INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA

Briefing to Select Committee on Communications and Public Enterprises

"Briefing on Cost to Communicate and ECS/ECNS Compliance"

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Cost to Communicate

ECS/ECNS Compliance

Organisational Mandate

ICASA is established pursuant to section 192 of the Constitution and in terms of the ICASA Act of 2000

ICASA is mandated to -

- Regulate electronic communications, broadcasting and postal sectors in the public interest
- Ensure affordable services of high quality for all South Africans

ICASA's mandate is derived from:

- **ICASA Act, 2000**
- **EC Act, 2005**
- **Broadcasting Act, 1999**
- **Postal Services Act, 1998**
- **ECT Act, 2002**

Roles and functions of ICASA

Issuing of licences

Management of scare resources (e.g. Spectrum)

Compliance monitoring and enforcement

Tariff/Price regulation

Research and collation of industry statistics

Market reviews and regulation

REGULATING THE ICT SECTOR IN THE PUBLIC INTEREST

Consumer protection

Dispute resolution

Setting of rules, guideline and codes for regulation of ICT Sector

Determining conditions of supply and applicable standards

Government's Priority Outcomes

Outcome 4: Decent employment through inclusive economic growth

Facilitate investment in the ICT sector, thus contributing to job creation

Promote the advancement of HDIs participation in the ICT sector

Outcome 6:

An efficient, competitive and responsive economic infrastructure network

Promote competition and network deployment for universal broadband provision

Outcome 12:

An efficient, effective and development–oriented public service

Ensure that the regulatory framework facilitates the use of ICTs as a platform to provide increased access to government services

Outcome 14:

A diverse, socially cohesive society with a common national identity

Facilitate the 3-tiers of broadcasting and specifically focus on a regulatory agenda that:

- Promotes local content
- Dissemination of information in the public interest
- Public broadcasting content across all broadcasting platforms

Strategic Goals: 2016-2020

Investment in and access to broadband infrastructure

1. Facilitate investment in broadband infrastructure
2. Increase access to broadband spectrum from 566MHz to 958MHz by 2020

Promote Competition

1. Promote competition and reduce costs of electronic communications, electronic communications networks, postal and broadcasting services by 2019/20

Common National Identity and Social Cohesion

1. Increase television broadcasting platforms from three to seven Digital Terrestrial Television Multiplexers and develop a regulatory framework by 2020

Independent and credible regulator

1. Adherence to regulatory principles of transparency, accountability, independence, integrity and predictability in the public interest

Improve stakeholder and consumer experience

1. Monitoring of quality of services, and improve stakeholder engagement from 10% to 80% by 2020

ICT Sector Overview

- ❑Voice a dominant but declining revenue driver in the market due to shift in consumption patterns from voice to data driven mostly by OTT services
- ❑Voice tariffs have decreased significantly since ICASA’s intervention in the wholesale call termination market in 2010
- ❑Out-of-bundle data tariffs are high relative to in-bundle-rates
- ❑Smartphone and tablet penetration <40% but growing at a rate of ~30% p.a.
- ❑Average data usage per subscriber approx. 800MB per month but increasing
- ❑The delayed assignment of high demand spectrum (700MHz, 800MHz) hampers ability of industry to provide latest broadband technology such as LTE

Trends in Mobile Data Prices

Trends in mobile data:

- Shift in voice to data usage driven by OTT and new technologies
- Smartphones and tablets penetration continue to grow
- Decrease in average effective price/MB due to competition
- Decrease in average price/MB offset by exponential growth in data traffic with resultant increases in data revenue

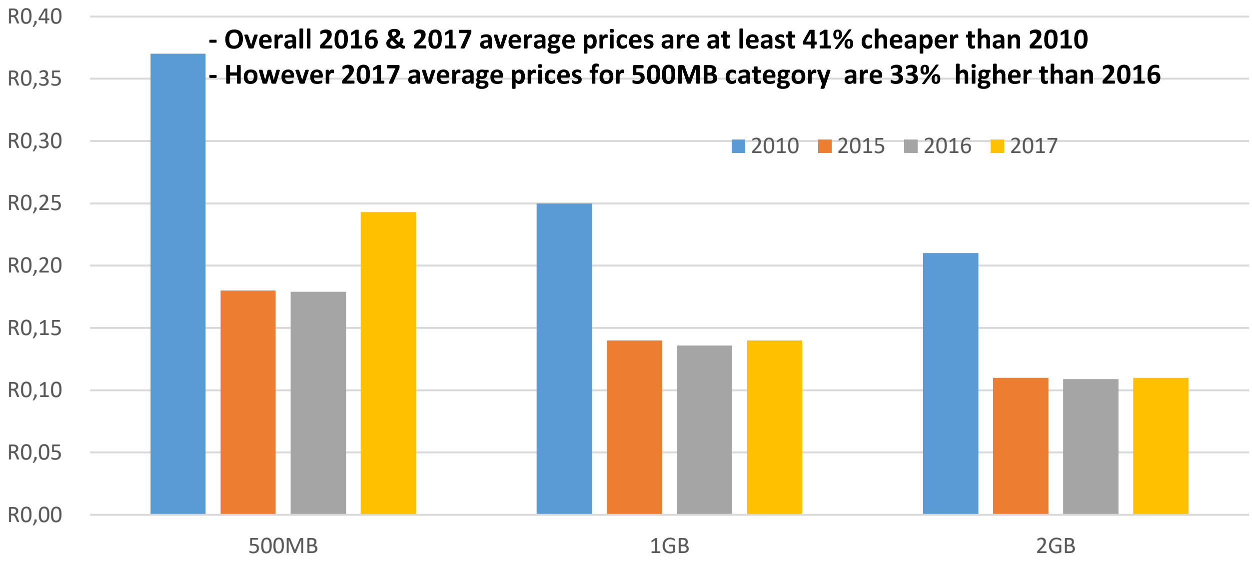
Revenues

- Data revenue growth rate >30% pa
- Voice revenue still dominant but may be overtaken by data in 3 to 4 years time
- SMS revenue (mainly P2P) declining
- Increase in M2M revenue

Sustainability

- Data revenue is likely to offset decline in voice revenue
- There is increased investment in infrastructure to support data traffic growth
- Rand Depreciation, Sovereign Rating and Poor Economic Outlook may adversely data market growth
- Threat of OTTs and other innovative services
- Additional spectrum unavailability continues to be a bottleneck

Declining price per megabyte between 2010 and 2017



Source: ICASA database of operators' tariff filings and annual reports

Status Update on Data Tariffs

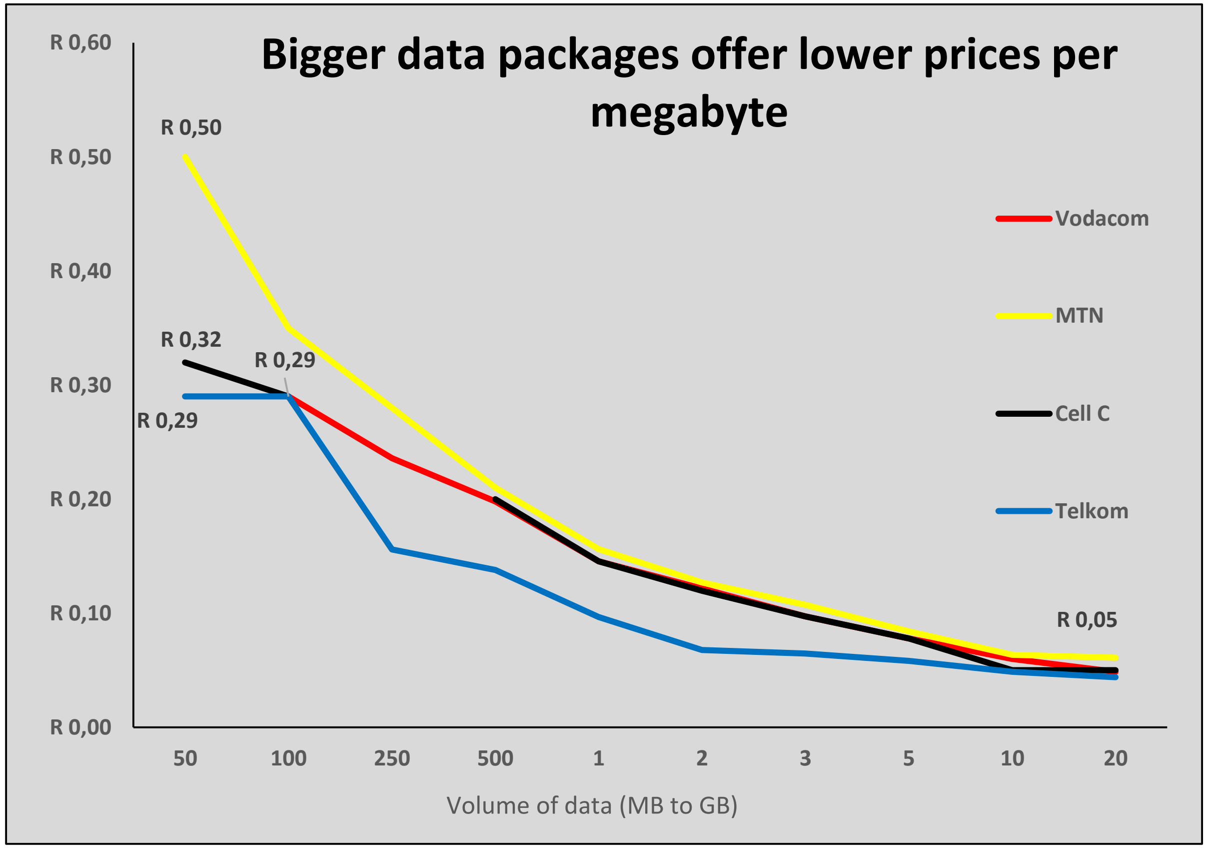
In –bundle rate per megabyte for prepaid data packages

Data	Unit	Vodacom (In-bundle rate per MB)	MTN (In-bundle rate per MB)	Cell C (In-bundle	Telkom (In-bundle
50	MB	N/A	R 0,50	R 0,32	R 0,29
100	MB	R 0,29	R 0,35	R 0,29	R 0,29
250	MB	R 0,24	R 0,28	N/A	R 0,16
500	MB	R 0,20	R 0,21	R 0,20	R 0,14
1	GB	R 0,15	R 0,16	R 0,15	R 0,10
2	GB	R 0,12	R 0,13	R 0,12	R 0,07
3	GB	R 0,10	R 0,11	R 0,10	R 0,06
5	GB	R 0,08	R 0,08	R 0,08	R 0,06
10	GB	R 0,06	R 0,06	R 0,05	R 0,05
20	GB	R 0,05	R 0,06	R 0,05	R 0,04

Out of Bundle per megabyte for prepaid data packages

Data		Unit	Vodacom	MTN	Cell C	Telkom
Out of bundle per MB			R 2.00	R 0.99	R 1.10	R 0.29

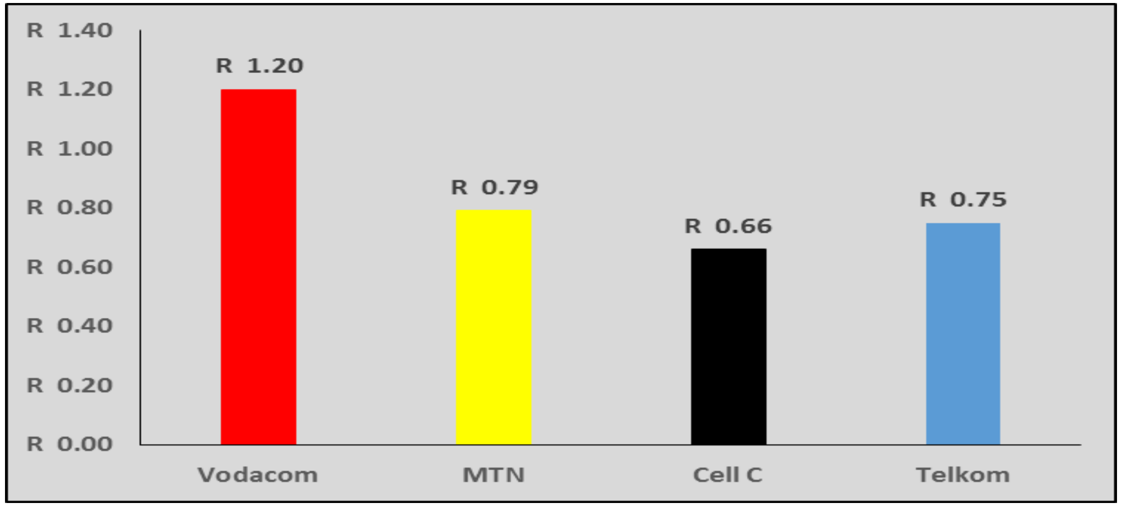
- Consumers buying large volumes of data benefit significantly from low in-bundle rates/MB
- Out-of-bundle rates are substantially higher than in-bundle rates
- Out-of-bundle rates/MB > than in-bundle rates/MB



Source: ICASA database based on tariff notifications

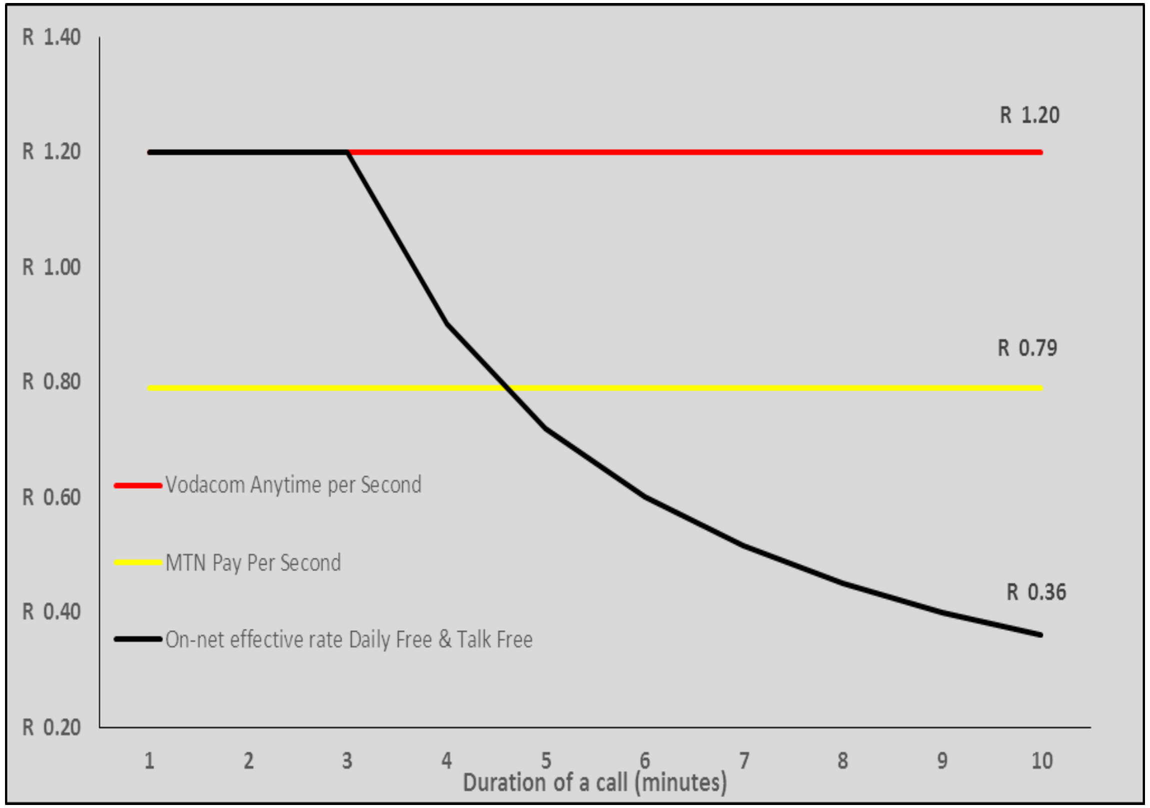
Status Update on Prepaid Voice Tariffs

Flat Rate retail tariffs per network operator (per minute)



Source: ICASA database based on tariff notifications

Example of on-net focused tariffs



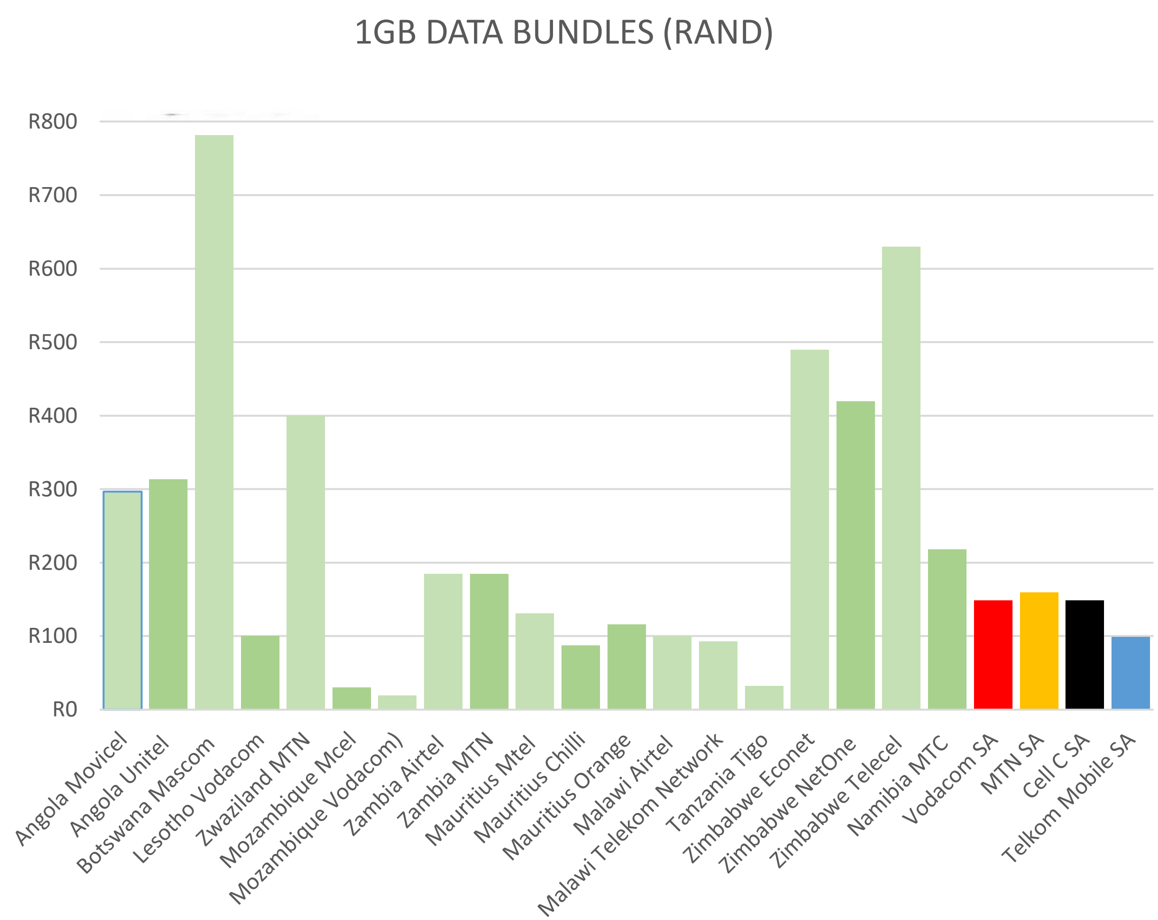
Source: ICASA database based on tariff notifications

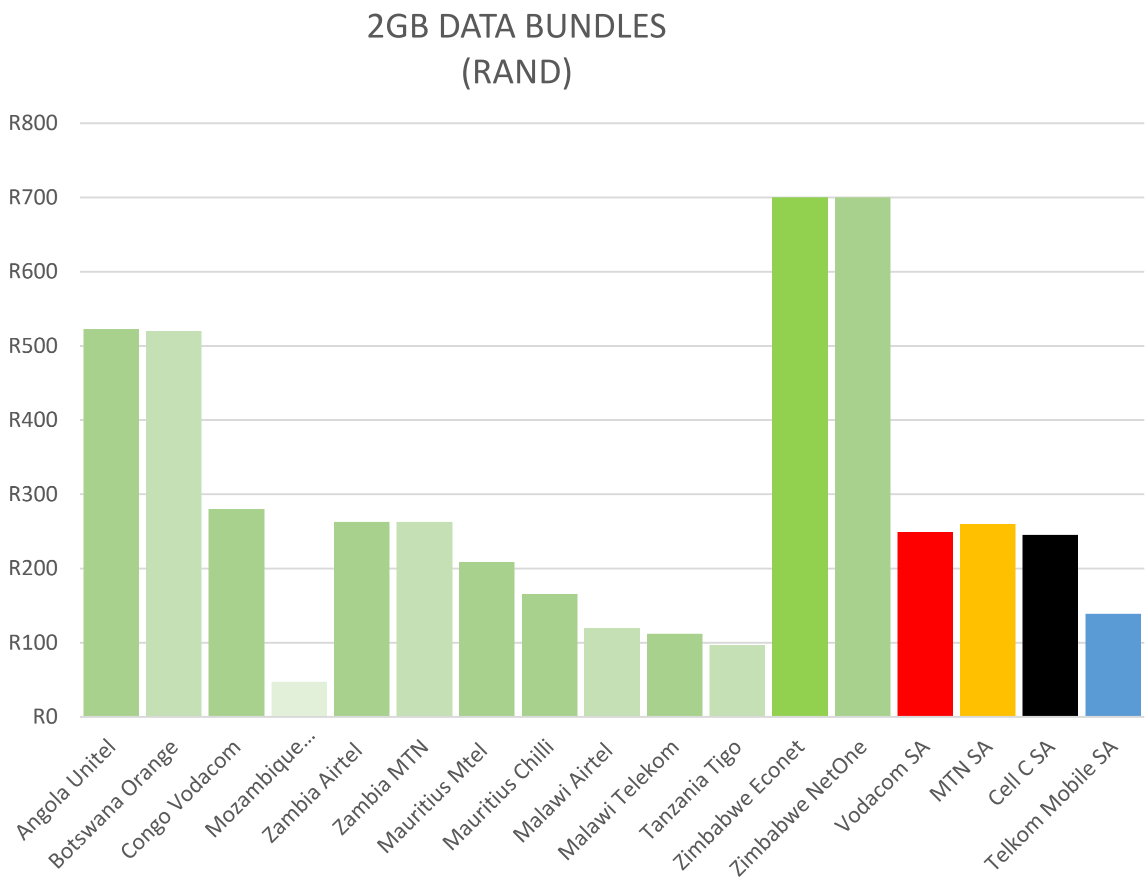
1. Three types of prepaid tariff plans:
   - Flat-rate tariffs
   - On-net focused tariffs
   - Dynamic tariffs
2. No changes in headline tariffs <u>lodged</u> over the period 01 January 2017 to 31 June 2017
3. Promotions, bundles and dynamic pricing options reduce the effective tariff paid by subscribers

International Benchmarks on Data

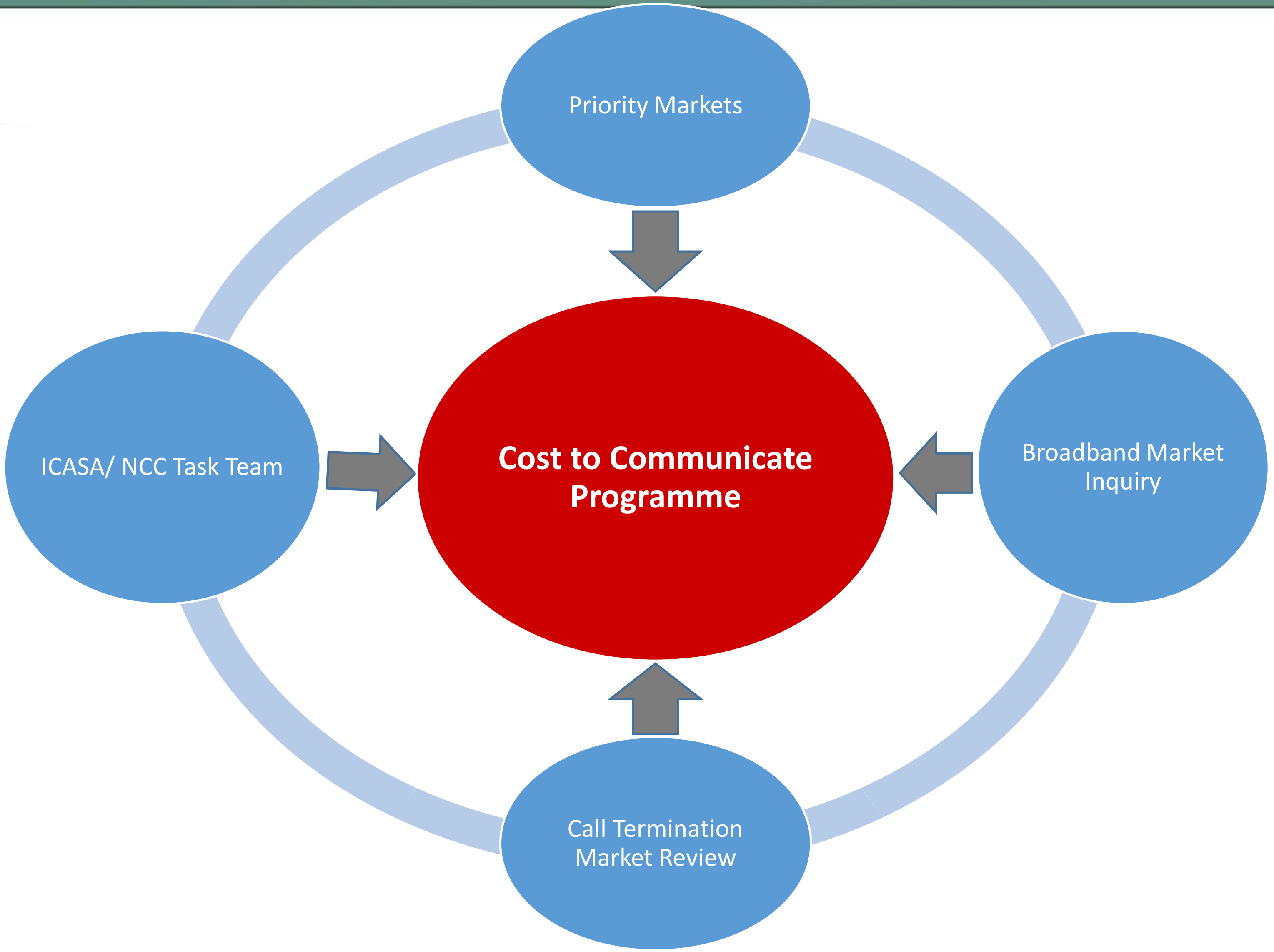
- The Authority has noted the public discontent on high data tariffs charged by mobile operators, and voiced recently through the #datamustfall campaign.
- It conducted a benchmarking exercise on the prices of 1GB and 2GB data bundles offered by mobile operators in the Southern African Development Community ("SADC") region (including other countries in cases where information was readily available).
- 1GB and 2GB bundles were used as these are the most commonly comparable packages amongst the countries considered.
- Prices were obtained from respective operators' websites and converted to Rands using a simple exchange rate conversion.
- The benchmark exercise illustrates that on average, the data prices of the comparator countries are relatively higher than those of South Africa's operators Vodacom, MTN, Cell C and Telkom Mobile.
- We present our findings below.

International Benchmarks on Data Prices





Cost to Communicate Programme



Update on 2016-17FY Projects

Priority markets

- Identification of specific markets to be regulated in the future, including broadband / data markets
- Project has started and notice to conduct sec 4B of the ICASA inquiry gazette on 30 June 2017
- This project will also address the concerns raised on the prices of Broadband Services

Broadband Market Inquiry

- To be initiated in terms of policy direction on “Effective Competition and the Reduction of Data Prices”
- A formal inquiry in terms of sec 4b and 4C of the ICASA Act and publication of discussion document for comment
- Envisioned that this inquiry will result in the publication of final regulations

ICASA/NCC Joint Task Team

- Established to review current industry rules on **data expiry,** high **OOB rates** and the **impact on consumers**
- One-on-ones held with industry operators on 22 June 2017
- Report with recommendations to be finalized in FY2017/18 Q2

Call Termination Market Review

- Last glide path ending in September 2017
- Review of regulations started on 01 October 2016 and will be finalized by 30 September 2017

Other key considerations

Rapid Deployment Regulations

- Finalisation of policy and policy directions for the rapid deployment and provisioning of electronic communications facilities in terms of 21(1) of the ECA constraining the ability to reduce roll-out costs

Spectrum

- The unavailability of additional spectrum remains a key constraints to operators ability to reduce data costs

Conclusion & Way forward

- Prepaid data (and voice tariffs) showing a declining trend
- Transparency of data and high out-of-bundle still a concern
- ICASA to investigate the broadband retail tariffs in the 2017/18FY
- Collaborative arrangements in place between ICASA and the National Consumer Commission to investigate and review regulations on data billing and expiry period for data bundles
- Regular publication of industry data to empower consumers (e.g. tariffs analysis report)
- ICASA will cooperate with the Competition Commission inquiry into the high cost of data in South Africa as announced by the Minister of Economic Development, Ebrahim Patel

INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA

ECS/ECNS Compliance

Legislative & Regulatory Mandate

- The Independent Communications Authority of South Africa Act 13 of 2000 (ICASA Act);
- Electronic Communications Act 36 of 2005 (ECA);
- Broadcasting Act 4 of 1999;
- Postal Services Act 124 1998;
- Licence Terms and Conditions; and
- Relevant Regulations.

Compliance Monitoring: GLF

General Licence Fees Regulations (GLF)

Licensees are obliged to make an annual contribution of between 0.15% – 0.35% of revenue calculated on a formula (with a sliding scale) that takes into account the amount of revenue generated, to be paid within six months of end of financial year.

GLF Contributions

R 624 m (all ECS/ECNS licensees) 2015/2016

- **Cell C:** Paid - Compliant
- **MTN: Paid - Compliant**
- **Vodacom:** Paid - Compliant
- **Telkom Mobile:** Paid - Compliant
- **Neotel:** Paid - Compliant
- **WBS:** Paid - Compliant

Compliance Monitoring: Spectrum Fees

Spectrum Fees Regulations

Licensees are obliged **to pay annual Frequency Spectrum Fees in furtherance of the objective of efficient spectrum regulation.**

Spectrum fees

R 464 m (all ECS/ECNS licensees) 2015/2016

- **Cell C:** Paid - Compliant
- **MTN:** Paid - Compliant
- **Vodacom:** Paid - Compliant
- **Telkom Mobile:** Paid - Compliant
- **Neotel:** Paid - Compliant
- **WBS:** Paid - Compliant

Compliance Monitoring: USAF

Universal Service and Access Fund (USAF)

Licensees : obliged to make contributions of 0.2% of their annual turnover into the USAF, and make payment of USAF fees within six months of their financial year end.

USAF Contributions

R 181 m (all ECS/ECNS licensees) 2015/2016

MTN

Paid- Compliant

Cell C

Paid - Compliant

Neotel

Paid - Compliant

Telkom Mobile

Paid- Compliant

WBS

Paid - Compliant

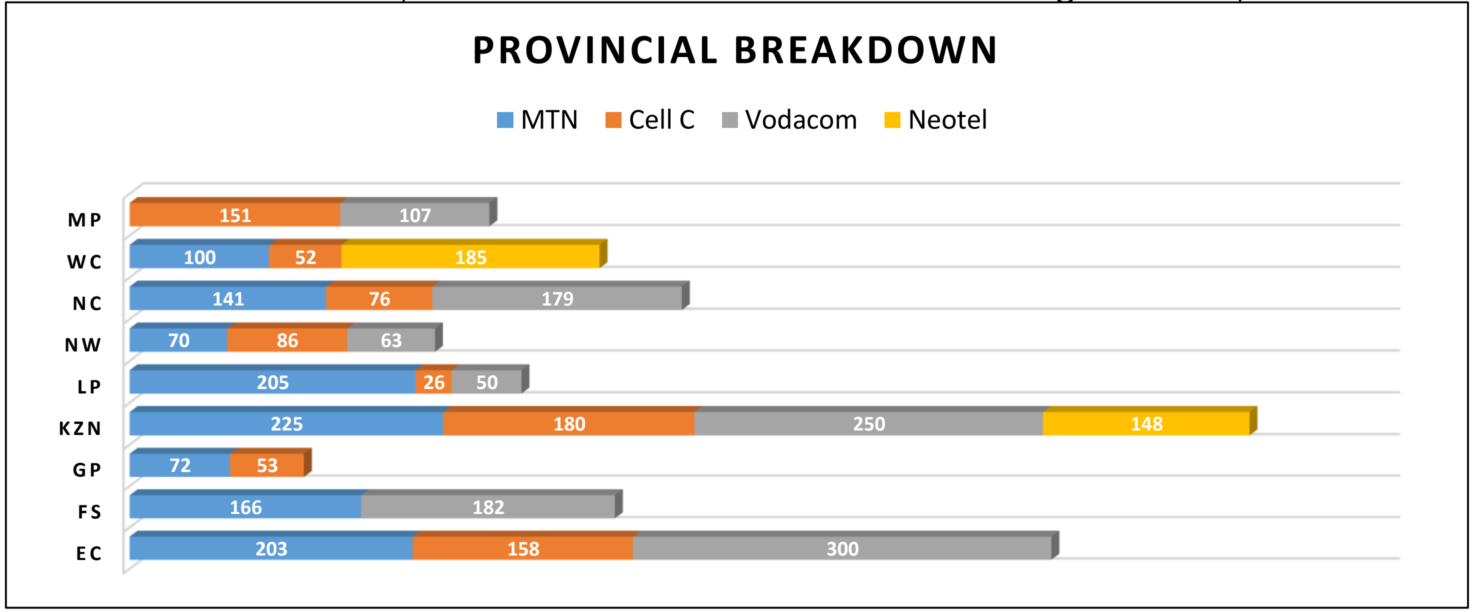
Vodacom

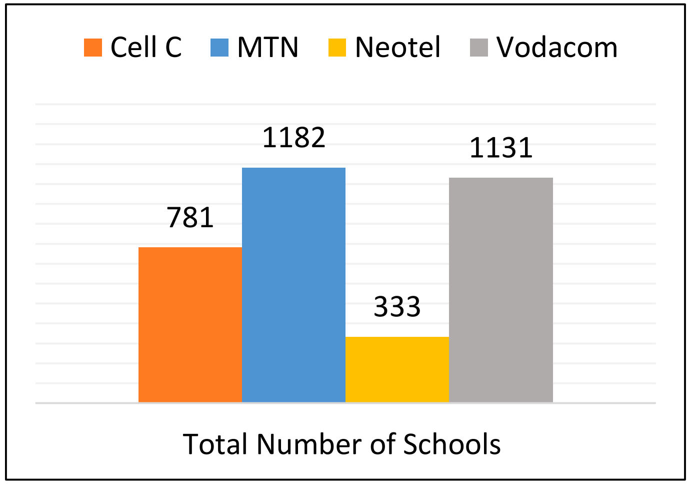
Paid - Compliant

Compliance Monitoring: USO's

Universal Service Obligations (USO's)

- Currently 4 licensees (Cell C, MTN, Neotel & Vodacom) are obliged to roll out infrastructure to selected Historically Disadvantaged schools and Special schools.
- Obligation to connect 1 500 schools (Cell C, MTN & Vodacom) and 500 schools (Neotel) over a 5 year period starting in 2014 (300 & 100 per annum)
- 3 427 Schools have been connected by April 2017 (total required 3 000)
- USO's for Sentech, Telkom and WBS to be finalized during the 2017/2018 financial year





Source: ICASA compliance information

Cell C Review Application

- On 12 December 2016, Cell C (Pty) Ltd filed an application to review, set aside and substitute the Authority's decision taken on 29 June 2016 to refuse Cell C's application for an amendment to its radio frequency spectrum licences to remove the USOs.
- The Parties are exchanging the pleadings.

Compliance Monitoring: EUSSC

End User & Subscriber Service Charter (EUSSC) Regulations

All ECS/ECNS licensees obliged to comply with certain minimum service standards for consumers

EUSSC Regulations

MTN
Compliant

Cell C
Compliant

Neotel
Compliant

Telkom Mobile
Compliant

Vodacom
Compliant

WBS
Compliant

Compliance monitoring: Other

Other Compliance Areas:

- ECS/ECNS licensees are also monitored for compliance on the following:
  - Shareholding
  - Management and staff distribution
  - Submission of Interconnection / Facilities Leasing Agreements for review
  - Submission of notifications
- Mobile operators (Cell C, MTN, Vodacom & Telkom Mobile) found to be generally compliant with the above requirements as well as other regulatory obligations
- Non-compliance is escalated to the Complaints and Compliance Commission (CCC) for adjudication

INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA

Thank you