

# Appendix II



**ECOI**

Electronic Communications  
Office of Iceland

## **Comments from national consultation and Míla's response**

### **Cost analysis of wholesale prices for copper local loops**

March 2023

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## **1 Introduction**

(1) The draft decision of the Electronic Communications Office of Iceland (ECOI) on the wholesale tariff for access to copper local loops and distribution frames was submitted to national consultation which lasted from 10 January until 9 February 2023.

(2) Comments were received from Síminn hf. (Síminn) and Sýn hf. (Sýn). ECOI sent the comments to Míla for review. Síminn's and Sýn's comments in their entirety follow below. Míla's response to the comments can be found in chapter 4.

(3) In Appendix III, you will find a summary of ECOI's main subjects in Síminn and Sýn's comments together with Míla's response and the ECOI's position.

## 2 Comments from Síminn

Reykjavik, 9 February 2023

Electronic Communications Office of Iceland, Suðurlandsbraut 4, 108 Reykjavik

### Re: Consultation on tariff increase for copper local loops

#### 1. Introduction

Reference is made to a news item on the Electronic Communications Office of Iceland (hereafter "ECOI") website dated 10 January 2023, which invites consultation on tariff increase for access to copper local loops. Notice was given until 9 February 2023 to submit comments. Here below are the comments from Síminn hf. (hereafter "Síminn").

In ECOI comments accompanying the news item, it is stated that the intention is to increase the tariff for copper local loops from ISK 1,558 to ISK 1,978. The current price for copper connections was last changed on 1 June 2019, pursuant to PTA Decision no. 8/2019 which means a price increase of 27%. It is therefore clear that ECOI considers it normal to increase prices in step with indexation and this thus *constitutes an ECOI policy to index tariffs of undertakings that are subject to obligations.*

With Decision no. 8/2019, the price of copper local loops increased by about 11%, having previously been decided at ISK 1,406 with Decision no. 5/2017, and this price came into force on 1 July 2017.

#### 2. General comments from Síminn

##### 1.1. *In general on objectives of the Electronic Communications Act*

Síminn points out that measures of the electronic communications authorities must harmonise with the objectives of the Electronic Communications Act. Article 2 of the act prescribes the objective of the act:

"The objective of this act is to ensure accessible, fast, economic, efficient and secure electronic communications in this country. The objective is furthermore to increase protection and choices for consumers and to support efficient investment and innovation on the electronic communications market.

The Icelandic state shall ensure as far as possible that all Icelanders and undertakings have access to electronic communications and high-speed networks, including fixed and wireless networks, as is described in further detail in this act."

As can be seen, the objectives of the Electronic Communications Act are quite wide reaching, with the main objective being to support efficient electronic communications and active competition.

## 1.2. *On authority to increase tariffs*

For ECOI authority to intervene in Mila tariff, one can refer to ECOI Decision no. 5/2021. According to electronic communications legislation now in force, the authority for obligations can be found in article 52 of the act which states:

“In situations where market analysis indicates that lack of effective competition means that an undertaking with significant market power may sustain prices at an excessively high level, or may apply a price squeeze to the detriment of end users, ECOI can impose obligations on the undertaking relating to cost recovery and price control, including obligations for cost orientation of prices and obligations concerning cost-accounting systems, for the provision of specific types of interconnection or access.

In decisions pursuant to this provision, account shall be taken of the need to promote competition and the long-term end-users interests related the deployment of next-generation networks, in particular of very high capacity networks. Investment shall be both taken into account and encouraged. Allowance shall be made for reasonable rate of return on adequate capital employed, having taken risk into account. Benefits of predictable and stable wholesale prices shall also be taken into account.

Consideration shall be given to whether it is possible to avoid imposing obligations pursuant to this provision if a demonstrable retail price constraint is present and where obligations on transparency, non-discrimination, separation of accountancy and access, particularly any economic replicability test applied pursuant to article 50, ensures effective and non-discriminatory access.

Cost recovery mechanism and pricing methodology shall promote the deployment of new and enhanced networks, efficiency and sustainable competition and shall maximise sustainable end-user benefits. In this regard, it is authorised to take into account prices available on comparable competition markets.

The burden of proof that charges are derived from costs, including a reasonable rate of return on investment, shall lie with the undertaking concerned. ECOI may require an undertaking to provide full justification for its prices, and may, where appropriate, require prices to be adjusted. The Administration can furthermore require an electronic communication undertaking to prepare a cost model for calculation of prices. When calculating costs, ECOI can use as a reference the operation of analogous service that is considered efficiently run and may use cost analysis methodologies that are independent of methodologies used by the electronic communications undertaking.

If an obligation constitutes implementing a cost accounting system, open access shall be ensured to a description of the cost accounting system which shows at least the main categories under which costs are grouped and the rules used for the allocations of costs. An independent and qualified party shall verify that the rules of the cost accounting system are complied with, and shall publish annually a statement concerning compliance.

The minister may issue a regulation on arrangements for accounting separation of electronic communications undertakings' operations, as provided for in article 51, including a breakdown by networks and services, and may prescribe detailed arrangements for cost analysis as provided for in this article, for instance, with regard to asset valuation, depreciation, required rate of return and making of cost models.

The provision states some key issues, such as stable wholesale prices, economies and that pricing shall support the distribution of newer and more powerful networks. Investment shall be both taken into account and encouraged.

Siminn considers it doubtful that the cost of operating copper local loops has increased by 27% from the year 2019.

### 3. On tariff increases

ECOI points out that the Administration allows Mila price increase on copper on the grounds that Mila is subject to an obligation on significant market power, see Decision no. 5/2021. The decision in question was partly repealed.

The ECOI news item states, *"This is a 27% increase from the current tariff for the monthly fee which came into force on 1 June 2019. In the opinion of ECOI, this increase, though considerable, harmonises with indexed increases since the last cost analysis."* Siminn considers it worthwhile to remember that on 1 July 2017 the price for a copper local loop was ISK 1,406 which was increased to ISK 1,558 on 1 June 2019.

Date	Copper local loop price	Consumer price index	Building cost index
1 July 2017	ISK 1,406.	442.9	132.6
1 June 2019	ISK 1,558.	469.8	146.1
Not dated 2023	ISK 1,978.	569.4 (January 23)	180 (January 22)

The price increase in 2019 constituted an increase of 11%, while at the same time the consumer price index increased by 6% and the building cost index by 10%. In both cases, the price increase was thus in excess of indexation increases.

Now a price increase of 27% is planned, while since 1 June 2019 until December 2022, the consumer price index has at the same time increased by about 21% and the building cost index has increased by about 23%, with reference to the index in December 2022. It is clear that the planned price increase is thus once again in excess of indexation, and considerably higher than in the year 2019. Since 2017 the price of copper increased by about 41%, on the basis of the price that ECOI has endorsed, for service based on investments that are to a significant degree written off and for service due for decommissioning in the coming years. In the opinion of Siminn there is a certain contradiction in using the building cost index for copper connections that have not been installed in Iceland for many years and where the objective is to decommission the copper system in the coming 2-3 years.

By comparison, one can point out that pricing for fibre local loops has increased by 23% at Ljósleiðarinn, 18% at Mila and 15% at Tengir, to take some examples.

### 4. Fibre transfer

As the situation is today, many households have the option of a fibre connection, about or over 90%, but Siminn does not have precise figures. About 70% of households have already switched to fibre which clearly shows that there has been no delay in transfer.

It would be normal in cases where electronic communications undertakings neglected to transfer from copper to fibre, that the price of copper be increased significantly in order to encourage more rapid replacement. Where the infrastructure undertaking cannot however meet demand, it is not normal to increase the price of copper connections.

There are no indications that pricing of copper today influences switching to fibre; the biggest issue is manpower to meet demand, and also gaining access to consumers' properties where the fact that consumers need to provide access during working hours can be a challenge. For the time being there is no reason to increase the price of copper before demand for fibre decreases to the extent that manpower for switching is being utilised in an inefficient manner.

Siminn believes that there would be a strong incentive for infrastructure undertakings to employ highly effective on-site teams in order to accelerate switching from copper to fibre connections, if the copper price is kept at a minimum. Under such circumstances, infrastructure undertakings make significantly greater profit by speeding up the process, where there is a greater difference between the price of fibre and copper connections. If pricing is too similar, this weakens the incentive.

It is furthermore important to keep in mind that at certain locations, copper is the only option which means it is sensible to keep the copper price at a minimum, which would lead to an incentive to invest in fibre and thus be able to sell a more expensive and better connections. When fibre is subsequently deployed, it would be possible to significantly increase the price of copper in order to accelerate uptake and use of a more economic and better connection. Increasing the price of copper before the investment in fibre connections has been made is, in the opinion of Siminn, an ill-advised approach which leads to wrong incentives.

Siminn pointed out that ECOI maintained that it was normal to increase the price of copper by 27%, because a price that was too low would lessen incentive for uptake of fibre. This seems to be a case of a significant misunderstanding by ECOI of real uptake of fibre in Iceland.

The fact of the matter is that all electronic communications undertakings have strong incentives to move their customers to fibre from copper, given current prices, and Siminn points out that 90% of households currently have access to copper and about 70% of households already have active fibre. There thus remains a set of less than 10% of households that only have access to copper connections.

In the case of Siminn, the undertaking has significant benefits from moving its customers from copper to fibre where this is possible. The major bottleneck is to get connections from infrastructure undertakings which simply do not have the manpower to meet demand, and some households often find it difficult to have someone at home during working hours in order to give the on-site team the access necessary to complete the connection. It would therefore be absurd to increase the price of copper and thus create an incentive to decelerate investments in fibre or to proceed at a slower pace towards uptake.

Siminn also wishes to note that it needs to be explained whether the cost analysis takes into account the fact that a significant part of the copper system has effectively been closed in those cases where fibre has been deployed and is already in use. Revaluation of investment costs of such connections should not be part of cost analysis, as this is service which is effectively closed and will not be sold or used. It is not clear how this impacts the analysis and it needs to be explained.

## **5. Cancellation of setup fees pointless**

At first glance, Siminn cannot see the point of cancelling setup fees, which leads to the monthly fee for local loop lease being ISK 31 higher. In this connection, Siminn draws attention to the fact that there should be no costs for setup fee for service which has been declared as being in the decommissioning phase. New registrations for copper local loops should instead be discontinued where fibre is available from Mila or fibre from suppliers that Mila has access to. In this manner, setup costs would probably be saved.

## **5. Siminn proposal**

In order to increase incentives for deployment of fibre in urban areas while at the same time encouraging uptake of fibre and thus the decommissioning of the copper system, Siminn makes the following proposal:

- a) Mila be authorised with a two-month announcement notice, to increase the price of copper local loops where another fibre operator has deployed fibre and where Mila has no possibility to offer fibre connections.
- b) Mila be authorised to increase the price of copper local loops where Mila has deployed fibre local loops and where the electronic communications company in question has *not* requested transfer to fibre local loops within two months of the notification of price increase.
- c) Mila be authorised to increase the price of copper local loops where no fibre local loop is available, and to be authorised to increase the price of copper when Mila has deployed fibre and the electronic communications company in question has *not* undertaken to move all of its customers to fibre local loops within 12 months from the time that the Mila fibre local loops were actively being sold.

Siminn considers that the above specified proposals should be examined carefully. The proposal is a reaction to circumstances where failure of retailers to switch to fibre from copper, inhibits Mila's capability to achieve efficiencies by decommissioning copper.

This furthermore gives Mila the opportunity to structure its on-site service in a more efficient manner and to move customers from copper to fibre as quickly as possible, while at the same time exerting a certain pressure on electronic communications companies to move customers to fibre, or to pay a higher price for connections.

One must on the other hand take into account the situation where investments in fibre have not yet been decided, but in such a manner that electronic communications undertakings would immediately switch to fibre or settle for a higher price for copper. This encourages Mila to invest where the company can potentially achieve higher revenue from fibre investments.

## **6. Conclusion**

Siminn considers that the current Mila/ECOI proposal is not timely at this point in time, particularly where there is no need to increase the price of copper for the purpose of accelerating transfer to fibre. It is possible to consider more effective ways to encourage investments in fibre on the one hand and replacement of copper on the other.



Siminn hopes that the company's submission will be taken into account.

Respectfully,  
p.p. Siminn hf.

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Eiríkur Hauksson, senior attorney

grein, m.a. um aðferðir við eignamat, afskriftir, ávöxtunarkröfu og gerð kostnaðarlíkana.”

Í ákvæðinu komafram nokkur lykilatriði, eins og stöðugt heildsöluverð, hagræðing og að verðlagning skuli stuðla að útbreiðslu nýrra og öflugri neta. Taka skuli tillit til og hvetja til fjárfestinga.

Síminn telur að það sé vafasamt að kostnaður við rekstur koparheimtauga hafi vaxið um 27% frá árinu 2019.

### 3. Um verðskrárhækkunina

FST vísar til þess að stofnunin heimili verðhækkun Mílu á kopar á þeim grundvelli að Míla sé með kvöð um umtalsverðan markaðsstyrk, sbr. ákvörðun nr. 5/2021. Umrædd ákvörðun var felld úr gildi að hluta til.

Í frétt FST segir „Um er að ræða 27% hækkun frá núverandi gjaldskrá fyrir mánaðargjöld, sem tók gildi 1. júní 2019. Að mati FST er þessi hækkun, þótt að hún sé töluverð, í eðlilegu samhengi við vísitöluhækkunir frá síðustu kostnaðargreiningu.“ Síminn telur gagnlegt að rífa upp að 1. júlí 2017 var verð á koparheimtaug kr. 1.406 og var hækkað upp í kr. 1.558 þann 1. júní 2019.

Dags.	Verð koparheimtaugar	Vísitala neysluverðs	Byggingarvísitala
1. júlí 2017	1.406 kr.	442,9	132,6
1. júní 2019	1.558 kr.	469,8	146,1
Ódagsett 2023	1.978 kr.	569,4 (janúar 23)	180 (janúar 22)

Verðhækkunin árið 2019 fól í sér 11% verðhækkun en á sama tíma hækkaði vísitala neysluverðs um 6% en byggingarvísitalan um 10%. Í báðum tilfellum var þannig verðhækkunin *umfram* vísitöluhækkunir.

Núna er fyrirhuguð verðhækkun upp á 27% en frá 1. júní 2019 til desember 2022 hefur á sama tíma vísitala neysluverðs hækkað um 21% og byggingarvísitalan hækkað um 23%, m.v. vísitöluna í desember 2022. Það er ljóst að fyrirhuguð verðhækkun er þannig aftur umfram vísitölu og talsvert hærri en árið 2019. Frá 2017 hefur koparverð hækkað um 41%, m.t.t. þess verðs sem FST hefur samþykkt, fyrir þjónustu sem byggir á fjárfestingum sem eru að miklu leyti afskrifaðar og þjónustu sem stefnt er að loka á næstu árum. Að mati Símans er ákveðin þversögn fólgin í því að notast við vísitölu byggingarkostnaðar vegna kopartenginga sem hafa ekki verið lagðar á Íslandi í fjölda ára en stefnt er að lokun á koparkerfinu á næstu 2-3 árum.

Til samanburðar má benda á að verðlagning vegna ljósheimtauga hefur hækkað um 23% hjá Ljósleiðaranum, 18% hjá Mílu og 15% hjá Tengi svo dæmi sé tekið.

#### 4. Yfirfærsla á ljósleiðara

Eins og staðan á landinu er í dag, þá er fjöldi heimila með möguleika á ljósleiðara um eða yfir 90% en Síminn hefur ekki nákvæmar tölur. Um 70% heimila hefur þegar skipt yfir í ljósleiðara og þannig er ljóst að það hefur ekki verið dráttur á yfirfærslu.

Það væri eðlilegt í þeim tilfellum sem fjarskiptafyrirtækin vanrækja að færa tengingar frá kopar yfir á ljósleiðara að verðlagning kopars yrði hækkuð verulega til þess að stuðla að hraðari útskiptingu. Ef vettvangsþjónusta viðkomandi innviðafyrirtækis getur hins vegar ekki sinnt eftirspurn, þá er óeðlilegt að það sé verið að hækka verð kopartenginga.

Það eru engar vísbendingar um að verðlagning á kopar í dag sé að hafa áhrif á útskiptingu yfir í ljósleiðara, stærsta málið snýr að mannafla til þess að sinna eftirspurninni og síðan aðgengi að íbúðum neytenda, sem þurfa að veita aðgang að heimili sínu á vinnutíma sem getur verið áskorun. Að svo stöddu er engin ástæða til þess að hækka verð á kopar fyrr en eftirspurn eftir ljósleiðara dregst saman þannig að mannafla við útskiptingu er nýttur með óhagkvæmum hætti.

Það er mat Símans að það væri mikill hvati hjá innviðafyrirtækjum að ráða öflugt vettvangsteymi til þess að hraða útskiptingu á kopar yfir í ljósleiðara ef koparverðinu er haldið í lágmarki. Við slíkar kringumstæðum hagnast innviðafyrirtækið umtalsvert meira við að hraða ferlinu þar sem meiri munur er á verði ljósleiðara heldur en kopar. Ef verðlagning er of lík, dregur það úr hvatanum.

Ennfremur er mikilvægt að hafa í huga að á ákveðnum stöðum er kopar eini valkosturinn og þar væri skynsamlegt að hafa verð kopars í lágmarki sem myndi leiða til þess að hvati sé til þess að fjárfesta í ljósleiðara og þannig geta selt dýrari og betri tengingar. Þegar ljósleiðarinn er síðan lagður, þá væri hægt að hækka verð kopars verulega til þess að flýta fyrir upptöku og nýtingu á hagkvæmari og betri tengingum. Að hækka verð kopars áður en ljósleiðarafjárfestingin hefur átt sér stað er að mati Símans óskynsamleg nálgun og leiðir til rangra hvata.

Síminn bendir á að FST heldur því fram að það sé eðlilegt að hækka koparheimtaug um 27% vegna þess að of lágt verð dragi úr hvata til upptöku á ljósleiðara. Þarna virðist mikill misskilningur eiga sér stað hjá FST um raunverulega upptöku ljósleiðara á Íslandi.

Staðreyndin er sú að öll fjarskiptafyrirtæki hafa mikla hvata til þess að færa viðskiptavinum sína á ljósleiðara frá kopar m. v. núverandi verð og bendir Síminn á að nú þegar eru 90% heimila með aðgang að kopar og um 70% heimila voru þegar með virka ljósleiðara. Eftir stendur mengi sem er undir 10% heimila sem eru þá með aðgang að kopartengingum eingöngu.

Það sem snýr að Símanum, þá hefur félagið mikinn hag að því að færa viðskiptavinum sína frá kopar yfir á ljósleiðara þar sem það er mögulegt. Stærsti flöskuhálsinn er að fá tengingar frá innviðafyrirtækjum sem hafa einfaldlega ekki mannskap til þess að anna eftirspurninni og að sum heimili eiga oft á tíðum erfitt með að mæta á vinnutíma til þess að hleypa starfsfólki vettvangsþjónustu inn til þess að klára tenginguna. Það væri því fráleitt að hækka verð á kopar og þannig búa til hvata til þess að hægja á fjárfestingum í ljósleiðara eða vinna hægar að upptöku.

Þá vill Síminn nefna að það þurfi að gera grein fyrir því hvort kostnaðargreiningin taki mið af því að umtalsverðum hluta koparkerfisins hefur verið lokað í reynd í þeim tilfellum sem ljósleiðari hefur verið lagður og kominn í notkun. Endurmat á stofnverði slíkra tenginga ætti ekki að vera hluti af kostnaðargreiningu, enda þjónusta sem er lokað í reynd og verður ekki seld eða nýtt. Er óljóst hvernig þetta hefur áhrif á greininguna og þarf að gera grein fyrir.

## 5. Niðurfelling stofngjalda þýðingarlaus

Síminn fær ekki séð í fljótu bragði hvaða þýðingu það hefur að fella niður stofngjöld sem leiðir til þess að mánaðargjald vegna leigu heimtaugar verður 31 kr. hærra. Síminn vekur hér athygli á því að kostnaður við stofngjöld á þjónustu sem er í yfirlýstu lokunarferli ætti ekki að vera fyrir hendi. Þess í stað ætti einfaldlega að loka fyrir nýskráningar vegna koparheimtaugar þar sem ljósleiðari frá Milu er í boði eða ljósleiðari frá birgja sem Míla býður ljósleiðara yfir. Með þeim hætti væri líklega verið að spara stofnkostnað.

## 6. Tillaga Símans

Síminn leggur til að í þeim tilgangi að auka hvata til þess að ljósleiðari verði lagður í þéttbýli og að sama skapi hvetja til upptöku ljósleiðara og þar með lokun koparkerfis leggur Síminn til eftirfarandi tillögu:

- a) Milu verði heimilt með tveggja mánaða tilkynningarfresti að hækka verð á koparheimtaugum þar sem annað ljósleiðarafyrirtæki hefur lagt ljósleiðara og Míla hefur ekki möguleika á því að bjóða upp á ljósleiðaratengingu.
- b) Milu verði heimilt að hækka verð á koparheimtaugum þar sem Míla hefur lagt ljósleiðaraheimtaugar og viðkomandi fjarskiptafyrirtæki hefur *ekki* óskað eftir flutningi yfir á ljósheimtaugar innan tveggja mánaða frá tilkynningu um verðhækkun.
- c) Milu verði ekki heimilað að hækka verð á koparheimtaugum þar sem enginn ljósleiðaraheimtaug er fyrir hendi en verður gert heimilt að hækka verð á kopar þegar Míla hefur lagt ljósleiðara og viðkomandi fjarskiptafyrirtæki hefur *ekki* skuldbundið sig til þess að færa alla sína viðskiptavinum yfir á ljósheimtaugar innan 12 mánaða frá þeim tíma sem ljósheimtaugar Milu voru komnar í virka sölu.

Síminn telur að framangreindar tillögur ætti að skoða vandlega. Með tillögunni er brugðist við aðstæðum þar sem vanræksla smásöluaðila að skipta ljósleiðara fyrir kopar dregur úr getu Milu til þess að hagræða með lokun á kopar. a

Enn fremur gefur þetta Milu tilefni til þess að haga vettvangsþjónustu með skilvirkari hætti og færa viðskiptavinum með kopar yfir á ljósleiðara eins hratt og kostur er, og á sama tíma leggja ákveðinn þunga á fjarskiptafyrirtæki að færa viðskiptavinum yfir á ljósleiðara ella greiða hærra verð fyrir tengingu.

Hins vegar þarf að taka tillit til þeirra staða þar sem ljósleiðarafjárfestingar hafa ekki enn verið ákveðnar, þó með þeim hætti að fjarskiptafyrirtæki skipti strax yfir á ljósleiðara ella sætta sig við hærra koparverð. Þetta hvetur til fjárfestinga hjá Milu þar sem félagið getur mögulega fyrr fengið hærri tekjur af ljósleiðarafjárfestingum.

## 7. Lokaorð

Síminn telur að núverandi tillaga Milu/FST sé á þessum tímapunkti ótímabær, einkum þar sem engin þörf er á því að hækka verð á kopar til þess að hraða yfirfærslu á ljósleiðara. Það er hægt að huga að skilvirkari leiðum til þess að hvetja til fjárfestinga í ljósleiðara annars vegar og útskiptingu á kopar hins vegar.

Síminn vonast til þess að tekið verði tillit til athugasemda félagsins.

Virðingarfyllt,  
f.h. Símans hf.

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Eiríkur Hauksson, yfirlögfræðingur

### 3 Comments from Sýn

#### Regarding consultation on review of Mila tariff for access to copper local loops

Sýn hf. strongly objects to the planned Mila increase in tariff for access to copper local loops. It is quite remarkable that the Mila local loop system, that is to be phased out in the coming years, should be subject to such an enormous cost increase (27%), particularly when the system is being phased out and where investment in development of the system is very limited, even none, in recent years. For this reason, one could have drawn the conclusion that the cost of operating the system was at an absolute minimum.

A conservative estimate would show that the increase will return ISK 158 million per annum in increased revenue to Mila, on the basis of the number of xDSL connections at end of year 2022, according to ECOI data. Over a six-year period, this increase could return up to ISK 1 billion in increased revenue, from a system that bears minimum investment and that is technically obsolete and is earmarked for decommissioning.

According to the table on page 14 of a Milu report, one can clearly see that Mila stopped almost all investments in developing the system in 2021, but nevertheless projects significant increase costs in operating the system in the coming years. This is remarkable when one considers that investments in the Mila copper local loop system reach back to the year 1994, are at a minimum in the coming years, and should in all likelihood have already been paid up. It was also stated on page 10 in the same report that opex for the system has significantly decreased.

One could consider whether the Hvalfjörður road tunnel project represents an example of public constructions that could be seen in the same context as the Mila local loop system. An investment from the years 1996-1998 which has long since paid for itself and is now used without charge by the public.

Year of purchase	User lines	VDSL - copper	Machines and equipment	Distribution frames	NMS	Total
2021	[...]					[...]
2020	[...]	[...]	[...]			[...]
2019	[...]	[...]	[...]			[...]
2018	[...]	[...]	[...]			[...]
2017	[...]	[...]	[...]			[...]
2016	[...]	[...]	[...]			[...]
2015	[...]	[...]	[...]			[...]
2014	[...]	[...]	[...]			[...]
2013	[...]	[...]	[...]			[...]
2012	[...]	[...]	[...]	[...]		[...]
2011	[...]	[...]	[...]	[...]		[...]
2010	[...]	[...]	[...]	[...]	[...]	[...]
2009	[...]		[...]	[...]	[...]	[...]
2008	[...]		[...]	[...]	[...]	[...]
2007	[...]		[...]	[...]	[...]	[...]
2006	[...]		[...]	[...]	[...]	[...]
2005	[...]		[...]	[...]	[...]	[...]
2004	[...]			[...]	[...]	[...]
2003	[...]			[...]	[...]	[...]
2002	[...]			[...]	[...]	[...]
2001	[...]			[...]	[...]	[...]
2000	[...]				[...]	[...]
1999	[...]				[...]	[...]
1998	[...]				[...]	[...]
1997	[...]				[...]	[...]
1996	[...]				[...]	[...]
1995	[...]					[...]
1994	[...]					[...]

## 4 Mila's response

Reykjavik, 20 February 2023

ECOI

Attn. Hulda Ástþórsdóttir

Suðurlandsbraut 4

108 Reykjavik

**Sent electronically**

**Re: Consultation on review of Mila hf. tariff for access to copper local loops - replies to comments received**

### ***Introduction***

1. Reference is made to the above specified Electronic Communications Office of Iceland ( ECOI) case concerning cost analyses by Mila hf. ( Mila) of wholesale tariff for access to copper local loops and distribution frames. The products covered by the Mila tariff belong to the wholesale market for local access provided at a fixed location which is Market 3a pursuant to the EFTA Surveillance Authority (ESA) recommendation from 2016.
2. Pursuant to article 52 of the Electronic Communications Act no. 70/2022, ECOI can, when calculating costs, take into account operations of analogous service which is deemed to be efficiently operated. It also states that reasonable rate of return shall be allowed for. It is furthermore specified that tariff decisions “shall take into account the benefits of predictable and stable wholesale price“. Then cost recovery mechanism and pricing methodology shall promote the deployment of new and enhanced networks, efficiency and sustainable competition and shall maximise sustainable end-user benefits. The ECOI generally assumes as grounds, that prior solutions of PTA constitute precedent for administrative action by the ECOI, as they are implementation and interpretation of the same provisions of the Electronic Communications Act.
3. According to the existing draft to a decision (“**draft decision**”), ECOI plans to endorse the Mila cost analysis with those amendments that were made during processing of the analysis by the Administration. The draft decision is based on *ECOI Decision no. 5/2021 on designation of companies with significant market power on the wholesale market for local access provided at a fixed location (Market 3a) and central access provided at a fixed location for mass-market products (Market 3b)*. According to the conclusion of the Mila cost analysis that ECOI plans to endorse, the price for access to copper local loops will be ISK 1,978 ex VAT per month and ISK 1,553 ex VAT per month for each 100 line connection head in the distribution frame.

One-off fees for copper local loops are discontinued. This represents a 27% increase from the current tariff for the monthly fee which came into force on 1 June 2019.

4. In sections 5.2-5.9 in the draft decision, one can see the ECOI *criteria and conclusions* with respect to the cost analysis, including those elements that are particularly taken into

account, i.e. weighted average cost of capital, opex, capex, setup and access charges, access to distribution frames, number of lines and calculation of lease price.

The conclusion is then summarised in section 5.9.4, which includes the following grounds:

*122) The main criteria of the updated Mila cost model are as follows:*

- Opex is based on booked costs for the year 2021.*
- Investments for 2003 to 2021 were indexed using the building cost index to the average price level of 2021. Investments for 2022 are estimated on the basis of real investments during the first nine months of the year.*
- The number of line equivalents at the end of December 2021, which were [...] is used when the share of investments is calculated but the average number of line equivalents for 2021, which were [...] was used when calculating share of opex.*
- Weighted average cost of capital (WACC) for 2021 is assessed at 5.16%.*

*(123) In accordance with the criteria discussed here above, the ECOI conclusion is to endorse the monthly fee for access to the copper local loops as ISK 1,978 ex VAT, which represents an increase of about 27%. Access to distribution frame will be ISK 1,553 per month for each 100 lines.*

*One-off fees for copper local loops are discontinued.*

*(124) ECOI endorses the discontinuation of setup fees and considers that the changes in presentation of the tariff will increase transparency and simplify the tariff. This has the impact that the monthly fee will be ISK 31 higher than it would otherwise have been, as the setup fee is no longer deducted from total costs.*

*(125) Unit cost for copper local loops has increased significantly in recent months. The increase can particularly be attributed to a rapid decline in the use of the copper system, to an increase in procurements and to salaries costs. The wages index has increased significantly in recent years, which particularly impacts Mila opex. The building cost index has also significantly increased in recent years, and as local loop prices come into force in 2023, one must take into account that the increase in building cost index from 2017 until 2022 is 28%, which is in excess of the increase of local loop prices that the conclusion of the cost model returned.*

5. The draft decision furthermore includes grounds for how the cost analysis, including the methodology used, harmonises with prior ECOI decisions and fits within the price range defined in the recommendations on the implementation of harmonised non-discrimination obligations and cost analysis methodologies in order to increase competition and strengthen investments in the next generation of access networks. In the opinion of ECOI, a monthly price of copper local loops that is too low could among other things be conducive to decelerating the uptake of fibre-optic local loops and it is thus no less important for this to be monitored than to prevent excessive pricing as stated in the draft decision.



### **Comments from Siminn hf. og Sýn hf.**

6. Comments from Siminn hf. (Siminn) mainly relate to the increase being “in excess of indexation”, and an objection is made, among other things to the use of the building cost index in connection with copper connections, including with respect to the intention to decommission the copper system and to such connections not having been “installed in Iceland for many years”. Siminn also points out that fibre connections have not increased in price commensurately. It also seems that Siminn considers that there is no lack of uptake or incentive to take up fibre connections, but rather that “the biggest issue is manpower to meet demand, and also gaining access to consumers’ properties where the fact that consumers need to provide access during working hours can be a challenge”.

In this connection, attention is focused on “infrastructure undertakings”, including Mila.

Siminn considers that the price increase for copper connections creates “an incentive to decelerate investments in fibre or to proceed at a slower pace towards uptake”.

Siminn also raises objections to taking into account revaluation of investments in copper connection and considers furthermore that the discontinuing of setup fees to be without purpose in a “declared decommissioning phase”.

Siminn then presents further specified proposals which are intended to “encourage” Mila to “structure its on-site service in a more efficient manner and to move customers from copper to fibre as quickly as possible” and “while at the same time exerting a certain pressure on electronic communications companies to move customers to fibre, or to pay a higher price for connections.

7. Sýn hf. comments are of a similar nature, though not as varied.
8. In the light of the comments received, Mila indicates the following ( but it should be pointed out that many of the views expressed are in fact answered in the draft decision, and reference is also made to the points made there):
  - a. Siminn proposals, apart from the level of complexity in execution, are contrary to Mila statutory right to *reasonable return on capital employed* from its products and services. Nor does this represent an objective and transparent measurement, including that decisions on tariffs “shall take into account advantages of *predictable and stable wholesale price*“. If the price does not increase in accordance with planned changes, then this can lead to disincentive rather than incentive for end users to switch to fibre connections, contrary to the objectives of ECOI, of Mila itself and of article 52 of the Electronic Communications Act.
  - b. All of the criteria for the cost analysis, including indexed historical cost in copper infrastructure in the context of useful life of investments, are reasonable grounds for assessment of modest return on investment and are within the instructions in article 52 of the Electronic Communications Act no. 70/2022, with the addition of the fact that appropriate harmonisation with prior ECOI administrative decisions is respected. In the above specified context, it is perfectly logical and normal to take into account the building cost index in order to index an investment, as that index is considered to best reflect price

development where a large part of the investment is in civil works and this index is furthermore a recognised metric in this country for cost indexation.

- c. It is not abnormal that the charge should increase somewhat more than the consumer price and building cost indices for the period 2017-2021. The increase is furthermore less than the development of the building cost index until 2022, as pointed out by ECOI, and in addition to this the wages index, which by the nature of things, is a large and important variable, has increased significantly since the last cost analysis.
- d. Increases in excess of the price for fibre connections can largely be attributed to a lower *utilisation ratio*. Mila copper local loops decreased by about 20% in 2021, and as can be seen in the cost analysis, copper local loops decreased from 120,000 to 47,000 during the years 2016 to 2021.

This decrease is non-transitory and copper local loops decreased by about 12,000 during last year. Revenue from copper connections has decreased significantly at the same time, and will continue to do so.

- e. One must also take into account the fact that where fibre uptake is complete in a very few and furthermore low-population municipalities, Mila was, hand in hand with a decrease in copper connections and correspondingly poorer utilisation, *at the same time* obliged to maintain an extensive and expensive system.
- f. There was no obstacle on Mila's part, including no shortage of manpower, to move customers from copper connections to fibre connections. Mila aims to quickly decommission copper connections and lacked no incentive to do this. ECOI has already been informed of this and it is established that ECOI has notified that it will request more detailed information on Mila plans in this respect.
- g. One must also take into account the fact that Mila does not have a commercial relationship with end users, but it is rather Mila customers, electronic communications companies on the retail market, that have this relationship. Their lack of action, or whatever other reasons may explain why end users have not in all instances switched, may not, by the nature of things, prevent Mila from receiving a normal and statutory return/profitability from their copper connections.
- h. It is appropriate to point out that the price for copper local loops will still remain, despite the proposed increase, considerably lower than the price for copper local loops. Nor is there any indication that electronic communications undertakings direct their customers rather to copper for the specific purpose of keeping costs down.

### **Conclusion**

- 9. With the above in mind, Mila considers there to be no obstacle for ECOI to make the decision in question on endorsing Mila cost analysis for the changes that have been explained.
- 10. The right is reserved to submit further views, arguments and information, should this be necessary.

Respectfull  
y, p.p. Mila  
hf.

Inga Helga Halldórudóttir, senior attorney

Sigrún Hallgrímsdóttir, CFO