



**Wholesale Line Rental (WLR)
as a key lever to stimulate competition and
reduce telecom cost for consumer**

Budapest
21.09.2006 r.

When defining the WLR pricing in Poland, the NRA took into consideration three issues: cost to be avoided by the incumbent, ability of the alt. op. to breakeven and the reference to the ULL costs

WLR incremental costs and profitability for alternative operator

What are the incremental costs for the alternative operator and under which retail minus scenarios it can breakeven, generate modest margin and be able to reduce prices

Cost avoidable by the incumbent

What cost the incumbent should avoid when the customer will choose WLR, and what are the WLR specific, incremental costs

WLR prices vs. the ULL costs

How does WLR price refer to ULL fees and does it create the investment ladder motivating to invest into infrastructure?

WLR in Poland:

Retail minus scheme with 47% discount from the reference price

NRA attempted to assess the cost the incumbent (TP) should avoid when customer switches to WLR, leveraging arguments of Tele2, TP, industry chamber and external experts

External experts:

Adam Smith Center (and also ITTI) reports assessed that that avoidable costs vary around 12 PLN per customer per month, i.e. at least over 30% of current standard retail price. They have covered mainly marketing, customer care and retention costs. The billing, bad debt and the elimination of the retail margin and/or WACC was not included

Incumbent cost analysis

Incumbent provided cost analysis much higher than external experts, using the cost analysis done for RIO. However, since these analysis have not been accepted by the auditor and NRA as not accurate/trustworthy, the TP arguments were not accepted

Tele2 and KIGEiT (telecom industry chamber)

Provided cost analysis, including the retail margin that should be avoided on the regulated wholesale deal. Identified the WLR incremental costs that TP will have (on billing, customer care, etc) and defined the net avoidable cost of 20 PLN (over 50% of retail price)

External experts and the operators from the KIGEiT telecom industry chamber assessed that costs avoidable by TP amount 30-50% of the WLR reference price

Analysis of external experts (and data provided by the operators during the NRA proceeding) show that incremental costs to serve WLR by alt. op. amount around 12 PLN, which was ca. 30% of the reference price set by NRA

WLR incremental costs for alternative operator (PLN per customer per month)	
Retail price (as Incumbent's Standard price)	35,00
Sales, advertising, promotions	3 – 6,00
Customer service	2 – 4,00
Billing and invoicing	3,00
Bad debt and vindication	1,75
Total average cost for alt. op.	12,25

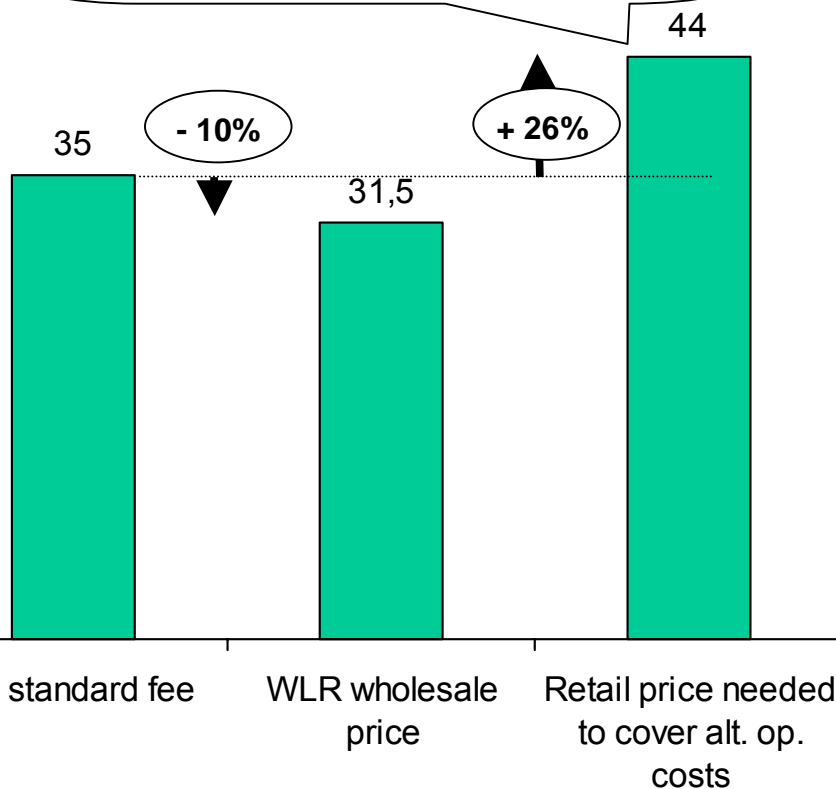
The incremental cost to serve WLR has been estimated at ca 12 PLN (ca. 3 EURO) per customer per month. It is ca. 35% of the standard monthly fee of the incumbent and 30% of the reference price set by the NRA

Based on NRA decision and the analysis of Adam Smith Center, independent Polish economic think tank (report on WLR “Rola hurtowej odsprzedaży abonamentu telefonicznego w urynkowaniu sektora telekomunikacyjnego”)

Would NRA set the discount at just 10-20% level, the alternative operator would not be able not only to make positive margin, but even cover the costs to provide WLR

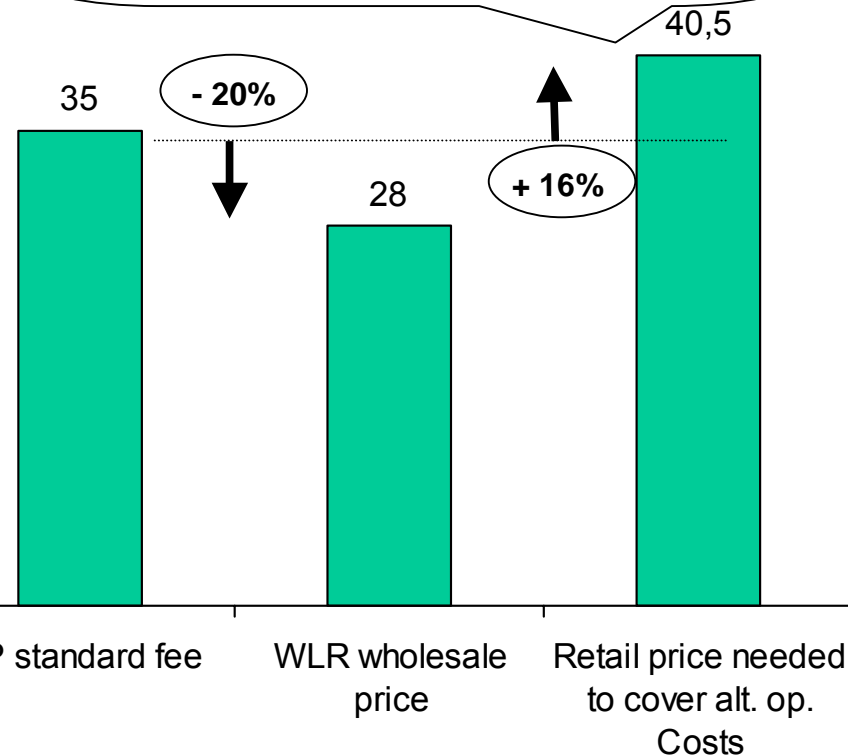
10% WLR discount

Alternative operator would have to charge 25% higher price than incumbent just to cover WLR costs



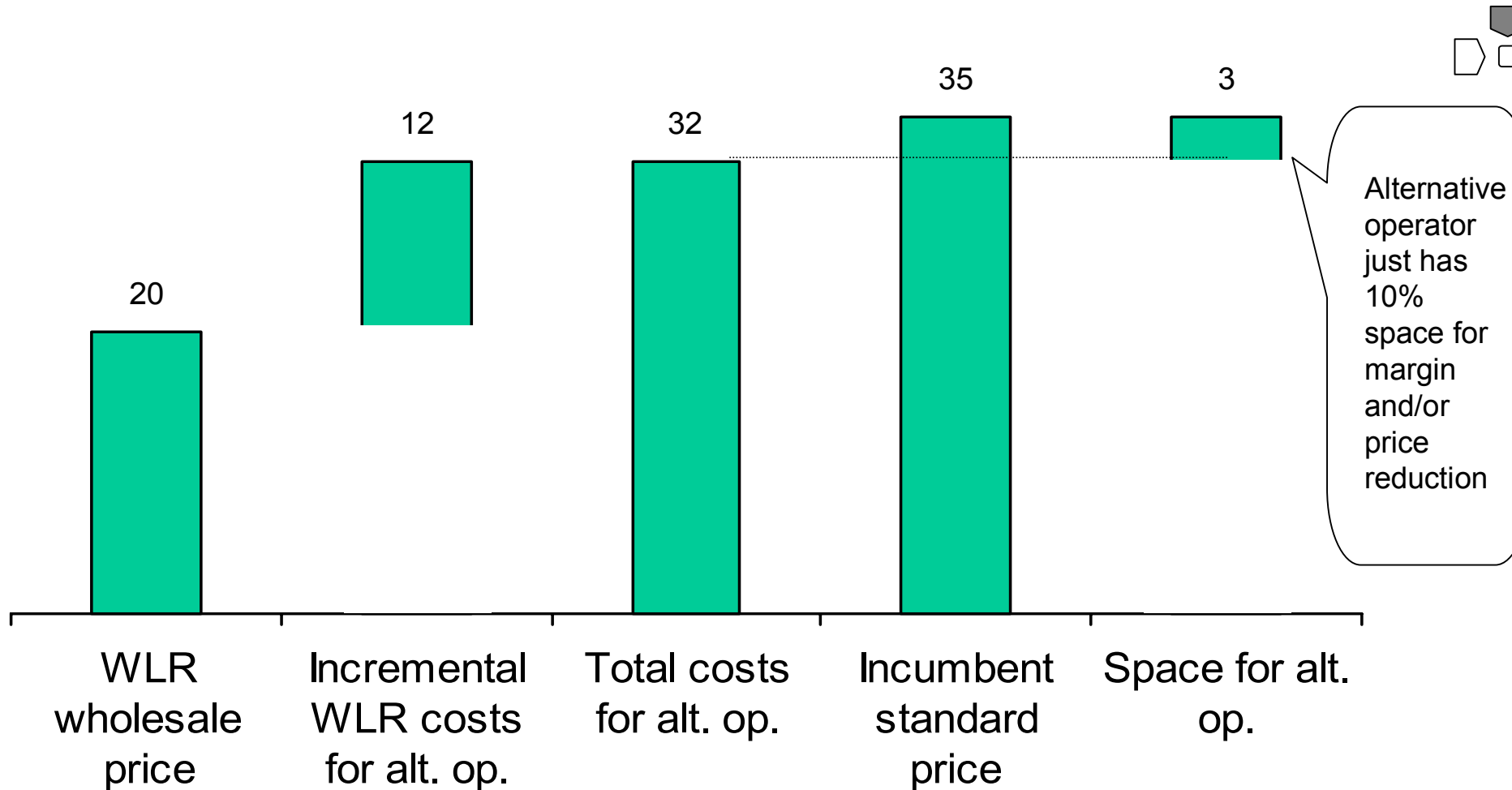
20% WLR discount

Still 16% higher price will allow to cover costs. To generate 10% margin, 25% higher price would be needed



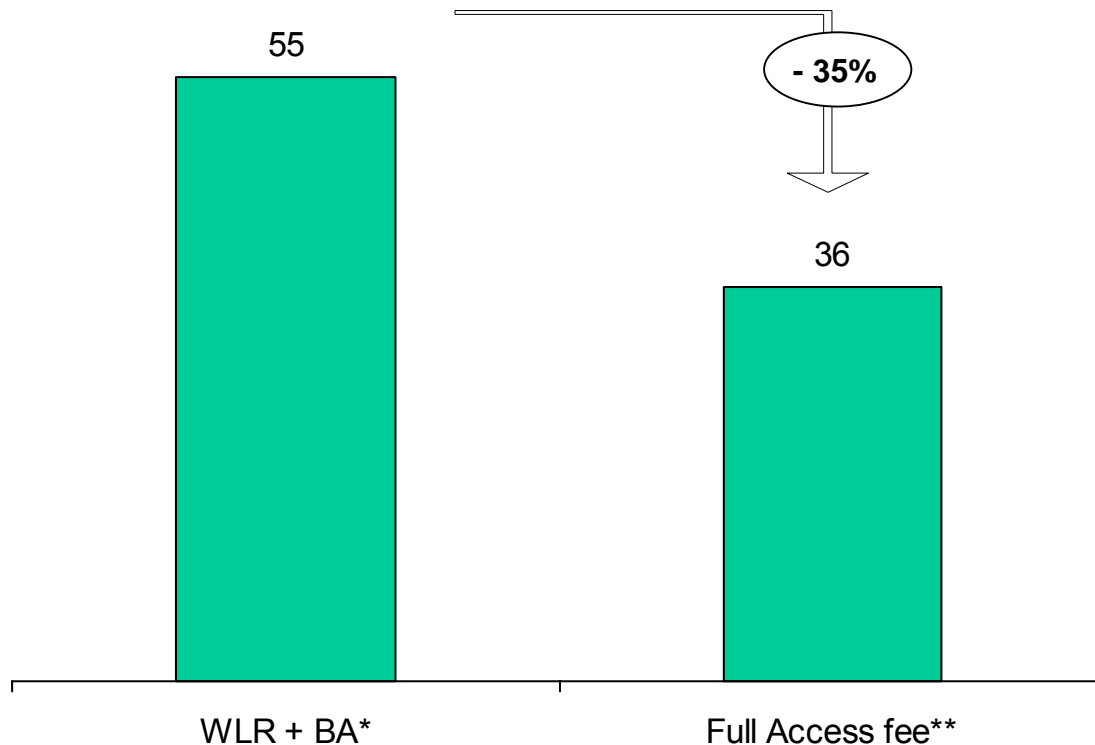
Based on report of Adam Smith Center

Analysis of external experts show that even with 47% discount applied by the NRA, the alternative operators still will have vary narrow space to generate margin and/or reduce prices for consumers



Based on NRA decision and the analysis of Adam Smith Center, independent Polish economic think tank (report on WLR "Rola hurtowej odsprzedaży abonamentu telefonicznego w urynkowaniu sektora telekomunikacyjnego")

Despite the 47% discount on WLR, its monthly cost (when combined with BA) still will be significantly higher than full access ULL, thus creating significant incentives to invest into ULL



The monthly costs of Full Access ULL is 35% lower than the combined cost of two wholesale based offers, WLR and Bitstream Access, which combined form an alternative for the Full Access.

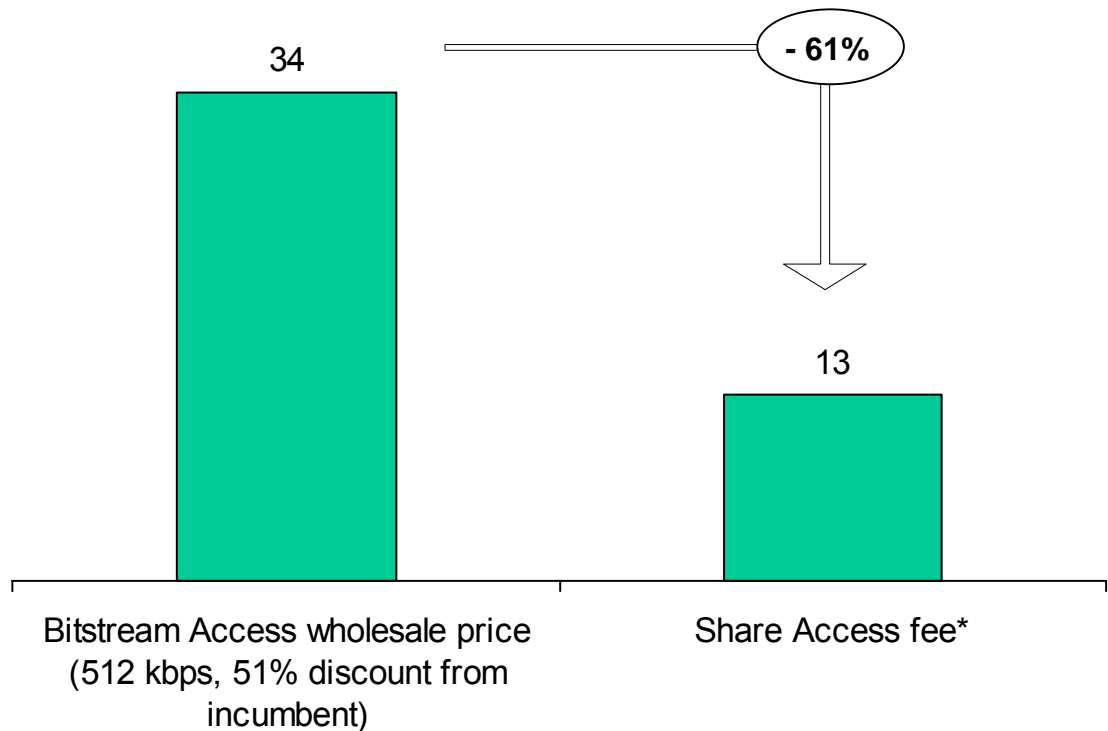
This creates a significant incentive for the alternative operators to invest in ULL, achieving significant cost savings and ability to fully control the services provided to the end customers

* WLR wholesale price at ca. 21 PLN i Bitstream Access cost for 512 kbps at 34 PLN (51% discount, as in RUO BA)

** As recommended by the NRA in the decision obliging TP (Incumbent) to update the RUO ULL

NRA has ensured consistency between all regulated offers, using same retail minus scheme for WLR and Bitstream Access, for both ensuring the fit with expected ULL prices

Polish NRA used consistent approach to all wholesale-based regulatory solutions. For the Bitstream Access it also used retail minus scheme, setting the discount at 51% (from the incumbent retail prices). Also for Bitstream a sanity check against the ULL costs has been made to ensure sufficient incentives to invest in infrastructure



* As recommended by the NRA in the decision obliging TP (Incumbent) to update the RUO ULL