

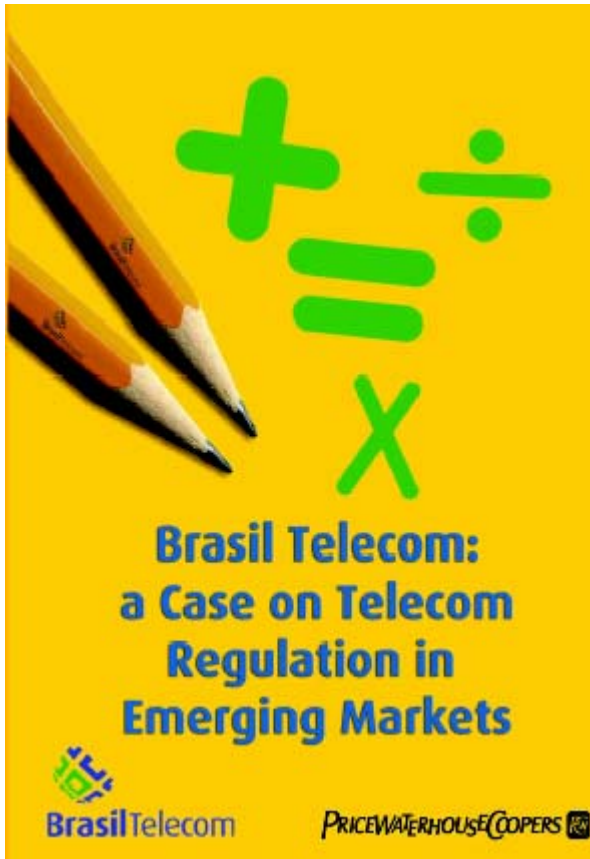
**Brasil Telecom:
a Case on Telecom
Regulation in
Emerging Markets**

**A briefing by
Jose R. Vargens**

**CPRSOUTH3, Beijing, China
December 5th 2008**

This case resumes a book

The book



The authors





The basic question

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

**An analysis based on the experience of a Brazilian incumbent, the
Brasil Telecom.**



Brazilian telecom industry in briefing

✓ Competition among five telecom groups and other small firms

- Telefonica (Spanish)
 - Telecom Italian (Italian)
 - Telmex (Mexican)
 - Oi (Brazilian)
 - Brasil Telecom (Brazilian)
- } In process of fusion

✓ Convergence

- Growth of new services and technologies

✓ Digital inclusion – the challenge

- Widespread of Internet access
- Universalization of broadband



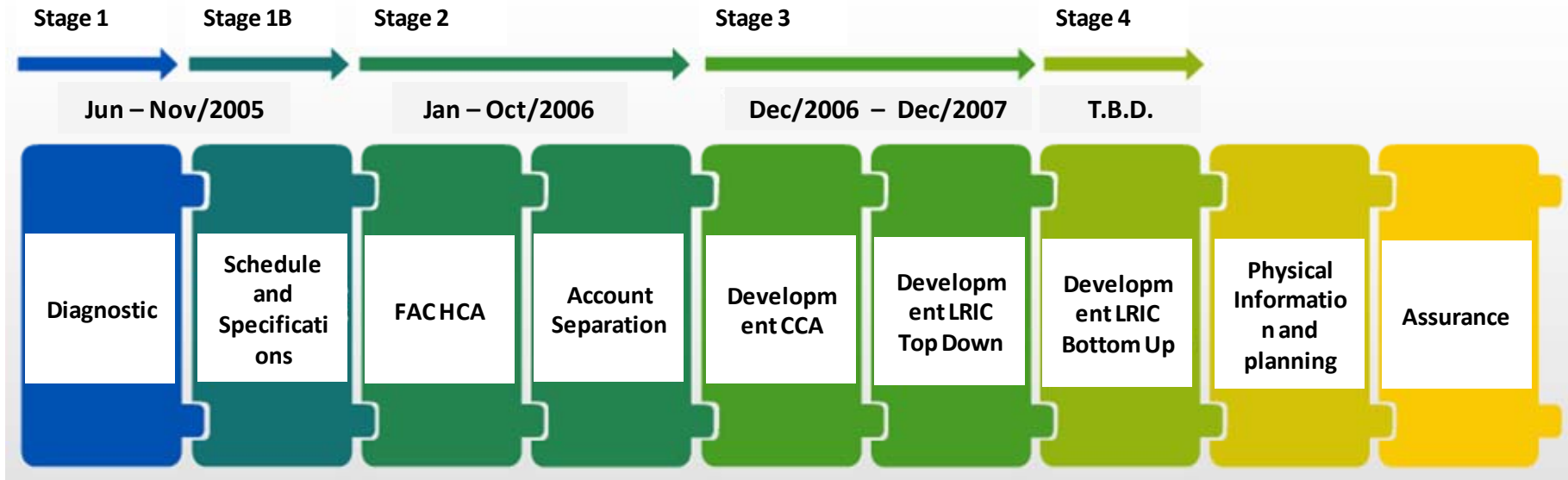
Price regulation in Brazil

SERVICES	PRICE REGULATION	
	Today	After 2010
Local fixed voice PSTN	Price cap	
Long distance fixed voice PSTN	Price cap	
Mobile voice, broadband and others	Free market	
Fixed interconnection	Price cap	LRIC cost based
Mobile interconnection	Price cap	FAC cost based
Leased fixed lines	Price cap	LRIC cost based
Universal services		Cost based

LRIC – Long Run Incremental Cost

FAC – Fully Allocated Cost

Implementation of cost model of Brasil Telecom



- ✓ A tree years projects
- ✓ US\$ 35 billions invested
- ✓ 190 people involved

FAC versus LRIC cost models



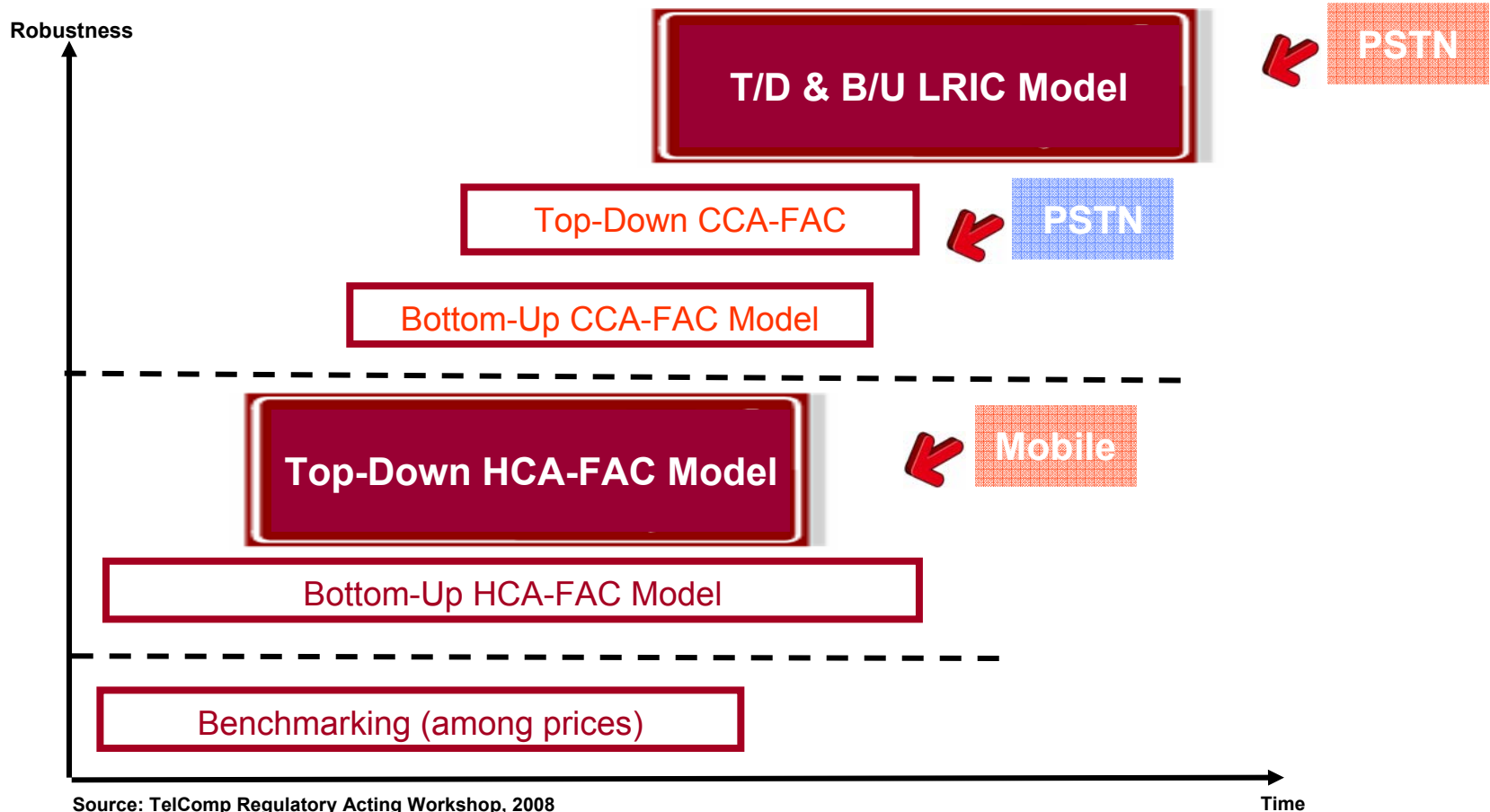
Fully Allocated Cost (FAC)

- Current Cost Account (CCA) basis
- Medium cost of the services
- Easier to implement
- Precision
- Less expensive

Long Run Incremental Cost (LRIC)

- Current Cost Account (CCA) basis
- Difficult to implement
- Very subjective
- Very expensive
- Best economic incentive (in theory)

Pricing structure: Robustness x Time



Source: TelComp Regulatory Acting Workshop, 2008

Time

“While LRIC+EPMU has been preferred in the past, it has the disadvantage of involving a time consuming operation which BT carries out on an irregular basis.” (OFCOM, 2006)



Recommendation

The FAC-CCA is best model to be used in telecom pricing regulation, because our experience show that:

- The main economic incentive in telecom industry now is competition than regulation.**
- In practice, it is possible to reach similar results with FAC-CCA and LRIC models.**
- LRIC model is too expensive both to firms and regulator.**