

Appendix II



Comments from the national consultation, Míla's response and the position of the Telecommunications Authority

Cost analysis of wholesale prices for optic waves and amendment to reference offer of leased lines

Case number: 2023050044

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1 Introduction

- (1) The preliminary draft decision of the Electronic Communications Office of Iceland (ECOI) on a cost analysis of wholesale prices for optic waves and an amendment to the leased line reference offer underwent a national consultation that ran from November 24 to December 27, 2023.
- (2) Comments were received from Nova. ECOI sent Nova's comments for comment at Mila.
- (3) The following sections contain Nova's comments, Mila's response and the ECOI's position.

2 Nova's comments

- (4) Comments were received from Nova by letter of the day. December 27, 2023. Nova's comments included the following:

"Nova considers that the relevant cost analysis has been well carried out, but considers it important that the analysis be reviewed at the earliest possible date on the basis of Mila's actual cost of providing the service, and even earlier than the draft indicates.

Furthermore, Nova wishes to comment on the analysis of the total annual cost of the wavelength system, cf. Article 4.7.1 of the draft (paragraph 87), that Nova considers the ratio of the cost of fiber to be higher in Mila's assessment. Nova operates a wavelength system and is therefore familiar with the operation of such a system. According to Nova, the proportion of this item in the cost of operating the system amounts to 72%, not 79% as Mila's estimate is based on. Nova's assessment is based on the fact that the operating item includes licence fees to suppliers and the operation of active equipment such as electricity, housing and cooling, the fiber item includes charges for internet connection (dark fiber) and overhead includes personnel costs for technicians and other such operating costs.

Nova emphasizes that it is important that Nova enjoy the same terms as Mila in network connections in order to ensure effective competition in the provision of the services based on them, and therefore it is particularly important that this part of the cost of providing the service in question is correctly assessed in the cost analysis.

Other than the foregoing, Nova sees no reason to comment further on the cost analysis in question."

3 Mila's response

- (5) In an email on January 2, 2024, Míla included the following response to Nova's comment:

"Míla believes that ECOI's plan to revise the tariff for optic waves in the first half of 2025 is sensible, Míla will then get about one year to see the demand for this product, which in Míla's opinion could hardly be shorter. Regarding the proportion of fibre optic in costs, the cost is calculated using the current price list which is based on an approved cost analysis by ECOI. The current price list for fibre is based on a cost analysis from 2019 and it is therefore reasonable for it to be revised to take into account actual costs at any given time and follow the rules that apply to it at any given time. Míla points out that the same price list applies to external and internal parties and this is in accordance with Míla's obligations in this market."

4 ECOI's position

(6) ECOI believes that there is some uncertainty about the demand for this product, i.e. apart from the internal use of Míla. There is also some uncertainty about the operating costs of the service. Therefore, ECOI considered it appropriate to update this cost analysis soon and Míla shall submit an updated cost analysis on 1 March 2025 that will allow Míla to gather information on the cost of these services for the fiscal year 2024 and update the cost analysis with new figures on the number of connections. ECOI believes that this is a reasonable deadline for updating the cost analysis.

(7) As for the ratio of the cost of leasing fibre to operating costs, the cost is in accordance with Míla's tariff and is precisely specified for each leg in section 4.3.1. Since the rental of fiber optic cable depends on Míla's tariff, Nova is enjoying the same terms as Míla. ECOI is not aware of the extent of Nova's wavelength system, but these costs are highly dependent on the structure of the system as the cost is directly linked to the monthly price per km. The fact that Nova's ratio of the cost of leasing fibre to operating costs is lower may also indicate that other operating costs are higher for Nova than for Míla, i.e. that the cost is underestimated in Míla's cost analysis or that Míla enjoys economies of scale. Therefore, ECOI considers it necessary that the cost analysis will be reviewed at the beginning of next year.

(8) ECOI does not consider there to be any reason to amend the draft decision due to Nova's comments, but it does confirm the need for the cost analysis to be updated when more experience is gained with these new services.