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Government of Samoa

Office of the Regulator

Private Bag, Apia, Samoa

ORDER OF THE REGULATOR NUMBER 2007/4

FIXED AND MOBILE NETWORK INTERCONNECTION TERMINATING RATES

Whereas:

Section 36 of the Telecommunications Act 2005 (the Act) requires interconnection charges of dominant service providers to be cost based.

SamoaTel Limited and Digicel (Samoa) Limited have both been designated as dominant service providers in the provision of fixed line and cellular services respectively.

SamoaTel Limited and Digicel (Samoa) Limited were unable to reach agreement on interconnection rates prior to Digicel (Samoa) Limited commencing cellular operations on the 31st of October 2006 therefore the Regulator issued Order Number 2006/4 establishing interim interconnection rates. The Interim Rate Order specifically stated that the rates contained therein would only be in effect for the time required for cost based interconnection rates to be established.

The Interim Rate Order was delivered to both companies accompanied by a letter dated the 1st of November 2006 that established a schedule of four and one-half months for completion of cost studies required to determine the cost of interconnection based on Long Run Incremental Cost (LRIC) methodologies . Both companies were advised that the cost studies were to be based on LRIC methodologies in October 2006 and were provided with copies of typical guidelines for consideration when preparing their cost models. The Regulator issued a document entitled "Cost Study Guidelines" to both companies on the 10th of January 2007 to provide further clarification of requirements for the cost models.

Cost models were submitted to the Regulator on the 19th of March 2007 by SamoaTel (revised on the 22nd of March 2007) and on the 23rd of March 2007 by Digicel.

The Government of Samoa retained the services of an international consulting firm to conduct an analysis of the cost models to confirm that only realistic and allowable costs were included in the calculations used to determine the cost of terminating calls on the respective fixed and mobile networks.

The Consultant reported that the cost models provided by both companies failed to conform to all requirements set forth in the Cost Study Guidelines, that inconsistencies existed in both models, and that both sets of data were not fully complete. The Consultant subsequently met with representatives of both companies to seek clarification of the assumptions made in their respective models and to request specific additional data in order to clarify and validate the assumptions that had been used in the models. Responses from both companies were not forthcoming in a timely manner therefore the Consultant was required to establish interconnection costs on the basis of forward looking fully allocated cost (FAC) models rather than using the preferred LRIC costing principles.

The Consultant also analysed cost of capital information provided by both companies to determine a fair and realistic Weighted Average Cost of Capital (WACC) to be applied to the cost of connecting to each network when determining the new interconnection rates.

Noting that the telecommunications market in Samoa was not fully developed at the time the cost studies were prepared, and the inability of both companies to provide the fully LRIC based models called for in the Cost Study Guidelines, the interconnection rates established by this order will apply for a period of two years from the effective date of this Order.

Nothing in the preceding paragraph is intended to prevent the companies for requesting the approval of the Regulator to extend the period of validity for the interconnection rates set forth herein for a further one or two years provided that such requests for approval are received by the Regulator six (6) months prior to the expiry date of this Order. The Regulator shall not unreasonably withhold approval to extend the period of the validity of the rates provided that such an extension would not be detrimental to the interests of subscribers or the market in general.

The companies will be required to prepare and submit further cost studies prior to the expiry date of this Order so that subsequent interconnection rates are fully based on the accepted international practice of using long run average incremental cost (LRIC) methodologies to establish new interconnection rates. The Regulator will revise the Cost Study Guidelines to reflect conditions prevailing six months prior to the expiry date of this order. The companies new cost studies shall be completed no later than one month prior to the expiry date in order to allow sufficient time for evaluation of the cost models and establishment of any new interconnection rates prior to the expiry date of the Order.

Noting that both cost models contained confidential financial information, the cost models and the results of the consultants' cost analysis of those models will be held in confidence by the Office of the Regulator and the Ministry of Finance and will not be published or circulated.

ORDER ESTABLISHING FIXED AND MOBILE TERMINATING RATES

This Order has been issued pursuant to sub-section 36(3) of the Telecommunications Act 2005 to establish interconnection rates for a minimum of two (2) years from the effective date of this Order.

All interconnection rates set forth below apply over a 24 hour 7 day per week basis. All rates referred to below as being 'per minute' will accrue on a per second basis for inter-company billing purposes.

Fixed Terminating Rate

The cost based rate for terminating calls on the SamoaTel fixed network that originate on any mobile network in Samoa shall be 11.8 sene per minute.

Mobile Terminating Rate

The cost based rate for terminating calls on any mobile network in Samoa shall be 22.8 sene per minute. (Where this rate applies to calls originating in the fixed network or another mobile network.)

International Call Transit Rate

The cost based rate for transit across SamoaTel's fixed network of mobile originated calls to international destinations and transit of internationally originated calls destined for termination on mobile networks shall be 47.3 sene per minute.

Incoming International Call Termination Rate for calls to a mobile network

Incoming international calls destined for a mobile network would not have occurred if the mobile network had not been operational. The rate for terminating international calls received via the SamoaTel fixed network on a mobile network shall be calculated in accordance with the following formula:

$$\text{The Mobile Terminating Rate of 22.8 sene per minute} + \frac{(\text{Incoming Settlement Rate}) - (\text{Mobile Terminating Rate}) - (\text{International Transit Rate})}{2}$$

Where the Incoming Settlement Rate is the per minute rate paid to SamoaTel by the administration originating the call less any component which may be specifically included to cater to any Universal Service Fund requirements. The minimum amount payable to a mobile network operator shall not be less than the Mobile Terminating Rate.

Other Call Charge Rates

Rates for terminating other types of calls or messages shall be agreed between the parties. These rates shall be cost based as far as practical in keeping with the requirements of sub section 36(1) of the Act. A copy of the agreement setting forth the agreed rates and signed by both parties shall be provided to the Regulator within one month of the effective date of this Order.

In the event that the parties are not able to agree on these rates, the rates established in Order of the Regulator 2006/4 shall continue to apply until such time as new rates may be established by the Regulator pursuant to sub section 36(3) of the Act.

Effective Date

This order shall become effective on the 19th of May 2007.

John Morgan
Regulator