

# Banded forbearance in retail tariff regulation

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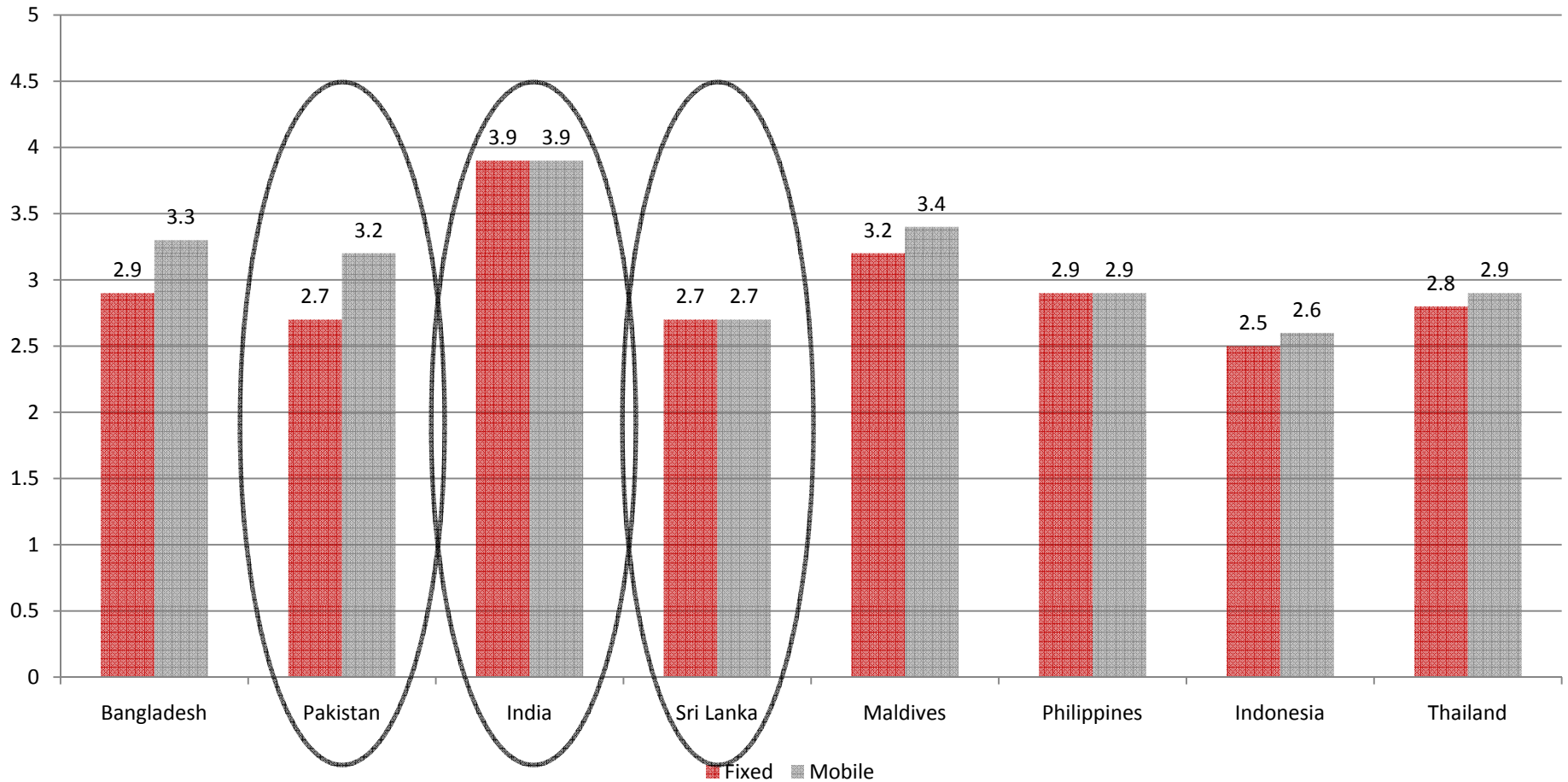
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# Rationale

- Growth and industry changes occurring around the world
  - Rapid changes in technology
  - Increasing phone use, especially mobiles
- Service providers focus on **innovation** and **competition**
  - Budget telecom model of service provision
- Regulatory authorities need to **prioritize** tasks

# Forbearance seems to be preferred...



TRE results for tariff regulation, 2008

# Implementation difficulties of SMP

- Identification of SMP operator
  - Highly resource intensive
- Decision has to be made on what kind of regulatory tool to be used
  - Price capping (RPI-X)
    - Difficult to calculate
    - Ineffective where inflation is high

# Other concerns

- Damages chances for competition (Paredes, 2005)
- Hurts the SMP financially (Armstrong and Sappington, 2006)
  - Causes discontent among SMP
- Allows inefficient firms into the market resulting in rising costs to the industry (Gual and Trillas, 2003)
  - Favoritism
- Stifles innovation (Lyon and Huang, 1995)
  - Only unregulated firms find it profitable to innovate

## Potential solution

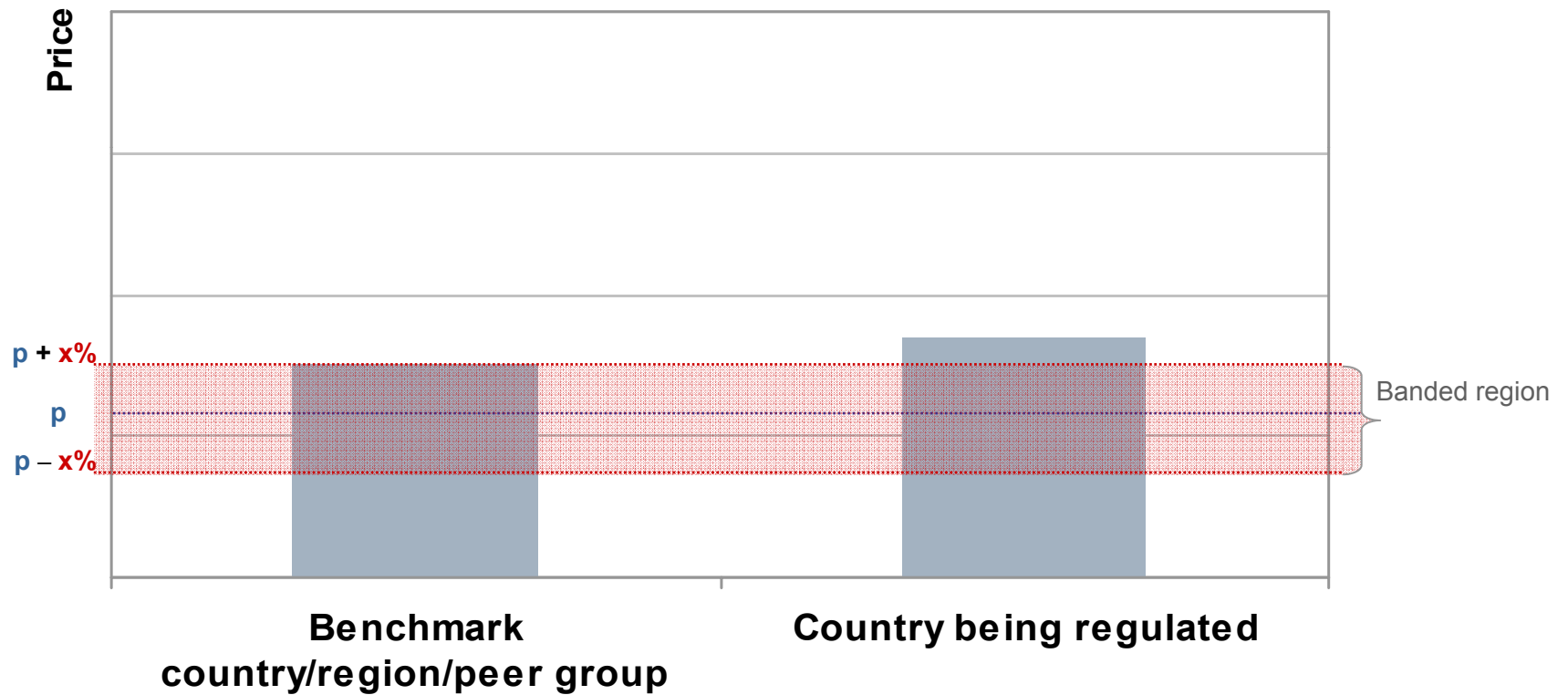
# Banded forbearance

Forbearance, with safeguards derived from benchmark regulation

# How?

- Identify indicator(s)
- Identify peer group
  - Must have data that can be compiled into benchmarks
  - Can be selected based on GDP per capita, geography, market structure, regulatory regimes, etc
- Define benchmark
  - Select period for revision (once a year; once every two years...)
  - Benchmark + markup?
- Define band: floor and ceiling

# Setting the bands





# Finer points

- Anything goes within the band
  - Tariffs must be filed
  - Evaluated only for
    - Whether within the band
    - Default approval within x days/or sanctions if criteria not met
  - Even better: all tariffs are immediately implementable, but penalized if outside the bands
- When tariff dips below the floor, investigate for anti-competitive impact only
- If tariff goes above ceiling, no alternative but to start a formal proceeding

# Merits

- Applies to all operators
- Less complicated and intrusive, more flexibility
- Reduces opacity of pricing
- Administratively less intensive
  - Improves resource allocation
- Intelligent and responsible regulation
  - Constrains discretion

Full report available upon request

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