



INDEPENDENT COMMUNICATIONS AUTHORITY OF SOUTH AFRICA

Briefing to Parliamentary Portfolio Committee on Telecommunications & Postal Services

“Briefing on Cost to Communicate”

Rubben Mohlaloga - Acting Chairperson



Table of contents



- ☐ Overview of ICASA mandate & strategic goals
- ☐ ICT Sector Overview
- ☐ Trends in Mobile Data Prices
- ☐ Status Update on Data Tariffs
- ☐ Status Update on Voice Prepaid Tariffs
- ☐ Context of Cost to Communicate Program
- ☐ Key Cost Drivers
- ☐ Update on Priority Projects for 2016-17
- ☐ Other key considerations
- ☐ Way forward



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



Government's Priority Outcomes



Government Priority Outcomes



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



Promote effective competition

Facilitate an effectively competitive ICT sector

Promote the digital agenda

1. Create an environment conducive to universal broadband provision and digital broadcasting services
2. Support innovation for the future use of digital technologies

Improve Stakeholder and Consumer experience

1. Facilitate an efficient operational environment to reduce regulatory burden
2. Facilitate social cohesion and nation building
3. Protect audiences and consumers from harmful practices



ICT Sector Overview



- ☐ Voice revenues - dominant but declining revenue driver in the market due to shift in consumption patterns from voice to data primarily driven by uptake of OTT services
- ☐ Voice tariffs decreased significantly since ICASA's 2010 intervention in the Wholesale Call Termination (WCT) market in 2010
- ☐ Out-of-bundle data tariffs are perceived high relative to in-bundle-rates
- ☐ Smartphone and tablet penetration is approximately 40% but growing at a rate of about 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 deploy LTE technology



Trends in Mobile Data Prices



Trends in mobile data:

- ❑ 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

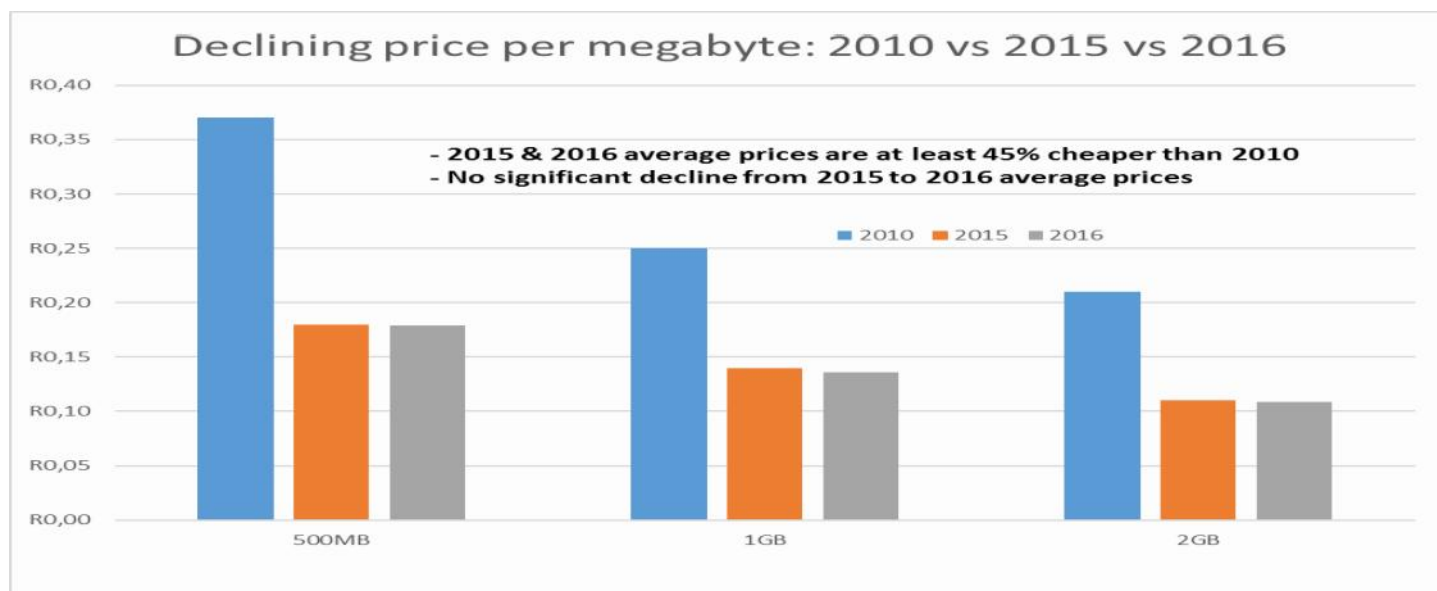
- ❑ Data revenue growth rate >30% pa
- ❑ Voice revenue still dominant but may be overtaken by data in 7-10 years time
- ❑ SMS revenue (mainly P2P) declining
- ❑ Increase in M2M revenue

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



Trends in Mobile Data Prices



Source: Tariff filings and annual reports



Status Update on Data Tariffs



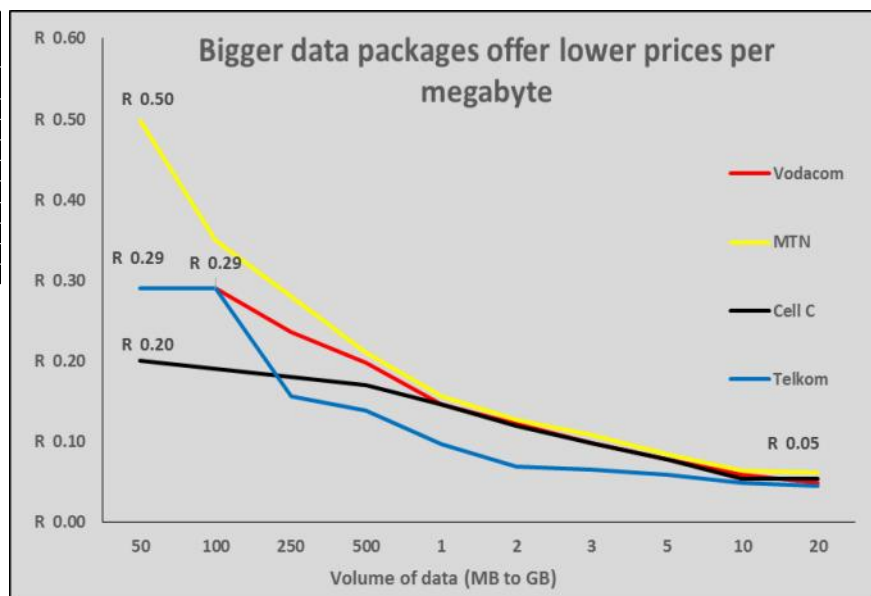
In –bundle rate per megabyte for prepaid data packages

Data	Included MB	Unit	Vodacom (In-bundle rate per MB)	MTN (In-bundle rate per MB)	Cell C (In-bundle rate per MB)	Telkom (In-bundle rate per MB)
50	50	MB	N/A	R 0.50	R 0.26	R 0.29
100	100	MB	R 0.29	R 0.35	R 0.25	R 0.29
250	250	MB	R 0.24	R 0.28	N/A*	R 0.16
500	500	MB	R 0.20	R 0.21	R 0.18	R 0.14
1	1024	GB	R 0.15	R 0.16	R 0.15	R 0.10
2	2048	GB	R 0.12	R 0.13	R 0.12	R 0.07
3	3072	GB	R 0.10	R 0.11	R 0.10	R 0.06
5	5120	GB	R 0.08	R 0.08	R 0.08	R 0.06
10	10240	GB	R 0.03	R 0.06	R 0.05	R 0.05
20	20480	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 0.99	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 >50% than in-bundle rates/MB



Source: ICASA database based on tariff notifications



Status Update on Data Tariffs



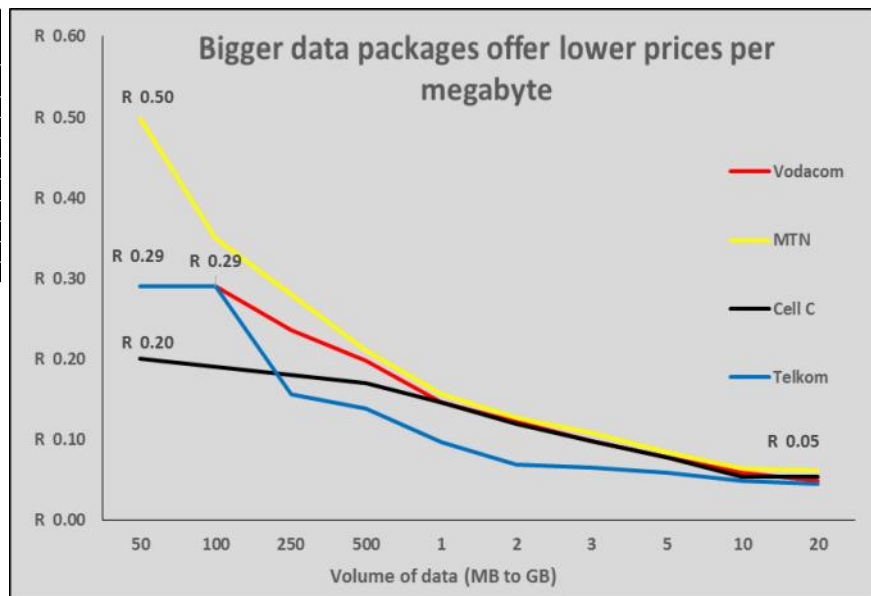
In –bundle rate per megabyte for prepaid data packages

Data	Included MB	Unit	Vodacom (In-bundle rate per MB)	MTN (In-bundle rate per MB)	Cell C (In-bundle rate per MB)	Telkom (In-bundle rate per MB)
50	50	MB	N/A	R 0.50	R 0.26	R 0.29
100	100	MB	R 0.29	R 0.35	R 0.25	R 0.29
250	250	MB	R 0.24	R 0.28	N/A*	R 0.16
500	500	MB	R 0.20	R 0.21	R 0.18	R 0.14
1	1024	GB	R 0.15	R 0.16	R 0.15	R 0.10
2	2048	GB	R 0.12	R 0.13	R 0.12	R 0.07
3	3072	GB	R 0.10	R 0.11	R 0.10	R 0.06
5	5120	GB	R 0.08	R 0.08	R 0.08	R 0.06
10	10240	GB	R 0.03	R 0.06	R 0.05	R 0.05
20	20480	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 0.99	R 0.29

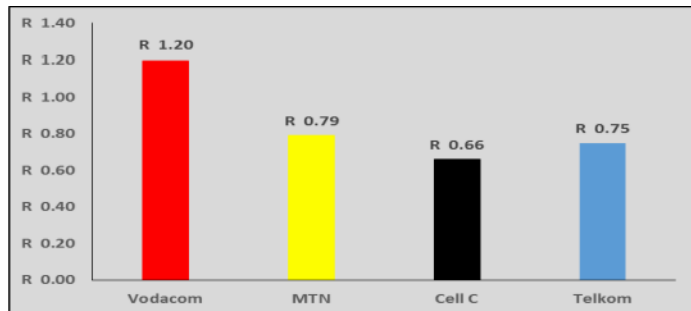
- Consumers buying large volumes of data benefit significantly from low in-bundle rates/MB
- Out-of-bundle rates are substantially higher than in-bundle rates
- Out-of-bundle rates/MB >50% than in-bundle rates/MB



Source: ICASA database based on tariff notifications

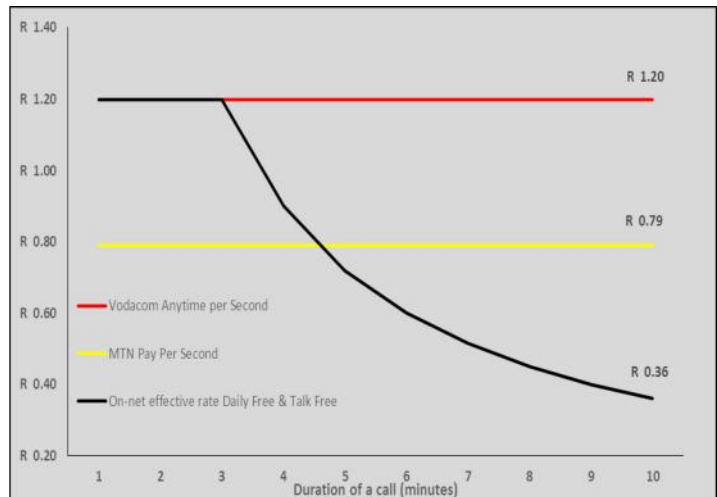


Flat Rate retail tariffs per network operator (per minute)



Source: ICASA database based on tariff notifications

Example of on-net focused tariffs

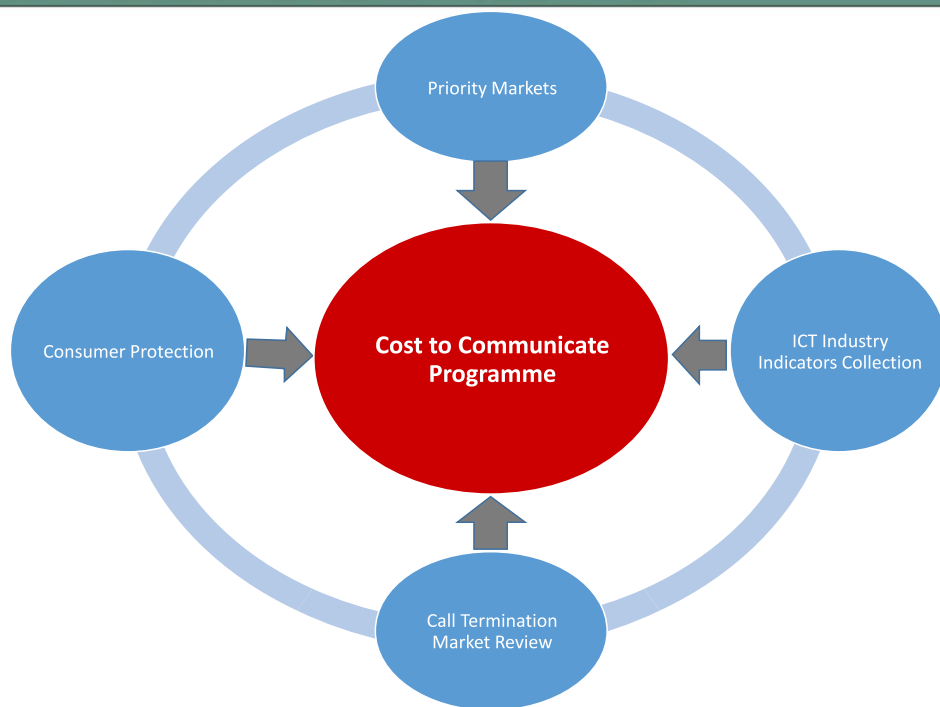


Source: ICASA database based on tariff notifications

- Three types of prepaid tariff plans:
 - Flat-rate tariffs
 - On-net focused tariffs
 - Dynamic tariffs
- No changes in headline tariffs lodged over the period 1 April 2016 to 30 June 2016
- Promotions, bundles and dynamic pricing options reduce the effective tariff paid by subscribers



Cost to Communicate Programme





Key Cost Drivers



Evolution of Customer Demand

Change in consumption patterns
Adoption of new innovative services and devices

New Innovative Technologies

Implications for industry's cost of capital
Innovative capex avoidance models

Quality of Service Standards

Demands for higher speeds
Coverage everywhere

Regulatory Framework

Inadequate spectrum to meet increased demands
Rights of way and access to infrastructure
Other 'economic' costs (e.g. energy)



Determining Cost Drivers



- ☐ Effective pricing of network services requires a number of issues to be resolved
 - Full cost transparency from operators must be established in order to properly identify and prioritise cost drivers as well as potential alternatives
 - An appropriate methodology and cost calculation model to determine appropriate cost dimensions and prices must be established e.g. Top down cost models or Bottom up cost models
- ☐ This will aid in the development of common understanding of essential input parameters to network cost services e.g. capex, opex, WACC, depreciation etc.



Determining Cost Drivers



- ❑ Main dimensions to consider when calculating network service costs
 - Physical units of all network elements e.g. base stations, transceivers etc.
 - Capital and operating costs of network elements i.e. installation and operation
 - Capacity of network elements i.e. ability to handle traffic Unit costs of every network elements (both direct and allocated)



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 the list of identified markets will be promulgated during 2017-18FY
- This project will also address the concerns raised in the Minister's (DTPS) Policy Directive on Broadband Markets (March 2016)

ICT Industry Indicators Collection

- Data collection and analysis for 2016 is underway
- State of the market report to be published by 31 March 2017

Call Termination Market Review

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

Consumer Protection

- Published the 2015 year-to-date retail tariff analysis report in March 2016
- 2016 Q1 report to be published by 30 Sep 2016
- Enforcement of the amended End-user and Subscriber Service Charter Regulations (published in April 2016)



Other key considerations



International Call Termination Rates

- The Authority has received representations from some industry players on the negative impact of the current CTR regime
- This issue will be considered as part of the holistic review of the CTR Regulations

Data expiry and other usage rules

- The End-user Subscriber Service Charter Regulations (as amended) impose extensive transparency obligations on licensees to ensure that consumers are well informed with regards to the rules applicable to their service consumption
- The Authority is consulting with the National Consumer Commission to explore possible measures to address concerns regarding industry rules on data expiry (application of section 63 of the Consumer Protection Act, 2008)

Infrastructure Sharing

- The Authority concluded a consultative process on the effectiveness of the current regulatory framework for infrastructure sharing during the 2015-16FY
- The Authority is considering representations received and the regulatory measures (if any) required to be taken to facilitate sharing and thus reduce costs for operators

Spectrum

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



Conclusion & Way forward



- ☐ Prepaid data (and voice tariffs) showing declining trend
- ☐ Transparency of data and perceived 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)



Thank You!!