POST AND TELECOM
ADMINISTRATION
IN ICELAND

PTA Draft Decision
regarding Siminn hf. cost analysis of wholesale prices for access to the public telephone network at a fixed location for residential and non-residential customers

(Market 1)

April 2015

POST AND TELECOM ADMINISTRATION IN ICELAND

TABLE OF CONTENTS

page

1 Introduction

1.1 Facts of the case

With a letter dated 21 May 2014, Siminn hf. (hereafter Siminn) submitted a revised cost analysis for wholesale access to the public telephone network at a fixed location for residential and non-residential customers (Market 1).

The Siminn cost analysis for access to the public telephone network at a fixed location for residential and non-residential customers here under discussion is based on obligations imposed on the company with the Decision of the Post and Telecom Administration (hereafter PTA) no. 8/2013.

1.2 The PTA Decision no. 8/2013

The PTA made Decision nr. 8/2013[1], dated 18 June 2013 subsequent to market analysis of Market 1 (previously Markets 1-2) where Siminn was designated as having significant market power on this market and appropriate regulatory obligations were imposed on the company.

Market 1 is defined as:

The retail market for access to the public telephone network at a fixed location for residential and non-residential customers.

The PTA came to the conclusion that Siminn had significant market power on Market 1 and has designated the company as having significant market power on the relevant market. The PTA imposed the following obligations on Siminn on Market 1:

- Obligation on carrier selection and pre-selection
- Obligation for wholesale access to interconnection with the public telephone network at fixed location
- Obligation for non-discrimination
- Obligation for transparency
- Obligation for separation of accountancy
- Obligation for price control
- Obligation for cost accounting

1.2.1 Obligation for price control

With the authority of Article 32 of the Act on Electronic Communications the PTA decided to maintain the obligations on Siminn for price control of the tariff for wholesale access to public telephone networks provided at fixed location for residential and non-residential customers. Siminn should submit a tariff for wholesale access to its fixed line network to the PTA for endorsement, which includes carrier pre-selection and pre-selection with single billing. Pursuant to Paragraph 4 of Article 32 of the Act on Electronic Communications, the tariff for the wholesale access in question shall be cost related, where costs are allocated to the services in question (FAC). The PTA would be authorised to take into account analogous services that

[1] See website: http://pfs.is/default.aspx?cat_id=272&module_id=210&element_id=2193

are considered to be operated efficiently, and to adjust prices should this be specifically necessary in the opinion of the Administration on the basis of such benchmarking. Furthermore the PTA would be authorised to apply benchmarking on the basis of cost analysis of tariffs in the EEA.

When implementing its cost analysis Siminn should base its methodology on Chapter IV of Regulation no. 564/2011 on bookkeeping and cost analysis in the operations of the electronic communications companies, such as on evaluation of operational assets, useful life and cost of capital.

With the decision on price for wholesale access to public telephone networks provided at a fixed location for residential and non-residential customers, Siminn would be authorised to review its cost analysis on the basis of the cost model on which the analysis was based.

Siminn should submit the above specified cost analysis in the last instance 6 months subsequent to the publishing of this Decision. The new wholesale tariff for access to the public telephone network at a fixed location will not come into force prior to PTA endorsement which will be subsequent to national consultation and consultation with ESA.

1.3 National consultation

The PTA opened a national consultation on the preliminary draft to the Decision here under discussion on 22 December 2014 and the consultation ran until last 13 February. Comments were received from Hringiðan ehf. and Símafélagið ehf. Comments by stakeholders and conclusions of the national consultation can be found in Appendix II.

2 Siminn cost analysis

2.1 Revised cost analysis

In a submission from Siminn dated 21 May 2014 it was stated that a cost analysis had been sent to the PTA in May 2011 which was used as a basis for the PTA Decision no. 21/2011 on the existing Siminn wholesale tariff for access to the public telephone network at a fixed location for residential and non-residential customers. The analysis took into account the working methodologies that had been developed between parties in prior cost analyses that were based on historical costs. This applied among other things to opex, useful life, number of units and rate of return.

The following was the revised Siminn cost analysis using the above specified methodology for service that previously belonged to Markets 1 and 2 and now to Market 1, that is to say wholesale access to the public telephone network at a fixed location for residential and non-residential customers and services belonging to carrier pre selection and single billing carrier pre-selection (SB-CPS).

2.1.1 Weighted average cost of capital (WACC)

The following was stated by Siminn:

"Weighted average cost of capital (WACC) is calculated using the same methodology as has been used in Siminn cost analyses

WACC	*Siminn 2013*
Risk-free interest	3.26%
Risk premium on interest	3.00%
Required rate of return on debt	**6.26%**
Market premium	5.00%
Special risk premium	0.00%
Unlevered beta	0.50
Levered beta	0.77
Equity ratio	60.00%
D/E	0.67
Tax rate	20%
Return on equity (after tax)	**7.09%**
Return on equity (pre-tax)	8.86%
WACC pre-tax	**7.82%**

When assessing risk-free interest, a five-year average for the bond category HFF 150644 (indexed Housing Financing Fund bonds) is used. It is considered appropriate to use the five-year average instead of using interest according to the average for the year 2013. This is done to temper annual fluctuations in interest rates. This is in accordance with methodology for calculating WACC requirements in Mila cost analyses which have been endorsed by the PTA.

When evaluating risk and market premium, the developments in previous years and conclusions from prior cost analyses are used as references. It is considered appropriate to use the *unlevered beta value of 0.5 and 60% equity ratio which is in line with values used by foreign comparison companies.*

In this way the calculated WACC for Siminn for the year 2013 is 7.82%. This rate of return is used in this cost analysis."

2.1.2 Investments

Siminn stated that one of the main criteria for assessment of the cost base of the fixed line public telephone network was assessment of the underlying bound capital. Investments in the fixed line public telephone network were in many instances in the latter stage of their useful life but still in use and thus part of the system used to provide the service. It proved difficult to find the historical price of the investments on which the existing fixed line public telephone network is based. For this reason, in the cost analysis submitted to the PTA for endorsement in 2011, the capital bound in the fixed line public telephone network was assessed by approximating the value in use on the basis of estimated replacement cost of the telephone network. The replacement cost of an analogous system was assessed on the basis of prices and circumstances at the time of the original investment. When assessing bound capital, it was endeavoured to approximate the value in use on the basis of replacement cost instead of using historical costs. In the analysis, the replacement cost for each and every asset category belonging to the access part of the fixed line public telephone network was calculated. Real costs for recent investments were used for reference along with tariffs from suppliers and assessments made by Siminn technical and wholesale divisions. A list of insurance values of assets in the public telephone network was also used as a basis for the assessment.

The current revised analysis is grounded on the same criteria used for assessment of bound capital. The estimated value in use of underlying investments has been reassessed on the basis of the newest available information, such as changes in exchange rates and revised insurance value of assets.

The number of Remote Subscriber Switches (RSS) dropped by 9 from the prior analysis and the number of local exchanges has dropped by 1 as the Miðbær exchange has been decommissioned. Bound capital related to RSS and local exchanges is divided between Market 1 on the one hand and Markets 2-3 on the other in the same manner as was done in the previous analysis. The same proportions are used for this distribution as before. The conclusion is that this investment is divided such that 81.8% belongs to Market 1 while 18.2% belongs to Markets 2-3.

Revised bound capital attributed to access to the public telephone network on Market 1 is as follows:

[…][2]

Given the above the estimated replacement cost of investments totals ISK [...] and the annual capital cost is ISK [...] using 7,82% WACC and a 10 year useful life, where the useful life is unchanged from the prior analysis.

The initial investment costs is reduced by ISK [...] from the prior analysis and the annual capital costs is reduced by a little under ISK [...].

In the cost analysis from 2011 calculations were presented for carrier pre-selection services, that is to say carrier pre-selection and single billing carrier pre-selection. Prices are updated in this cost analysis using the same methodology as in the prior analysis (PTA Decision no. 21/2011).

The criteria for pricing of these service items are based on cost analysed prices where possible but otherwise the retail minus methodology is used with a coefficient of 20%. Pricing is based on the cost from Mila plus mark-up for handling and for labour of Siminn technical staff. The price of technical staff labour is according to the Siminn tariff for labour and Siminn service is calculated using the price category for the staff in question involved in the work.

2.1.3 Opex

The following was stated by Siminn:

"Opex is based on the same cost items as were used in the 2011 cost analysis. Opex for 2013 totalled [...] costs for bound capital. The corresponding cost in the 2011 analysis was [...] (the 2011 analysis was based mostly on opex for 2008). The increase is [...]. During the same period, that is to say from 2008 to 2013, the consumer price index increased by about 34.1% which means that the substantial increase can almost entirely be attributed to price changes during the period.

The largest part of opex is [...] for 2013. Access to the distribution frame which is also purchased from Mila was [...] and in-house labour by Siminn employees for maintenance of the access segment of the public telephone network system is estimated at [...] for 2013.

In the analysis which was made in 2009 and updated in 2011, there was no allowance for participation of Markets 1 and 2 in hosting costs for larger local exchanges but rather all these costs were allocated to Markets 8-10. It is clear that part of the operations of these exchanges involves serving access segments (RSS) and for this reason it is considered appropriate to correct this issue here. Now it is assumed that the access segment of the public telephone network bears [...] of the hosting costs of these exchanges. This amendment explains just under [...] of the increase in hosting costs between the cost analyses." [...]

2.1.4 Number of equivalents

The following was stated by Siminn:

[2] Information removed for purposes of confidentiality. The same applies to information provided in square brackets here above.

"The annual capital cost and annual opex is divided across the revenue units. The number of ports in use is used as the reference and they are converted to lease equivalents for POT access by allowing for a specific premium exponent for ISDN access. For example there were [...] ports in use on 30 June 2010 when the last cost analysis was made which gives [...] ports when converted to POTS port equivalents. The number of ports in use has declined in recent times in step with a decline in use of the public telephone network. On 30 June 2013 there were [...] ports in use which convert to [...] port equivalents. Port equivalents have thus declined by about [...] during the period. At the end of 2013, port equivalents had fallen to [...] reduction from the middle of 2010. It is proposed that the quantity from mid-2013 be used in accordance with the methodology used in the prior analysis."

2.1.5 Conclusion of Siminn cost analysis

The following was stated by Siminn:

"Given the above specified criteria, the new Siminn tariff for access to the public telephone network in a fixed location for residential and non-residential customers will be as follows:

Access Option - service type	Current price	New price	Change
POTS (per port in exchange)	ISK 227	ISK 252	11.1%
ISDN base connection	ISK 408	ISK 454	11.1%
ISDN Backbone connection 30 channels	ISK 3,402	ISK 3,781	11.1%

Monthly charge *for access to telephone exchange for SB-CPS according to Table 4.4.1 in the Reference Offer will thus be:*

Access Option - service type	Current price	New price	Change	Míla price	Mark-up	Total wholesale price	Price pre-change	Change
POTS (per port in exchange)	ISK 227	ISK 252	11.1%	ISK 1042	ISK 208	ISK 1502	ISK 1477	1.7%

Discount for POTS connections (port in telephone exchange) will be calculated in the same manner as in the existing interconnection agreement (see item 4.4.1):

Number of connections	***Monthly charge with discount***	***Discount***
0 - 999	1,502	0.00%
1,000 - 1,999	1,439	4.20%
2,000 - 2,999	1,426	5.10%
3,000 - 3,999	1,406	6.40%
4,000 - 4,999	1,381	8.10%
5000 and more	1,348	10.30%

***Monthly and connection charges** for other service items will be as follows, see Table 4.4.1 in the Reference Offer.*

Dialled and backbone connections	Mila price	Technical Division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
Monthly charge for ISDN backbone connection (30 channels) inside exchange	ISK 4,527	ISK 3,781	ISK 905	ISK 9,213	Concl. cost analysis M1	ISK 8,835	4.3%
Monthly charge for ISDN backbone connection (30 channels) between exchanges	ISK 13,987	ISK 3,781	ISK 2,797	ISK 20,565	Concl. cost analysis M1	ISK 20,186	1.9%
Monthly charge for ISDN backbone connection (30 channels) between exchanges km.	ISK 546	ISK 0	ISK 109	ISK 655		ISK 655	0.0%

The price for SB-CPS was decided by the PTA with Decision no. 19/2011 subsequent to cost analysis. The conclusion there was that the completion of each request takes 9 minutes and the labour of Siminn technicians was priced according to price Category C in the Siminn tariff for labour and service. The rate was then ISK 6,604 per hour and had not changed since the beginning of 2008. The price for Category C is now ISK 8,629 per hour which means that it has increased by just over 30% since the prior cost analysis was made. The salaries index has increased by about 26.5% from the average index for 2010 until March 2014 and by just under 38% from the average index for 2008.

The price for various service items related to carrier pre-select (connection charge) see item 4.3, will therefore be:

Type of service	Mila price	Technical division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
National carrier preselection		ISK 1,294		ISK 1,294	Dec. PTA 19/2011	ISK 991	30.6%
International carrier preselection		ISK 1,294		ISK 1,294	Dec. PTA 19/2011	ISK 991	30.6%
National carrier preselection and international in the same request		ISK 1,294		ISK 1,294	Dec. PTA 19/2011	ISK 991	30.6%
Monthly charge for 100 connections or more at the same time (50% discount)		ISK 647		ISK 647	Dec. PTA 19/2011	ISK 495	30.7%

In the same way the price for SB-CPS (connection charge) see item 4.4.1 will therefore be:

Dialled and backbone connections	Mila price	Technical division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
Setup charge Backbone connection ISDN	ISK 73,063	ISK 12,635		ISK 85,698	60 min. technician labour	ISK 81,533	5.1%
Setup charge BI 100 number		ISK 12,749		ISK 12,749	Retail -20%	ISK 13,387	-4.8%
Setup charge BI 10 number		ISK 3,506		ISK 3,506	Retail -20%	ISK 3,682	-4.8%
Setup price PBX		ISK 5,054		ISK 5,054	24 min. technician labour	ISK 4,061	24.5%
Setup price for each line in PBX		ISK 632		ISK 632	3 min. technician labour	ISK 508	24.4%

The price for other service items (monthly charge) pursuant to item 4.4.1 will be:

Dialled and backbone connections	Mila price	Technical division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
Direct dial and number series		ISK 32		ISK 32	Retail -20%	ISK 31	2.8
SB-CPS - extra number		ISK 66		ISK 66	Retail -20%	ISK 66	0.0
Breakdown per number		ISK 636		ISK 636	Retail -20%		

***Setup charge** for other service items, item 4.4.2 in the Reference Offer will therefore be according to the following. There is no mark-up calculated on the cost from Mila in the case of setup charges.*

Dialled and backbone connections	Mila price	Technical division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
Setup charge Backbone connection ISDN	ISK 73,063	ISK 12,635		ISK 85,698	60 min. technician labour	ISK 81,53	5.1%
Setup charge BI 100 number		ISK 12,749		ISK 12,749	Retail -20%	ISK 13,38	-4.8%
Setup charge BI 10 number		ISK 3,506		ISK 3,506	Retail -20%	ISK 3,682	-4.8%
Setup price PBX		ISK 5,054		ISK 5,054	24 min. technician labour	ISK 4,061	24.5%
Setup price for each line in PBX		ISK 632		ISK 632	3 min. technician labour	ISK 508	24.4%

Other service charges	Mila price	Technical division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
Charge for receiving number series		ISK 6,362		ISK 6,362	Retail -20%	ISK 6,627	-4.0%
Receipt charge fixed line tel. extra number		ISK 160		ISK 160	Retail -20%	ISK 167	-4.2%
		ISK 5,719		ISK 5,719	Retail -20%		

Item 4.5 price for access to special services has not been reviewed and will thus remain unchanged at ISK 40 per month for each number.

The price for other service requests, see item 4.6 will be:

Type of service	Mila price	Technical division costs	Mark-up	Wholesale price	Price criteria from Technical Division	**Price pre-change**	**Change**
New connection	ISK 3,166	ISK 1,294		ISK 4,460	Dec. PTA 19/2011	ISK 4,047	10.2%
Transfer of fixed line residential telephone	ISK 3,166	ISK 1,294		ISK 4,460	Dec. PTA 19/2011	ISK 4,047	10.2%
Storage of telephone (up to 24 months)	ISK 0	ISK 1,294		ISK 1,294	Dec. PTA 19/2011	ISK 991	30.6%
Reconnection the same location	ISK 3,166	ISK 1,294		ISK 4,460	Dec. PTA 19/2011	ISK 4,047	10.2%
Number change	ISK 0	ISK 1,294		ISK 1,294	Dec. PTA 19/2011	ISK 991	30.6%

Item 6.1 price for information on interconnection traffic has not been reviewed and will therefore be unchanged."

3 The position of the PTA

3.1 Introduction

In the Siminn cost analysis there is discussion on wholesale prices for access to the Siminn public telephone network which is based on historical costs in accordance with the obligation for price control of the company's tariff. The PTA points out that the burden of proof that the tariff is based on costs with the addition of reasonable profit rests on Siminn in accordance with Paragraph 2 of Article 32 of Act no. 81/2003 on Electronic Communications.

This is the wholesale price for access to POTS or ISDN connections on Market 1. The PTA previously made the Decision 21/2011 with respect to cost analysis of the relevant access. Since that time the tariff has been raised twice because of increases in the lower frequency range of local loops, that is to say on 1 March 2012 and on 1 August 2013.

When selecting a methodology to decide a tariff, the PTA considers it appropriate to emphasise that the methodology should allow for a conclusion which is fair and predictable for users and at the same time is in line with the costs of an efficiently operated public telephone network. In Article 32 of the Electronic Communications Act no. 81/2003 it states that the PTA can demand that calculations of costs take into account the operations of analogous services that are considered to be efficiently run and the tariffs of comparable competition markets and that cost analysis methodologies used are independent of methodologies employed by the electronic communications company.

The PTA bases its methodology for examination of the cost analysis in Article 32 of the Act on Electronic Communications no. 81/2003, on Regulation no. 564/2011[3], on the Recommendations of the EU Commission and of ESA and on the position taken by BEREC (formerly ERG) as appropriate. The Administration also takes into account the Decision of the Appellate Committee for Electronic Communications and Postal Affairs, recognised information providers such as Bloomberg, Ibbotson and Cullen International in addition to assessments of local advisers and information from electronic communications companies. Finally, the PTA refers to the conclusions of individual sister regulatory bodies in Europe in their cost analyses of public telephone networks.

The Siminn cost analysis for lease of public telephone lines in wholesale is based on the Siminn cost analysis for wholesale prices for origination, termination and switching in the Siminn public telephone network. The PTA takes the above specified cost analysis into account, which was completed with the Administration's Decision no. 15/2001, in its evaluation. The Decision stated the PTA criteria and position with respect to the main aspects on which the Administration bases its evaluation of the Siminn cost analysis, such as:

- Weighted average cost of capital (WACC)
- Investments
- Opex
- Methodology for allocating costs
- Working capital cycle

[3] Regulation on bookkeeping and cost analysis in the operations of electronic communications companies.

The PTA bases its examination of the cost analysis, submitted by Siminn to the PTA last 21 May, on the methodology used for the Administration's Decisions nos. 15/2011 and 21/2011. See also Decision no. 19/2011 on Reference Offer for Markets 1-2 and cost analysis for SB-CPS.

Amounts are ex-VAT unless otherwise stated.

3.2 Conclusion

In accordance with the obligation for price control pursuant to PTA Decision no. 8/2013, the PTA has examined the Siminn revised cost analysis submitted by the company last May.

3.2.1 Weighted average cost of capital (WACC)

When calculating annual capital cost, Siminn uses weighted average cost of capital (WACC) at 7.82% but the PTA conclusion is to use a WACC of 7.6%.

In Article 16 of Regulation no. 564/2012 on bookkeeping and cost analysis in the operations of electronic communications undertakings it is stated that the costs of capital bound in assets that are used in connection with the provision of service or service goods shall be calculated. The rate of return shall be based on weighted average costs of capital (WACC) which is calculated from the rate of return requirement on equity and the rate of return requirement on debts in accordance with Regulation no. 564/2011. The CAPM model shall be used when calculating the rate of return on capital assets and the rate shall reflect the time value of money and the risk related to operations on the market in question. The rate of return shall be calculated as the sum of risk-free interest and interest premium which reflects normal mark-up by companies on the market. The PTA shall decide the WACC at least once a year for specific financial markets based on market mark-up, economic indebtedness and the position with respect to working capital and debts.

The WACC using the PTA criteria is shown in the table here below.

Calculation of WACC for an electronic communication company in Iceland

WACC	***2013***
Risk-free interest	3.13%
Unlevered beta	0.50
Levered beta	0.72
Debts/equity	0.54
Market premium	5.00%
Required rate of return on equity	**6.71%**
Risk-free interest	3.13%
Debt premium	3.00%
Cost of debt	**6.13%**
Interest-bearing debt%	35%
Equity%	65%
Tax rate	20%
Cost of debts after tax	4.90%
Required rate of return pre-tax	8.38%
WACC pre-tax	**7.6%**

Evaluation of WACC real for an electronic communications company in Iceland is 7.6% for the year 2013 in calculations of rate of return for capital tied in assets used in connection with the company’s provision of services. The position with respect to working capital and debts is not taken into account in the PTA calculations in this instance.

3.2.2 Investments

In the revised Siminn cost analysis an assessment was made of the value in use of investments in the company's public telephone network on the basis of this replacement value, using current prices and circumstances instead of using historical costs from the company's bookkeeping. The replacement cost of an analogous system was evaluated on the basis of current structure and number of locations, that is to say telephone exchanges and RSS.

When calculating annual capital cost of investments, Siminn allowed for a 10 year useful life as in the prior analysis.

Investment related to RSS and local exchanges is divided between Market 1 on the one hand and Markets 2-3 on the other. The same proportions for distribution are used as in the prior analysis from 2011. The conclusion was that this investment is divided such that 81.8% belonged to Market 1 while 18.2% belonged to Markets 2-3.

The Siminn conclusion is that the replacement value of investments on Market 1 are assessed at [...] and annual capital cost at [...] which the PTA reduces to [...] in 2013 because of a lower rate of return requirement. The reduction of annual capital cost from 2011 is [...] which is a significant real reduction.

3.2.3 Opex

The 2013 Siminn analysis allows for opex being based on the same criteria as in the prior analysis from 2011. The main cost items are rent of premises from Mila with electricity costs, lease of access to Mila distribution frames and maintenance work. Opex is thus mainly comprised of fixed costs and represents approximately [...] of total annual costs.

Opex is assessed as [...] in 2013 which is a [...] increase from opex in the prior Decision which was mostly based on costs for 2008. At the same time the consumer price index increased by approximately 34%. The increase in opex from the prior analysis until 2013 can be explained on the one hand by an increase in services purchased from Mila and on the other hand on a review of distribution of costs resulting from larger telephone exchanges between Market 1 on the one hand and Markets 2-3 on the other, which increases costs by approximately [...] from the prior analysis.

[...]

3.2.4 Number of ports

Siminn calculations use the number of ports that are in use, which are then converted to lease equivalents for POTS access by using a specific weighting coefficient for ISDN access, where the POTS access has the coefficient 1, ISDN basic connection has the coefficient 1.8 and ISDN trunk connection has the coefficient 15.

Siminn calculations use the number of ports in use on 30 June 2013 which was a total of [...] which in turn is the equivalent of [...] ports when converted to POTS port equivalents. This is a reduction in equivalents of approximately [...] from 2010.

3.2.5 Conclusion on tariff

In its analysis Siminn has taken into account the methodology used in PTA Decisions nos. 21/2011 and 19/2011. Annual cost for access to the company's public telephone network has mostly been reassessed on the basis of current criteria and pricing and of opex for 2013. The PTA considers it normal in this context to use the number of access lines in use in the middle of 2013, as the number of ports in use has been decreasing in recent years in step with diminishing use of the Siminn public telephone network.

As was stated here above the Siminn tariff is mainly based on cost analysed port prices, on billed technician hours and on resale of Mila local loops.

The PTA agrees that that a 20%[4] handling charge should be added to the Mila local loop lease and that it be included in the Siminn tariff.

Resale involves handling, which generates costs. The following is an example of the services provided by a reseller and of the costs that can accrue:

- Sales costs.
- Account relationships with customers and funding of accounts receivable.
- Depreciation of accounts receivable.
- Second level service with customers.

[4] This could represent 10-14% of the total price for the service in question where the local loop is included.

- Information systems.
- Share in common costs (for example premises, office and salaries costs).
- Interconnection of networks.

The PTA considers that considering the difference in cost between wholesale and retail, among other things because of service level, interconnection, sales, salaries and premises rental costs, the Administration can agree that the above reference is reasonable in this connection. It furthermore corresponds to prior implementation, see the PTA Decision no. 21/2011, with respect to Siminn hf. cost analysis of wholesale prices for access to the public telephone network at a fixed location for residential and non-residential customers and the PTA Decision no. 35/2011 for cost analysis of leased lines. The PTA plans to prescribe that in the next cost analysis a cost assessment shall be made of the above specified items (time measurements etc.) and that this assessment should be used as a basis for calculating the tariff rather than a fixed percentage mark-up on Mila local loops.

Mila annual costs for access to the Siminn public telephone network totals ISK [...] of which approximately [...] is for investments and [...] for operations, that is to say lease of premises, distribution frames etc. Annual costs are distributed between revenue units.

With all the above in mind the PTA endorses that the revised Siminn cost analysis be used as the basis for a Decision on wholesale prices for access to the company's public telephone network.

[...]

The Siminn conclusions on prices for access implies the following changes for access to the Siminn public telephone network at a fixed location for residential and non-residential customers. The price for ports has increased by something over 10% since the last analysis while on the other hand the price for access to telephone exchanges (SB-CPS) has increased by about 1.6% (POTS) as increases in local loop leasing had previously been taken into account.

Siminn wholesale price for access to ports in telephone exchange - price per month

Access type	***New price***	***Current price***	***Change***
POTS (per port in exchange)	ISK 250	ISK 227	10.1%
ISDN base connection	ISK 450	ISK 408	10.3%
Backbone connection 30 channels	ISK 3,750	ISK 3,402	10.2%

Wholesale price for access to telephone exchange (SB-CPS) - price per month

Access type	***Port***	***Local loops***	***Mark-up***	***Total***
POTS access line/port in exchange	ISK 250	ISK 1,042	ISK 208	ISK 1,500
ISDN base connection	ISK 450	ISK 1,042	ISK 208	ISK 1,700
Backbone connection 30 channels	ISK 3,750	ISK 4,527	ISK 905	ISK 9,182

Discount for POTS connections (port in telephone exchange) will be calculated in the same manner as in the existing interconnection agreement (see item 4.4.1) which is up to 10.3%.

Number of connections	*Monthly charge with discount*	*Discount*
0 - 999	1,500	0.00%
1,000 - 1,999	1,437	4.20%
2,000 - 2,999	1,424	5.10%
3,000 - 3,999	1,404	6.40%
4,000 - 4,999	1,379	8.10%
5000 and more	1,346	10.30%

Other prices are as shown here.

Technical department labour costs increased by more than 30% from the prior analysis but one must keep in mind the fact that the reference rate had remained unchanged since 2008 while at the same time the salaries index increased by 26% from the year 2010 and 38% from 2008. PTA plans to prescribe that Siminn will conduct a special examination of those service items that are based on time measurement in the next review of this cost analysis and the review shall cover all work procedures. As stated in Appendix II Siminn is introducing automatic processes and the company shall therefore include the economic benefits of that automation in its next review of Siminn's tariff.

Carrier pre-selection (CPS - default pre-selection) item 4.3

4.3 Pre-selection

Connection charge

Type of service	**Technical division costs**	**Mark-up**	**Wholesale price**
National carrier preselection	ISK 1,294		**ISK 1,294**
International carrier preselection	ISK 1,294		**ISK 1,294**
National carrier preselection and international in the same request	ISK 1,294		**ISK 1,294**
Monthly charge for 100 connections or more at the same time (50% discount)	ISK 647		**ISK 647**

ISK 200 short notice surcharge does not change.

Carrier pre-selection - single billing (SB-CPS) item 4.4

Siminn calculated prices for access to a telephone exchange for single billing carrier pre-selection where leasing of the lower frequency range local loop from Mila plus mark-up was taken into account. In addition to the increase of the price for ports, the access price also increases because of an increase in the Mila price for local loops of over 13% during the years 2011-2013, which Siminn had previously taken into consideration in the existing tariff. The increase for access to the public telephone network is thus in the range from 1.6% to 4.0% given current prices and the new prices are as follows.

4.4.1 Dialled and backbone connections

Monthly price

Dialled and backbone connections	Mila price	Technical division costs	Mark-up	Wholesale price
Monthly charge for ISDN backbone connection (30 channels) inside exchange	ISK 4,527	ISK 3,750	ISK 905	**ISK 9,182**
Monthly charge for ISDN backbone connection (30 channels) between exchanges	ISK 13,987	ISK 3,750	ISK 2,797	**ISK 20,534**
Monthly charge for ISDN backbone connection (30 channels) between exchanges km.	ISK 546	ISK -	ISK 109	**ISK 655**

Other service charges - monthly price

Type of service	Mila price	Technical division costs	Mark-up	Wholesale price
Direct dialling - number series		ISK 32		**ISK 32**
SB-CPS - extra number		ISK 66		**ISK 66**
Breakdown per number		ISK 636		**ISK 636**

4.4.1 Pre-selection single billing (SB-CPS)

Monthly price

Type of service	Mila price	Technical division costs	Mark-up	Wholesale price
Carrier preselection (CPS) changed to SB-CPS		ISK 1,294		**ISK 1,294**
POTS or ISDS changed to FFER		ISK 1,294		**ISK 1,294**
SB-CPS changed to carrier preselection (CPS)		ISK 1,294		**ISK 1,294**
Change to special service		ISK 1,294		**ISK 1,294**
Monthly charge for 100 connections or more at the same time (50% discount)		ISK 647		**ISK 647**

4.4.2 Dialled and backbone connections

Setup charges

Dialled and backbone connections	Mila price	Technical division costs	Mark-up	Wholesale price
Setup charge Backbone connection ISDN	ISK 73,063	ISK 12,635		**ISK 85,698**
Setup charge BI 100 number		ISK 12,749		**ISK 12,749**
Setup charge BI 10 number		ISK 3,506		**ISK 3,506**
Setup price PBX		ISK 5,054		**ISK 5,054**
Setup price for each line in PBX		ISK 632		**ISK 632**

Other service charges - monthly price

Type of service	Mila price	Technical division costs	Mark-up	Wholesale price
Charge for receiving number series		ISK 6,362		**ISK 6,362**
Receipt charge fixed line tel. extra number		ISK 160		**ISK 160**
Breakdown of dialling use		ISK 5,719		**ISK 5,719**

See draft of new tariff in the attached Appendix I.

It is planned that the new Siminn tariff will come into force on the publication of the Decision given that the tariff has been published with at least 60 days' notice from the publication of this consultation, see Section 4 of the company's Reference Offer on interconnection of public telephone network dated 12 September 2010.

DECISION

The Post and Telecom Administration endorses the Siminn hf. revised cost analysis dated 21 May 2014 for the wholesale market for access to the company's public telephone network.

Unit prices shall be as shown in Appendix I to this Decision. Other conditions in the tariff do not change.

The new Siminn hf. tariff shall come into force on the publication of this Decision.

The new Siminn hf. tariff shall be part of the company's Reference Offer for interconnection of public telephone networks from the same date.

This Decision can be appealed to the Appellate Committee for Electronic Communications and Postal Affairs, see Article 13 of Act no. 69/2003 on the Post and Telecom Administration. The appeal shall have reached the Appellate Committee four weeks from the time that the party in question became aware of the Decision of the Post and Telecom Administration. Costs for an appeal are according to Paragraph 5 of Article 13 of the same Act, and in addition to this there is a special appeal charge to the amount of ISK 150,000, pursuant to Article 6 of Regulation no. 36/2009 on the Appellate Committee for Electronic Communications and Postal Affairs.

Reykjavík, XX, XX 2015

____

Hrafnkell V. Gíslason Director

____

Óskar Þórðarson