

EU Commission asks Slovak regulator to change fixed termination rates

The European Commission has issued a recommendation asking the Slovak telecoms regulator RÚ to amend or withdraw its proposal to set the maximum price for wholesale voice call termination services offered by fixed line operators in the Slovak Republic. The Commission considers that RÚ did not correctly determine the weighted average cost of capital (WACC). The WACC is a parameter used for setting the cost-oriented access prices and its miscalculation may lead to higher prices for end users.

The Commission contests that RÚ added a specific mark-up to the standard formula for calculating the WACC, leading ultimately to higher call prices for consumers. The Commission considers that RÚ's proposal to adjust the standard formula for calculating WACC in the Slovak Republic is not compliant with EU telecoms rules. The WACC is an important element used by national telecoms regulators to calculate the prices of any type of wholesale broadband access services.

By adding a so-called “size premium” to the standard calculations used to set the WACC, RÚ increases the WACC to reflect allegedly higher risks associated with the small size of Slovak fixed line operators. However, the Commission considers that such risks are already covered by the standard WACC formula which is commonly used by EU telecoms regulators. According to the Commission, such mark-up should not be included in the WACC calculation as it would lead to an overestimation of the cost of equity which is likely to have a significant impact on the final value of the WACC and, correspondingly, the fixed termination rates.

The inclusion of an unjustified “size premium” in the WACC formula has already been the subject of Commission serious doubts in October 2017, with regard to the mobile termination market in the Slovak Republic, and in June 2018, with regard to the market for wholesale high quality access in Slovakia.

Following a three-month in-depth investigation, the Commission - fully supported by the Body of European Regulators for Electronic Communications (BEREC) - now requests RÚ to withdraw its proposal or to amend it in order to bring Slovakian FTRs in line with the EU telecom rules. RÚ is required to communicate its decision to the Commission within one month of the Commission issuing its recommendation.

Background

Termination rates are the rates telecom operators charge each other to deliver calls between networks. Each operator has market power over the access to customers on its own network. These costs are included in call prices paid by consumers and businesses.

The 2009 Recommendation on Termination Rates aims at harmonising these rates and bringing them down to a cost-efficient level. Although this recommendation is mostly successful, some divergences

remain across the EU. In this context, the Commission carried out a public consultation in 2016 which assessed the Recommendation's impact and whether to maintain or amend it. The Commission has reported on the consultation earlier this year.

In 2018, The Commission launched a call for tenders to assess the costs of providing voice termination services on fixed networks in the EU/EEA. The cost model resulting from this study will be one of the inputs used by the Commission to determine an appropriate single Eurorate for fixed voice call termination services in the Union mandated by the new European Electronic Communications Code, for which political agreement has been reached on 6 June 2018.

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Commission Recommendation - SK
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