weekend traffic. The trend across Europe is to move to a single rate, as this best reflects the cost orientation of the MTR, and is a simpler price rule to implement. According to the methodology set out in the EC Recommendation, the MTR should only consider the relevant incremental costs (that is, the avoidable costs) of the wholesale call termination service. This is considered to be the additional costs to the operator of providing a wholesale service, and would exclude all non-traffic related costs.
- 3.6. The Commission's view is that there should be a single MTR which does not vary by time period.
- 3.7. The Commission has considered the billing basis for wholesale mobile call termination. Following the principle of relating termination rates to the incremental costs of providing wholesale termination, the Commission does not believe it is appropriate to set any additional charges, such as a call set-up charge, and proposes that billing should be on a per-second basis effective from the first second, rather than liable to a minimum call charge, as this more closely reflects actual usage and actual costs.
- 3.8. The Commission is of the view that in order to promote regulatory certainty, both for operators and end-users, the regulated MTR should be set for a definitive time period. The Commission has identified several options for implementing a directed MTR, and all of these options propose that once the MTR is set, it will be subject to review on an annual basis thereafter.
- 3.9. The Commission considers that the approach to setting MTRs should be technologically neutral. That is, the MTR will apply to all voice calls terminated on the relevant mobile network in the Isle of Man, irrespective of whether the mobile network is 2G, 3G or 4G, and irrespective of the origination of the voice call. This approach is consistent throughout the market review process.

4. Benchmarking methodology

- 4.1. The EC Recommendation indicates that countries which decide not to put in place MTRs based on pure LRIC modelling may benchmark against other countries. However, there are two important caveats:
- Countries included in the benchmark comparison should be those EU countries which have actually modelled their costs according to the recommended methodology, and which have implemented cost-oriented MTRs;
 - The “benchmark” MTR “...should not exceed the average of the termination rates set by NRA²⁰s implementing the recommended cost methodology”.²¹
- 4.2. These caveats are designed to ensure first of all that the inputs to the benchmarking are based on actual modelled rates, and secondly that benchmarking is not used as a means of sustaining MTRs which may be higher than would be objectively justified.
- 4.3. In setting a revised regulated MTR for the Isle of Man, the Commission proposes to adopt a methodology based in large part on the EC Recommendation but it considers that the methodology should also take account, due to specific characteristics of the Isle of Man, of developments in relation to the setting of MTRs in jurisdictions that are of close proximity to the Isle of Man. As a result, the Commission proposes to include within its benchmark not only those EU countries where BU-LRIC models have already been put in place (which includes the UK) but also the Channel Islands and Ireland, given their proximity to the Isle of Man and the volume of calls to and from these jurisdictions.
- 4.4. Arising from the above, the Commission proposes that its benchmark target MTR will be based on an average of the cost efficient MTRs in the jurisdictions set out in Table 1.

²⁰ National Regulatory Authority

²¹ EC Recommendation, para 22

Table 1: Proposed benchmark jurisdictions and basis for inclusion

Jurisdiction	Basis for inclusion
United Kingdom	BU-LRIC MTR in place/Close proximity jurisdiction
Channel Islands	Close proximity jurisdiction
Ireland	Close proximity jurisdiction
Belgium	BU-LRIC MTR in place
Denmark	BU-LRIC MTR in place
France	BU-LRIC MTR in place
Italy	BU-LRIC MTR in place
Portugal	BU-LRIC MTR in place
Spain	BU-LRIC MTR in place

- 4.5. In line with the EC Recommendation, the MTRs that the Commission intends to use when setting its benchmark rate are the cost efficient target rates that NRAs within the benchmark countries have identified. This approach will enable the Commission to establish its own target MTR for the Isle of Man.
- 4.6. The Commission is of the view that an MTR glidepath is desirable as it provides the mobile SMP operators with a period of time in which to adapt their business plans to take account of the reduction in the MTR from its current levels to the target rate. A glidepath also avoids any disruption which might be caused by a very large one-off reduction to the target rate. At the same time, the Commission is mindful of the need to arrive at the target rate within a reasonable timescale.
- 4.7. In the next section, the Commission discusses four options in terms of the glidepath towards the target rate.

Q1 Do you agree with the Commission's approach and methodology for the setting of MTRs? Please provide reasons for your answer.

5. Benchmarking: rates

- 5.1. In this section, the Commission provides details of its proposed target MTR, based on the benchmarking methodology set out in the preceding section. Using this methodology, the Commission proposes to set a target MTR of **1.23 pence per minute**²², based on the input data set out in Table 2 below.

Table 2: Derivation of target MTR based on benchmark data

Jurisdiction	MTR (€) cpm	MTR (£) ppm
United Kingdom		0.79
Channel Islands		4.11
Ireland	1.04	0.84
Belgium	1.08	0.88
Denmark	1.07	0.87
France	0.80	0.65
Italy	0.98	0.80
Portugal	1.27	1.03
Spain	1.09	0.89
Target MTR (average of benchmark rates)		1.23

Notes:

(1) Sources for MTR data included in the benchmark are as follows:

(a) UK - Ofcom adjusted rate following CAT's judgment according to which the MTR target rate (at 2008/9 prices) would be 0.69ppm. Adjusted for inflation the target rate is estimated at 0.794 in nominal terms for 2013.

(b) Channel Islands – CICRA Document No. 12/55, 23rd November 2012.

(c) Ireland – ComReg Document No. 12/125 (Decision No. 12/12), 21st November 2012.

(d) Belgium - European Commission decision concerning case BE/2010/1086: voice call termination on individual mobile networks in Belgium

(e) Denmark - European Commission decision concerning Case DK/2012/1342: Voice call termination on individual mobile networks in Denmark. The regulated MTR in Denmark was set at 0.08 DKK/pm. DKK/€ exchange rate used = 0.13399 (oanda.com 22/1/2013)

(f) France - European Commission decision concerning Case FR-2010-1128: Voice call termination on individual mobile networks in France

(g) Italy - European Commission decision concerning Case IT/2011/1219: Voice call termination on individual mobile networks in Italy

(h) Portugal - Commission decision concerning Case PT/2012/1312: Price control for voice call termination on individual mobile networks in Portugal

(i) Spain - European Commission decision concerning Case ES/2012/1314: Voice call termination on individual mobile networks in Spain

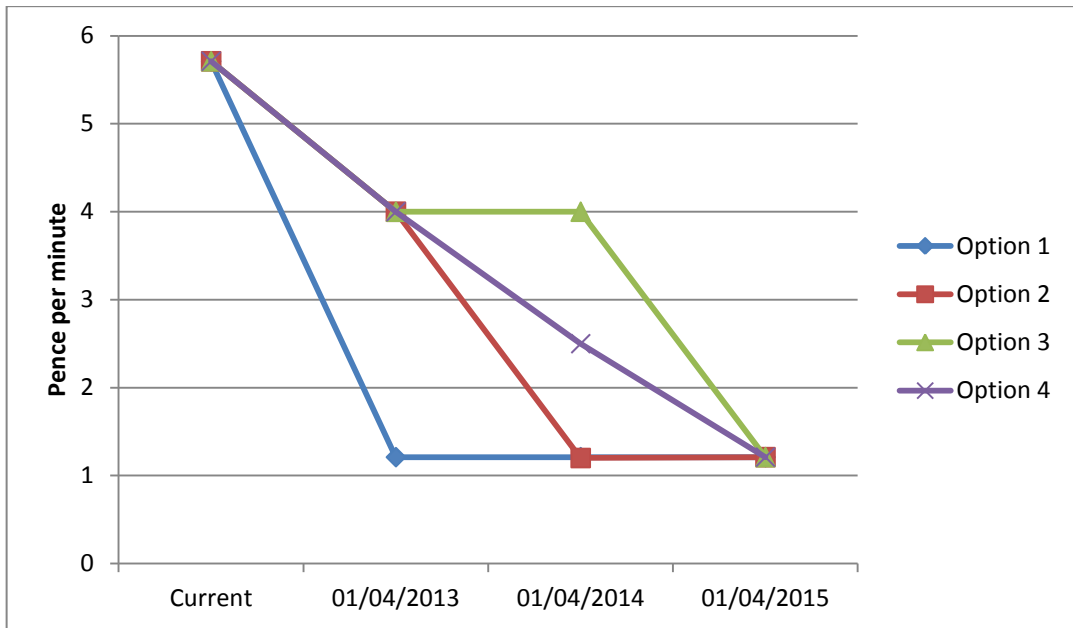
(2) £/€ exchange rate used = 0.83955 (oanda.com 22/1/2013)

²² The target rate set in the Decision will take into account the current exchange rate at the time of publication

Q2 Do you agree with the Commission's proposed target rate for MTRs?

- 5.2. The target rate sits just above the MTRs derived from BU-LRIC, largely because of the inclusion of the MTR from the Channel Islands. The Commission has identified four main options as to how this target rate may be reached.
- 5.3. **Option 1** is to reduce the MTR to the target rate of 1.23 ppm on 1 April 2013. The MTR would then be subject to an annual review from 1 April 2014. While Option 1 would involve a minimal notice period for operators, the Commission has, for the last 3 years, signalled its intention to reduce MTRs. There may be advantages for operators in reducing the MTR as soon and as quickly as possible. A disadvantage of this Option would be that operators would have little or no time to incorporate the change within their business plans for the current year.
- 5.4. **Option 2** would reduce the MTR to 4 ppm on 1 April 2013, and then reduce to the target rate of 1.23 ppm on 1 April 2014. The MTR would then be subject to annual review. This Option would be more gradual, and would allow operators to incorporate changes within their business plans over the next 2 financial years.
- 5.5. **Option 3** would reduce the MTR to 4ppm on 1 April 2013, and would then put in place a 2-year glidepath to meet the target rate of 1.23 ppm on 1 April 2015. The MTR would then be subject to an annual review from 1 April 2015.
- 5.6. **Option 4**, which is a variant of Option 3, would also reduce the MTR to 4 ppm on 1 April 2013, and put in place a 2-year glidepath to meet the target rate of 1.23 ppm on 1 April 2015. This Option involves an interim additional reduction on 1 April 2014, possibly to 2.5 ppm. The MTR would then be subject to an annual review from 1 April 2015.
- 5.7. The Commission's proposed glidepaths to the target MTR is illustrated in Figure 1 below.

Figure 1: Options for glidepath to MTR target rate



Note: Current estimated MTR of 5.71pm is based on a daytime/evening/weekend traffic split of 50/26/24 as per operator data for January-December 2012.

Q3 Do you have a preference from the options for how the target MTR rate is reached? Please provide reasons for your answers

Annex A

Draft Decision Notice 2013/XX

Statutory powers

This Decision is issued in accordance with "Additional Obligations on Operators with Significant Market Power" Part 6 of the Licence granted to Manx Telecom Limited, and Part 4 of the Licence granted to Cable and Wireless Isle of Man Limited, under Part 5 of the Telecommunications Act 1984 (of Tynwald).

This Decision comes into effect on [] and applies to Manx Telecom Limited ("MT") and to Cable and Wireless Isle of Man Limited ("C&WIOM").

Condition 44.2.1 of the MT Licence and Condition 28.2.1 of the C&WIOM licence provide for the Commission to direct price controls, as long as this is done in a way consistent with the provision in Condition 44.3 (MT) and Condition 28.3 (C&WIOM), such that it appears to the Commission, from the market analysis carried out for the purpose of setting that condition, that there is a risk that the Communications Provider might sustain prices at an excessively high level or apply a price squeeze to the detriment of End Users; and it appears to the Commission that any such conditions are proportionate and appropriate for the purposes of:

- (i) promoting efficiency;
- (ii) promoting sustainable competition; and
- (iii) conferring the greatest possible benefits on the End-Users having taken account of the extent of the investment by the Communications Provider in the matters to which the condition relates.

In Decision 2012/03, the Commission specified by direction that the following SMP conditions be imposed on the wholesale market for mobile call termination pursuant to the Conditions of the MT licence and to the Conditions of the C&WIOM Licence:

"A price control obligation is imposed in accordance with Condition 44.2.1 (MT) and Condition 28.2.1 (C&WIOM) such that MT and C&WIOM are directed to comply with MTRs as notified in writing by the Commission. The Commission will work with operators and other interested parties on the detailed implementation of this obligation".

Draft Decision

The Commission notifies MT and C&WIOM that a target rate for Mobile Termination Rates (MTRs) is set at 1.23 pence per minute by [*subject to option*]. In order to reach this target, MTRs will be charged at a maximum of [*subject to option*].

When the target rate has been reached, the MTR will be subject to annual review.

The MTR will not vary by time period.

The MTR will not include any additional charges

The MTR shall be billed on a per second basis, effective from the first second

The MTR will be applied on a technologically neutral basis