

THE UNITED REPUBLIC OF TANZANIA
TANZANIA COMMUNICATIONS REGULATORY AUTHORITY
ISO 9001:2015 CERTIFIED



DETERMINATION NO. 5 ON COST BASED INTERCONNECTION RATES AMONG TELECOMMUNICATION NETWORKS OPERATORS IN THE UNITED REPUBLIC OF TANZANIA, ISSUED IN DECEMBER, 2017

1.0 INTRODUCTION

This Determination is made under the Tanzania Communications Regulatory Authority Act, Chapter 172 of the Laws of Tanzania (hereinafter referred to as the TCRA Act). In compliance with the requirements of Section 18(2) of the TCRA Act, an Inquiry was conducted by a Panel of Inquiry from 4th to 19th December, 2017 to obtain inputs from telecommunication networks operators and other relevant stakeholders on the proposed new cost-based interconnection rates. The Panel of Inquiry considered among others the report on full cost of services study on telecommunications in Tanzania undertaken by M/s Incyte Consulting. The study used the Bottom-Up Long Run Incremental Cost Study Methodology (BU-LRIC).

This Determination shall be known as Determination No.5 issued in 2017 on cost based interconnection rates among telecommunication networks service providers in Tanzania (hereinafter referred to as the "Determination"). This Determination shall be effective on the 1st day of January 2018 and is binding to all Telecommunication Networks Service Providers (TNSP) in the United Republic of Tanzania.

2.0 CONSIDERATION OF THE FINDINGS OF THE PANEL OF INQUIRY

After a thorough scrutiny of the Report of Inquiry on appropriate cost based interconnection rates, the Authority concurs with the findings of the Panel of Inquiry that:

2.1 Conformity with the Law

2.1.1 Panel of Inquiry

The Panel of Inquiry was appointed by the Authority in accordance with Rule 6(1) of the Tanzania Communications Regulatory Authority (Procedure for Rules of Inquiry) Rules, 2004. The notice of Inquiry was published in the Government Gazette as Government Notice No.470 on 24th November 2017. The same was published in the daily newspapers namely; the Daily News, Guardian, Majira, and Mwananchi on 30th November 2017. The Notice of Inquiry was served to all TNSP and other parties named in the Notice of Inquiry.

2.1.2 Procedure of Inquiry

The procedure laid down in Section 18 of the TCRA Act, 2003, and the Tanzania Communications Regulatory Authority (Procedure for Rules of Inquiry) Rules, 2004 was complied with. The inquiry was conducted as a condition precedent to the issuance of cost based interconnection determination as required by Section 18(2) of the TCRA Act.

The inquiry was conducted in a transparent manner involving all TNSPs and other stakeholders including the general public in accordance with the Tanzania Communications Regulatory Authority (Procedure for Rules of Inquiry) Rules of 2004.

The Inquiry process involved literature review, consultations, written submissions and public hearing to get views from operators, consumers and other stakeholders including the general public. Finally, the Panel of Inquiry produced the Report that was submitted to the TCRA Board on 19th December, 2017.

The Panel of inquiry established that all operators are in support of evidence based, cost oriented mobile termination rates and are in agreement with the comprehensive cost study approach adopted by the TCRA as part of the process to determine new interconnection rates. Furthermore, operators agree on the gradual reduction of interconnection rates; but differed on rate and degree of reduction. Five operators, namely; Airtel Tanzania limited, Benson Informatics limited, Smile communications Tanzania Limited, Tanzania Telecommunication Company Limited and Viettel Tanzania limited accepted the results and proposed even more aggressive reduction of the interconnection rates.

MIC Tanzania Limited, Vodacom Tanzania Limited and Zanzibar Telecommunications Company Limited, opposed the results and each proposed

different glide path of interconnection rates arguing that drastic decrease in interconnection rates will affect their financial sustainability, capacity to invest and subsequently impair the quality of the telecommunication services being offered.

2.2 Natural Justice

The Authority has noted that the Panel of Inquiry is satisfied that no principle of natural justice was breached in view of the fact that all procedural requirements were complied with and every interested party was afforded an opportunity to be heard during the Public Hearing.

2.3 Involvement of Stakeholders

In compliance with the Terms of Reference, the Authority is satisfied that all stakeholders were involved in a transparent manner. The Authority notes that the Panel of Inquiry consulted with all TSNPs by visiting their premises and held discussions on the proposed interconnection rates in Dar es Salaam, from 4th to 7th December 2017. All TSNPs and the TCRA Consumer Consultative Council (TCRA CCC) submitted written submissions on 11th December 2017. All stakeholders were afforded opportunity to make oral submissions during the Public hearing on 12th December, 2017. The Authority concurs with the Panel of inquiry's major findings that the current interconnection rates are still high and they need to be reduced to reflect costs involved by efficient operator, operating in the Tanzanian Market.

2.4 Public Hearing

The Authority is satisfied that the public hearing was conducted in accordance with the Rules of Inquiry on 12th December 2017 whereby all TSNPs representatives made oral submissions.

2.5 The Cost study on Interconnection Rates

The Authority has noted with satisfaction that the Panel of Inquiry satisfied itself that the Long Run Incremental Cost (LRIC) methodology, which was used in conducting the cost study, is the appropriate basis for determining cost based interconnection rates because it is forward looking and considers all relevant and efficiently incurred costs that are based on a Modern Efficient Operator (MEO).

2.6 Weighted Average Cost of Capital

The Authority agrees with the value of the Weighted Average Cost of Capital (WACC) of 21.94% in Tanzanian Shillings as used by the consultant in the final model. The consultant's WACC figure was estimated mainly by adding proportions of cost of debt and equity estimated using Tanzania local parameters amongst others the Tanzanian long term inflation rates provided by the Bank of Tanzania (BOT), country risks, risk free rates and corporate tax, which the Authority considers to be more relevant to issues under discussion.

2.7 Other methodologies for Interconnection Rate Determination

The Authority has noted that the Panel of Inquiry has considered other methodologies particularly benchmarking. The panel of Inquiry looked at benchmarks of selected African countries which have undertaken some form of cost studies. The Authority finds that the interconnection rates have decreased across the benchmarked countries during the past five years. The current interconnection rates in Tanzania are higher than in some considered African countries such as Tunisia and Kenya.

2.8 Desire to Promote Competitive Rates and Attract Market

The Authority concurs with the Panel of Inquiry's observation that all operators have monopoly on terminating calls on their networks. In order to promote fair competition, there is indeed a need for regulating interconnection rates.

2.9 Financial Implications

The Authority accepts view that in the short run there may be less revenue to be realized from interconnection by operators who are currently net receivers. However, net payers may experience a reduction in costs by paying less interconnection charges to other operators. It is the considered view of the Authority that traffic patterns may change through increase of subscribers and conversation time.

2.10 The Consumer Interests

The Authority concurs with the Panel of Inquiry's support of majority of the operators and other stakeholders that reduction of interconnection rates should translate into a reduction in retail tariffs

2.11 Investor interests

The Authority dismisses arguments by some operators that reduction of interconnection rates will hinder the roll-out and expansion of networks in the rural area because there is no direct relationship between interconnection rates

and investment & rollout in rural areas. The revenues from interconnection ought to reimburse efficient costs incurred in terminating traffic of the other networks. The Authority is of the considered view that the infrastructure sharing, Universal Communications Services Access Fund (UCSAF) and the national Broadband Backbone (NICTBB), if utilised properly, will augment efforts to cut costs and facilitate rollout especially in rural and urban underserve areas.

2.12 Market Trend

The Authority noted the observation of the Panel of Inquiry that the market is very dynamic and there is increasing competition evidenced by proliferation of new products and services and innovative pricing schemes.

2.13 Treatment of Outgoing International Calls

The Authority is in agreement with the Panel of Inquiry's observation that outgoing international calls are not subject to regulation because an international gateway operator must pay to an international carrier to terminate a call in a foreign country and the charges should continue to be determined through commercial negotiations.

2.14 Treatment of Incoming International Calls

The incoming international traffic shall continue to be regulated through the Electronic and Postal Communications (Telecommunications Traffic Monitoring System) Regulations, 2013 and as may be amended. The Authority notes that an incoming international call from outside Tanzania transits through an international gateway within Tanzania and terminates on a national network. Calls transited through an international gateway in Tanzania, irrespective of their origin should remain an international call up to its final destination. Revenues to the operators realized from the incoming international traffic transited through intentional gateways within Tanzania should be shared equally (fifty fifty) between the gateway operators and the terminating networks to avoid arbitrage.

3. THE DETERMINATION

The Authority hereby determines Interconnection rates to be applied among the Telecommunication network operators in the United Republic of Tanzania as follows:

- 3.1 The appropriate cost-based interconnection rates and the glide path are shown in the Table below.

Table on Glide path for cost-based Interconnection rates (TZS) with effect from 1st January, 2018 to 31st December 2022:

Year	1st January 2018	1st January 2019	1st January 2020	1st January 2021	1st January 2022
Voice call termination rates in Tanzania Shillings	15.60	10.40	5.20	2.60	2.00

- 3.2 The interconnection rates shall be used for termination of domestic traffic of the telecommunication networks services providers in United Republic Tanzania;
- 3.3 All operators are required to enter into new Interconnection Agreements and submit the same to the Authority by 31st January, 2018.


Eng. James M. Kilaba

**DIRECTOR GENERAL
TANZANIA COMMUNICATIONS REGULATORY AUTHORITY
22nd DECEMBER, 2017**