Brasil Telecom: the briefing of a case on telecom regulation in emerging markets[1].

1. Abstract

In 2005, the telecom regulator in Brazil asked incumbents to undertake the account separation and cost modeling. The goal was allowing the regulator to set prices based on an assessment of incumbents finance and physical data, especially the definition of cost-based prices at the wholesale market (interconnection, leased lines and unbundling prices) and the measurement of productivity to define X-factor applied to the retail tariffs in the price cap readjustment.

1. Basic questions

Why and how cost calculation can help regulation in telecom industry?

I will try to answer this question, with an analysis based on the experience of a Brazilian incumbent, the Brasil Telecom.

2. Main ideas

- The use of cost models by telecom regulation, mainly to define prices of interconnection feeds, leased lines and network elements and to refund universal obligations.
- The chose of the kind of cost model that better apply to the national industry conditions.

3. Cost models

- Fully Allocated Cost (FAC) – a medium cost that can be measured dividing the total cost by the amount of each service, using allocations rules.
- Historical Cost Account (HCA) – basis of costing extracted form account books (accounting value).
- Current Cost Account (CCA) – cost of asset reposition, got by transformation on HCA.
- Long Run Incremental Cost (LRIC) – a cost that the firm would save if a service would not more offered, on a CCA basis.

[1] This paper summarizes the book "***Brasil Telecom: a case on telecom regulation in emerging markets***", elaborated by nine professionals from Brasil Telecom and PricewaterhouseCoopers (including myself): Anderson Ramires, Dustin Posseti, João Alberto Santos, Jose Rogerio Vargens, Lilian Viana, Luiz Eduardo Viotti, Marcelo Henrique Padua, Rafael Guaragna Souza, Rodrigo Teixeira. This book was published in Portuguese in March 2008. Now, it is been traducing and will be published in English in September 2008 (Ramires et al, 2008).