



PÓST- OG FJARSKIPTASTOFNUN

Draft Decision

Review of Míla wholesale tariff for fibre-optic to street cabinets (Market 4/ 2008) and fibre-optic in access network (Market 6/2008)

Case no: 2018040002

11 March 2019

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1 Introduction

- 1) The Míla ehf. tariff (Míla) for fibre-optic here under discussion is based on the obligations imposed on the company with the Decision of the Post and Telecom Administration (PTA) no. 8/2014 on the designation of a company with significant market power and on the imposition of obligations on the wholesale market for terminating segments of leased lines dated 6 May 2014 and on Decision no. 21/2014 on the designation of a company with significant market power and on the imposition of obligations on the market for wholesale access to network infrastructure at a fixed location and wholesale broadband access dated 13 August 2014.
- 2) The fibre-optic lines in question here and which are subject to price control are on the one hand fibre-optic in access network, one thread and one pair and on the other hand fibre-optic to street cabinets, 1 - 4 threads.
- 3) In accordance with the PTA Decisions nos. 8/2014, 21/2014 and 24/2017,¹ the Mila wholesale tariff for fibre-optic has now been reviewed in accordance with the update of the Mila cost model with data from Mila bookkeeping from the year 2017.
- 4) The draft PTA Decision on the wholesale tariff for fibre-optic to street cabinets and fibre-optic in access network was submitted for national consultation which lasted from 21 December 2018 until 23 January 2019. The PTA did not receive any comments from stakeholders.
- 5) The following Sections cover the legal grounds, methodology and calculations that led to the PTA conclusion. The text of the Draft Decision describes the intended PTA position which can be subject to amendment until the final Decision is made, among other things as a result of comments from stakeholders. The wording of the Draft should be read with this in mind.

2 Basis of price obligation for fibre-optic

2.1 PTA Decision no. 8/2014

- 6) With reference to Article 17 of Act No. 81/2003 on Electronic Communications, as amended, the PTA analysed the wholesale market for terminating segments of leased lines (6/Market 6) and the PTA conclusion was published in the Administration's Decision no. 8/2014 on the designation of a company with significant market power and on the imposition of obligations on the wholesale market for terminating segments of leased lines on 6 May 2014.
- 7) Fibre-optic in the access network (black fibre without endpoint devices) belongs to this market as is stated in Section 2.6 in Appendix A to the PTA Decision no. 8/2014.
- 8) With a view to the market definition and analysis of competition on the wholesale market for terminating segments of leased lines and in accordance with Paragraph 2 of Article 17, see Article 18 of the Electronic Communications Act, the PTA decided to designate Míla as having significant market power on the relevant market.
- 9) In accordance with Article 27 on the Electronic Communications Act, the PTA decided to maintain the obligations on Míla as a result of the designation of the company as having significant market power on this market. With the authority of Article 32 of the Electronic

¹Review of Mila wholesale tariff for fibre-optic to street cabinets (Market 4/2008) and fibre-optic in access network (Market 6/2008) -15 November 2017.



Communications Act the PTA imposed the obligation on Míla that the wholesale tariff for terminating segments of the company's leased lines should be cost-oriented. When deciding prices for terminating segments of leased lines, Míla shall use the cost analysis methodology which is based on historical costs allocated to the relevant service (HCA FAC).

10) When implementing its cost analysis Míla shall base its methodology on Chapter IV of Regulation no. 564/2011 on bookkeeping and cost analysis in the operations of electronic communications companies, such as on evaluation of operational assets, useful life and Weighted Average Cost of Capital (WACC). Furthermore, the PTA position shall be taken into account that was made known on criteria and calculations in the Administration's Decision no. 34/2011 with respect to cost analysis for terminating segments of leased lines.

11) It was stated in the Decision that the Míla cost analysis for bitstream access should be based on the following main criteria:

- Allocation of costs shall be based on separation of accountancy for the access network, on Míla asset bookkeeping and on costs from Míla's bookkeeping system where opex for the access network is entered under bookkeeping accounts.
- A depreciation methodology shall be used that reflects the value in use of an asset.
- The annuity method shall be used to calculate annual investment costs.
- The number of lines shall be calculated taking into account line equivalents.
- The cost of the access network shall be captured, including share of shared costs, management, IT and senior management in accordance with separation of accountancy.
- The required rate of return used shall be based on weighted average cost of capital² (WACC real) from capital tied in assets used in connection with provision of service where the risk premium reflects the risk related to operations on the relevant market.
- Average unit cost for the whole country shall be calculated from allocated operational and investment costs divided by number of lines or line equivalents.

12) When deciding its tariff, Míla shall apply the above specified main criteria in its cost analysis.

2.2 PTA Decision no. 21/2014

13) With the PTA Decision no. 21/2014, dated 13 August 2014, the PTA designated Míla as a company with significant market power on the market for wholesale network infrastructure access at a fixed location (Market 4/2008) and on the market for wholesale broadband access (Market 5/2008).

14) With the authority in Article 32 of the Electronic Communications Act the PTA imposed on Míla an obligation for price control for wholesale access to the company's copper access networks at a fixed location with related facilities but did not impose an obligation for price control on Míla fibre-optic local loops.

² In accordance with Article 16 of Regulation no. 564/2011 the PTA decides on an annual basis the weighted average cost of capital (WACC) which electronic communications companies should use as a reference in their calculations.



15) In Paragraphs 762 and 764 of the Decision it is stated that Míla shall make *a tariff for fibre-optic from the exchange to street cabinet*. This would be a tariff for fibre-optic threads that are used for bitstream services with the VDSL technology. Pursuant to Paragraph 4 of Article 32 of the Electronic Communications Act the tariff for access to fibre-optic to street cabinets shall be cost-oriented.

16) In Paragraph 770 of the Decision it was furthermore stated that the Míla cost analysis should cover access to copper local loops, copper sub-loops and to *fibre-optic to street cabinets*, and access to associated facilities such as street cabinets. In the Decision it was specified that the Míla cost analysis should be based on the following main criteria:

- The cost base shall be Míla historical costs (HCA) based on the preceding financial year in each instance.
- The methodology shall be based on allocating all costs to the service in question (FAC).
- Allocation of costs is based on separation of accountancy for local loop leasing, on Míla asset bookkeeping and on costs from Míla's bookkeeping system where opex is booked in bookkeeping accounts.
- Assessment of investment shall be based on the book value of operational equipment in Míla's asset bookkeeping where the historical cost of investments is adjusted to price levels of the year being analysed in each instance.
- A depreciation methodology shall be used that reflects the value in use of an asset.
- The annuity method shall be used to calculate annual investment costs.
- The number of lines shall be calculated with reference to line equivalents where the above specified changes in definition of access are taken into account when assessing their equivalents.
- The cost of the local loop network shall be captured, including share of joint costs, management, IT and senior management in accordance with separation of accountancy.
- The required rate of return used shall be based on weighted average cost of capital³ (WACC real) from capital tied in assets used in connection with provision of service where the risk premium reflects the risk related to operations on the relevant market.
- Funds tied in current assets to the amount of average inventory for operations and development of the access network shall be taken into account.
- Average unit cost for the whole country is calculated from allocated operational and investment costs divided by number of lines or their line equivalents.

17) The Míla tariff shall be reviewed annually in accordance with annual updating of the cost analysis.

³ In accordance with Article 16 of Regulation no. 564/2011 the PTA decides on an annual basis the weighted average cost of capital (WACC) which electronic communications companies should use as a reference in their calculations.



3 PTA Decision no. 24/2017 on review of Mila wholesale for fibre-optic to street cabinets and fibre-optic in access network.

18) Pursuant to the PTA Decisions nos. 8/2014 and 21/2014, Míla submitted a cost analysis for fibre-optic in access network and fibre-optic to street cabinets on 23 December 2015. The cost analysis was based on historical costs from 2014. This analysis was subsequently revised with operational figures for the year 2016 and investments until the year 2016.

19) The current Mila tariff for fibre-optic to street cabinets and fibre-optic in access network is based on the operational year 2016 and was decided with the PTA Decision no. 24/2017 dated 15 November 2017. The tariff is as follows:

Service	Price per month
Fibre-optic in access network, one thread	ISK 13,717
Fibre-optic in access network, one pair	ISK 19,595
Fibre-optic to street cabinet, 1 thread	ISK 6,858
Fibre-optic to street cabinet, 2 threads	ISK 9,798
Fibre-optic to street cabinet, 3 threads	ISK 12,737
Fibre-optic to street cabinet, 4 threads	ISK 15,676

20) The setup charge for installation of fibre-optic in access network is ISK 96,680.

21) Prices are ex VAT.

4 Written communications with Míla

22) In an email to Mila dated 13 April 2018, the PTA reiterated that in the PTA Decision no. 24/2017 on review of Míla wholesale tariff for fibre-optic to street cabinets (Market 4/2008) and fibre-optic in access network (Market 6/2008) a provision was made for updating the cost model for fibre-optic, with data from 2017. In the Mila reply that same day, Mila requested an extension on delivering the cost model because of work with other cost analysis. The PTA agreed to the Mila request in the light of the fact that the notice to submit data for separation of accountancy was in May 2018.

23) On 7 May 2018 Mila submitted cost analysis for fibre-optic in access network. Mila stated that in all major respects, this was only an updating of the cost model. The change had been made from the prior analysis that now it was assumed that the increase in fibre-optic threads would be [...] ⁴ instead of [...], where the increase over the past 2 years was used. A projection was made for the increase in this year. The share of fibre-optic local loops in the cost base for fibre-optic would still be assessed at 20%, but instead of assuming the same percentage increase as in the preceding year, as was done in the previous model, it was assumed that units would increase to the same degree during the coming 12 months as the increase had been during the period January 2017 until April 2018 (on an annual basis). The reason for the change was that in its projections, Mila expected the increase in fibre-optic local loops to be [...] with the average being in the range of [...] to [...] per month. The conclusion of the analysis was an insignificant increase in the monthly charge for fibre-optic in access network.

⁴ Information removed for purposes of confidentiality. The same applies to information provided in square brackets here below.



24) In the PTA e-mail dated 30 November 2018, the PTA requested explanations of the division of opex and of the increase of opex between years. The PTA also requested explanations on deviations in the calculations of line equivalents from the previous analysis.

25) On 4 December 2018, Mila submitted a detailed analysis of opex and comparison between years and explanations of the division of opex and of the calculations of line equivalents.

26) In PTA email dated 10 December 2018, the Administration requested an explanation of inconsistency in an investment specified in the cost analysis of fibre-optic when compared with information held by the PTA on separation of accountancy.

27) In an email from Mila dated 11 December 2018 it was stated that the inconsistency could be attributed to a number of factors. The largest factor was internal cables, which had been left out of the cost analysis as they belonged to fibre-optic local loops. On the other hand, an error in calculations for fibre-optic in access network had come to light that concerned how investment work had been booked, and Mila intended to submit a corrected analysis when the data had been examined. That same day, Mila submitted a corrected cost analysis with a detailed analysis of the division of investments. With this revision, there was a decrease in 2017 capex that belonged to fibre-optic. This is the analysis, on which the PTA conclusion is based.



5 Míla cost analysis and the position of the PTA

5.1 General

28) In Sections 5.2 - 5.8 here below one can find the criteria and conclusions of the PTA Decision on the cost analysis here under discussion. There is discussion on the main aspects that the PTA considers important as criteria for the Administration's position when calculating a tariff for lease of fibre-optic in access network and for fibre-optic to street cabinet. The factors in question are the following:

- Weighted average cost of capital
- Opex
- Investment costs
- Number of line equivalents:
- Setup charges
- Calculation of lease price

29) In Section 5.8 the PTA Decision is summarised before the wording of the Decision is given.

30) The PTA position is based on the authority granted to the Administration in the Electronic Communications Act where reference is particularly made to Article 32 on price control and to Article 31 on separation of accountancy and to PTA Decisions nos. 8/2014, 21/2014 and 24/2017.

31) Míla has submitted a description of the company's cost accounting, along with a report from an independent auditor. Míla has also submitted an analysis of costs for the company's fibre-optic in access network and fibre-optic to street cabinets. The PTA conclusion is based on the Míla cost analysis from 12 December 2018.

5.2 Weighted average cost of capital

32) In its calculations, Míla allows for 7.1% weighted average cost of capital (WACC) for the year 2017. This is in accordance with PTA recommendations, see Míla cost analysis for copper local loops.

5.3 Opex

5.3.1 Míla cost analysis

33) In the Míla cost analysis opex is based on booked opex. In the updated Míla cost model on which the PTA conclusions are based, opex for 2017 is used.

34) As in the previous cost analysis, Míla needed to assess the part of opex that belong directly to fibre-optic local loops, as revenue and costs for the Míla fibre-optic system in Access network are booked on one profit centre. In the cost analysis, opex for the last segment of the copper local loop is not included in the costs (the part which solely connects a single household). Opex for fibre-optic trunk lines (the part on the line route which is shared) is included, as the same line can be used for fibre-optic to a company and for the PON network. Part of the monthly charge for fibre-optic local loops is deducted from the total costs in the analysis in order to



correct this. Míla allows for 20% of the lease price of fibre-optic local loops belonging to this segment.

35) In the Mila analysis, shared costs are divided in the same proportion as opex in each individual category, while costs that are dependent on revenue are divided in the same proportion as revenue.

36) Opex for the year 2017 is divided as follows:

Division 2017	Shared costs	Total	
Fibre-optic local loops separate costs	[...]	[...]	[...]
Fibre-optic lines.....	[...]	[...]	[...]
Shared costs.....	[...]	[...]	[...]
Costs dependent on revenue.....	[...]	[...]	[...]
Total	[...]	[...]	[...]

37) Because of the significant extent to which opex increased between 2016 and 2017, the PTA requested further explanations of this in an email dated 30 November 2018.

38) In an email dated 4 December 2018, Mila submitted the following explanations accompanied by data which showed a more detailed division of costs:

“The reason opex having increased to such a significant extent, is that in the year 2016, unusually low costs were booked on fibre-optic, only about ISK [...] million against ISK [...] in 2017. We have reviewed the cost allocation as the fibre-optic rollout continues and fibre-optic now takes more shared costs than before.

Fibre-optic lines	2017	2016	Increase	In %
Fibre-optic local loops separate costs..				
Fibre-optic lines.....	[...]	[...]	[...]	[...]
Shared costs.....	[...]	[...]	[...]	[...]
Costs dependent on revenue.....				
Total	[...]	[...]	[...]	[...]

”

5.3.2 The position of the PTA

39) Míla has submitted information on opex for the company’s fibre-optic in access network (dark fibre) and fibre-optic to the street cabinet (backfeed fibre-optic line) for the year 2017. For comparison, the PTA has opex for the years 2014 and 2016. The PTA uses information supplied by Míla in its assessment. The PTA also builds on data that shows financial separation in Míla’s operations in accordance with the obligation for separation of accountancy.

40) As stated here above, opex increased considerably between 2016 and 2017. As Mila points out, a large part of this increase in opex is an increase in shared costs for fibre-optic and fibre-optic local loops.

41) When comparing Mila opex full for the years 2016 and 2017, it comes to light that a number of items in shared costs for 2017 were not specified for 2016, which indicates that shared costs for the year 2016 were underestimated. With increased roll-out of fibre-optic, which can be seen by the increase in the number of connections, costs have increased, as has the share of fibre-optic local loops and fibre-optic lines in Mila shared costs and for this reason Mila has now reassessed the share of these service items in shared costs. Mila has also reassessed the division of costs between fibre-optic local loops, fibre-optic lines and shared



costs. An example of this is hosting which was previously divided with a fixed percentage proportion between fibre-optic local loops and fibre-optic lines and which is now categorised as shared costs. With this change the division of costs will depend on the scope of each service item. Another example is the contribution to the equalisation fund which was previously divided with a fixed percentage proportion but is now divided in proportion to revenue which is in accordance with the generation of these costs.

42) The PTA considers that Míla has submitted adequate explanations of individual factors and division of opex. The PTA conclusion is that Míla opex for 2017 for fibre-optic in the access network (dark fibre) and for fibre-optic to street cabinets (backfeed fibre-optic lines) , which is used as a basis for calculation of the company's monthly charges, amounts to a total of ISK [...] million.

5.4 Investment costs

5.4.1 Míla cost analysis

43) In the last Míla cost analysis, there was a detailed description of capex until the year 2016. The available revision of the endorsed Míla cost model is based on the same investment base where only investments for the year 2017 have been added.

44) In an email dated 10 December 2018, the PTA requested explanations of Míla investments for the year 2017 for the purposes of comparison with data on separation of accountancy.

45) In the Míla reply dated 11 December 2018, Míla submitted a corrected cost analysis with a detailed description of the linking of data from separation of accountancy with data in the cost model.

46) Míla adjusted investments on the basis of the building price index and the adjusted investment in fibre-optic lines is as follows, see Míla cost model, dated 11 December 2018:



Year	Total investments	Depreciation for BB	Depreciated broadband	Local loops	Base	Company	AGS trunk lines	Index	Indexed historical cost
2017	[...]			[...]	[...]	[...]	[...]	663.85	[...]
2016	[...]			[...]	[...]	[...]	[...]	652.82	[...]
2015	[...]			[...]	[...]	[...]	[...]	628.05	[...]
2014	[...]			[...]	[...]	[...]	[...]	602.27	[...]
2013	[...]			[...]	[...]	[...]	[...]	593.17	[...]
2012	[...]			[...]	[...]	[...]	[...]	573.14	[...]
2011	[...]			[...]	[...]	[...]	[...]	539.40	[...]
2010	[...]			[...]	[...]	[...]	[...]	508.51	[...]
2009	[...]			[...]	[...]	[...]		488.93	[...]
2008	[...]			[...]	[...]	[...]		428.79	[...]
2007	[...]			[...]	[...]	[...]		371.56	[...]
2006	[...]			[...]	[...]	[...]		339.67	[...]
2005	[...]	[...]	[...]	[...]	[...]	[...]		313.90	[...]
2004	[...]	[...]	[...]	[...]	[...]	[...]		297.94	[...]
2003	[...]	[...]	[...]	[...]	[...]	[...]		285.90	[...]
2002	[...]	[...]	[...]	[...]	[...]	[...]		276.73	[...]
2001	[...]	[...]	[...]	[...]	[...]	[...]		257.54	[...]
2000	[...]	[...]	[...]	[...]	[...]	[...]		243.05	[...]
1999	[...]	[...]	[...]	[...]	[...]			235.79	[...]
1998	[...]	[...]	[...]	[...]	[...]			230.59	[...]
1997	[...]	[...]	[...]	[...]	[...]			222.69	[...]
1996	[...]	[...]	[...]	[...]	[...]			212.95	[...]
1995	[...]	[...]	[...]	[...]	[...]			203.38	[...]
1994	[...]					[...]		197.16	[...]
1993	[...]					[...]		192.29	[...]
1992	[...]					[...]		188.28	[...]
1991	[...]					[...]		183.54	[...]
1990	[...]					[...]		170.32	[...]

[...]

5.4.2 The position of the PTA

47) In the PTA Decision no. 21/2014, it is stated that when evaluating capex, the book price of operational assets in Míla's asset bookkeeping should be used, where capex is indexed to the prices of the year being analysed in each instance.

48) In the following table one can see a summary of Míla investments belonging to fibre-optic in access network and to fibre-optic lines to street cabinets.



Year	Base	Company	AGS trunk lines	Total investment	Index	Indexed investment cost
2017	[...]	[...]	[...]	[...]	663.85	[...]
2016	[...]	[...]	[...]	[...]	652.82	[...]
2015	[...]	[...]	[...]	[...]	628.05	[...]
2014	[...]	[...]	[...]	[...]	602.27	[...]
2013	[...]	[...]	[...]	[...]	593.17	[...]
2012	[...]	[...]	[...]	[...]	573.14	[...]
2011	[...]	[...]	[...]	[...]	539.40	[...]
2010	[...]	[...]	[...]	[...]	508.51	[...]
2009	[...]	[...]	[...]	[...]	488.93	[...]
2008	[...]	[...]	[...]	[...]	428.79	[...]
2007	[...]	[...]	[...]	[...]	371.56	[...]
2006	[...]	[...]	[...]	[...]	339.67	[...]
2005	[...]	[...]	[...]	[...]	313.90	[...]
2004	[...]	[...]	[...]	[...]	297.94	[...]
2003	[...]	[...]	[...]	[...]	285.90	[...]
2002	[...]	[...]	[...]	[...]	276.73	[...]
2001	[...]	[...]	[...]	[...]	257.54	[...]
2000	[...]	[...]	[...]	[...]	243.05	[...]
1999	[...]	[...]	[...]	[...]	235.79	[...]
1998	[...]	[...]	[...]	[...]	230.59	[...]
1997	[...]	[...]	[...]	[...]	222.69	[...]
1996	[...]	[...]	[...]	[...]	212.95	[...]
1995	[...]	[...]	[...]	[...]	203.38	[...]
1994	[...]	[...]	[...]	[...]	197.16	[...]
1993	[...]	[...]	[...]	[...]	192.29	[...]
1992	[...]	[...]	[...]	[...]	188.28	[...]
1991	[...]	[...]	[...]	[...]	183.54	[...]
1990	[...]	[...]	[...]	[...]	170.32	[...]

[...]

49) Mila VDSL rollout is mostly completed and the item “AGS trunk lines” continues to decrease between the years, but there has on the other hand been growth in fibre-optic to companies. There is a large increase in investment in local loops and those investments are separated from the investment base of fibre-optic lines in the same manner as in the last Mila cost analysis. In the item categorised as “Trunk”, there is a considerable increase between years and this increase is to some extent because of increased investments in fibre-optic local loops which can also be used for fibre-optic lines to companies.

50) The PTA has examined the Mila statement of investments and the division of shared costs in the access network between those products that belong to this analysis and other products, i.e. fibre-optic local loops and copper local loops. The PTA raises no objections to the Mila conclusion that capex is estimated at ISK [...] billion.

5.5 Number of line equivalents:

5.5.1 Míla cost analysis

51) When calculating line equivalents, Míla uses the same line equivalent as in the last cost analysis. Because of large increase in fibre-optic lines, the last analysis took this development into account, i.e. when deciding line equivalents an increase was assumed, which was equivalent to the increase from January 2016 until January 2017. Allowance is still made for an increase, but the change is made from the prior analysis that now it is assumed that the increase in fibre-optic threads would be [...] instead of [...], in accordance with the increase over the past 2 years.

52) Here below one can see the development in the number of fibre-optic lines from January 2016 to January 2018:

Number 2016-17	January 2016	January 2017	Jan 2018	Annual increase
Fibre-optic, in access network, one thread.....	[...]	[...]	[...]	[...]
Fibre-optic in access network, one pair.....	[...]	[...]	[...]	[...]
Fibre-optic line in access network, one pair internal sales MDH.....	[...]	[...]	[...]	
Fibre-optic to street cabinet, 1 thread.....	[...]	[...]	[...]	
Fibre-optic to street cabinet, 2 threads.....	[...]	[...]	[...]	
Fibre-optic to street cabinet, 3 threads.....	[...]	[...]	[...]	
Fibre-optic to street cabinet, 4 threads.....	[...]	[...]	[...]	

53) When calculating line equivalents, Míla allows for a continued increase in fibre-optic lines, in accordance with the table here above.

54) Calculated line equivalents are as follows according to the above:

	Number April 2018	Increase	Estimated number	Equivalence coefficient	Number
Fibre-optic in access network, one thread...	[...]	[...]	[...]	0.70	[...]
Fibre-optic in access network, one pair.	[...]	[...]	[...]	1.00	[...]
Fibre-optic to street cabinet, 1 thread...	[...]	[...]	[...]	0.35	[...]
Fibre-optic to street cabinet, 2 threads..	[...]	[...]	[...]	0.50	[...]
Fibre-optic to street cabinet, 3 threads..	[...]	[...]	[...]	0.65	[...]
Fibre-optic to street cabinet, 4 threads..	[...]	[...]	[...]	0.80	[...]
					[...]

55) According to the above the number of line equivalents is [...].

56) In the same manner as in the last analysis, estimated revenue from sharing of fibre-optic lines with the PON network is deducted from the results. It is assumed that 20% of the cost will be for routes from splitters/street cabinets to a telephone exchange.

5.5.2 The position of the PTA

57) Míla uses the same line equivalence coefficient as that on which the current tariff is based. Instead of using the existing number of sold connections, Míla allows for an increase corresponding to developments in recent years.



58) The PTA raises no objections to Míla taking into account the current development of the number of sold fibre-optic lines when estimating the number of line equivalents, having in mind the substantial fixed costs required for development of a fibre-optic network.

5.6 Setup charges

59) Míla cost analysis does not assume changes to the setup charge for fibre-optic lines in the access network. The setup charge is ISK 96,680 where revenue from the setup charge is deducted from the cost base on which the calculation of monthly charges is based.

5.7 Calculation of lease price

5.7.1 Míla cost analysis

60) The conclusion of the Míla calculations, pursuant to the above is as follows:

Investments.....	[...]
Annuity.....	[...]
Cost.....	[...]
Setup charges and sold services.....	[...]
	[...]
Revenue from fibre-optic local loops	[...]
	[...]
Quantity of line equivalents.....	[...]
Lease price, one pair	19,681

61) As stated here above, part of the Míla fibre-optic local loop system (the PON system), is on the same routes as fibre-optic lines. This is the route from the first optical splitter, which is generally at a similar distance as that from a street cabinet to Míla technical facilities building where the access network and trunk line network meet. In this cost analysis Míla presumes that 20% of the lease price of fibre-optic local loops belongs to this route. The current Míla tariff for fibre-optic local loops is used along with the estimated number of local loops, taking the increase into account. Míla estimates that the total number of sold local loops in April 2019 was just under [...] and that revenue from them is estimated at ISK [...] million as shown in the table here above.

62) The lease price for a fibre-optic pair in access network will thus be ISK 19,681 per month, which is an increase of 0.44% from the current price.

63) The tariff price will be as follows:

	Price now	Previous price	Increase
Fibre-optic in access network, one thread...	13,777	13,717	0.43%
Fibre-optic in access network, one pair.....	19,681	19,595	0.44%
Fibre-optic to street cabinet, 1 thread.....	6,888	6,858	0.44%
Fibre-optic to street cabinet, 2 threads.....	9,840	9,798	0.43%
Fibre-optic to street cabinet, 3 threads.....	12,793	12,737	0.44%
Fibre-optic to street cabinet, 4 threads.....	15,745	15,676	0.44%

5.7.2 The position of the PTA

64) The position taken by the PTA is based on the cost model submitted by Míla on 11 December 2018.

65) The main criteria of the updated Míla cost model are as follows:

- Opex is based on operations of 2017.
- Investments were indexed using the building price index to the average price of 2017.
- The number of units is based on an estimate of increase until April 2019, given the development over one year and the number of line equivalents in April 2018.
- The weighted average cost of capital (WACC) is 7.1%.

66) In the PTA Decision no. 20/2017, the PTA endorsed the Míla cost model for calculating the lease price for access to fibre-optic lines in street cabinets and fibre-optic lines in access network. It was furthermore prescribed in the Decision that Míla should revise the cost analysis with new opex figures and should submit it during this year.

67) The current Míla analysis is mainly structured in the same manner as the cost analysis endorsed by the PTA with its Decision no. 20/2017. Despite the increase in cost, the increase in unit prices is small and significantly less than general price increases in the period. This is mostly explained by an increase in equivalents allowed for in Míla calculations.

68) In accordance with the above, the PTA endorses the Míla conclusion on opex, annuities on investments, setup charges and monthly charges for fibre-optic in the access network (one thread and one pair) and on fibre-optic to street cabinets (1 to 4 threads). The conclusion of the cost model is that the monthly price for 1 fibre-optic pair shall be ISK 19,681, which means that the monthly price for 1 fibre-optic thread is ISK 13,777.

5.8 The PTA conclusion

69) In PTA Decision no. 8/2014, the Administration imposed an obligation on Míla for price control for fibre-optic lines in the access network (one thread and one pair) and in PTA Decision no. 21/2014, the Administration imposed an obligation on Míla for price control for fibre-optic lines to street cabinets, (1 to 4 threads), with the authority of Article 32 of the Electronic Communications Act Pursuant to Paragraph 4 of Article 32 of the same Act it was prescribed that the Míla tariff for these services should be cost-oriented given fulfilment of specific conditions.

70) Pursuant to the PTA Decisions, Míla submitted a cost analysis for fibre-optic lines in access network and fibre-optic to street cabinets on 07 May 2018. The cost analysis was based on historical costs from 2017.

71) Subsequent to comments from the PTA, Míla submitted a corrected copy of the cost analysis dated 11 December 2018, which is the analysis on which the PTA bases its conclusions.

72) The PTA endorsed the Míla cost model from 11 December 2018. In the following table one can see the new tariff pursuant to the conclusion from the cost model along with a comparison with the existing Míla tariff.



Service	Price now	Previous price	Increase
Fibre-optic in access network, one thread	13,777	13,717	0.43%
Fibre-optic in access network, one pair	19,681	19,595	0.44%
Fibre-optic to street cabinet, 1 thread	6,888	6,858	0.44%
Fibre-optic to street cabinet, 2 threads	9,840	9,798	0.43%
Fibre-optic to street cabinet, 3 threads	12,793	12,737	0.44%
Fibre-optic to street cabinet, 4 threads	15,745	15,676	0.44%

73) All prices are monthly prices ex VAT.

74) The setup charge for installation of fibre-optic line in the access network will be unchanged at ISK 96,680 ex VAT. If a connection comprises a fibre-optic line in the access network and a trunk line, Mila will collect half of the setup charge for fibre-optic in the access network, ISK 48,340 and a setup charge for the trunk line, ISK 96,386, totalling ISK 144,762. In the case of one trunk line and two fibre-optic lines in access network the charge is 193,066 ($96,386 + 2 * 48,340$).

75) The PTA has now commenced a market analysis of Markets 3a and 3b pursuant to new recommendations from ESA from 2016 on the definition of wholesale markets for telecommunications, and these markets cover similar service as markets 4/2008 and 5/2008. The PTA also intends to commence soon a new market analysis of Market 4 pursuant to new recommendations from ESA from 2016, this market covers similar service as market 6/2008. After the Administration has analysed these markets, decisions will be made on whether to maintain those obligations imposed on Mila pursuant to the PTA Decisions no. 8/2014 and 21/2014. The PTA plans to commence a national consultation of the market analysis for Market 3a and 3b in June this year and in November or December for Market 4.

76) Until the time that new decisions have been made, the PTA Decisions no. 8/2014 and 21/2014 on the implementation of obligations for price control will apply. In the PTA Decisions no. 8/2014 and no. 21/2014, it is stated that the tariff shall be reviewed annually in accordance with the annual update of the cost analysis according to the cost model that PTA has endorsed. On the grounds of proportionality, PTA also have to take into consideration work in relation to other cost analysis to be provided by Mila. In accordance with this, Mila shall submit an update of the cost model by 1 October 2019 or, at the same time when the company is required to submit a revised cost model for copper local loops and bitstream.

The Decision

1. The Post and Telecom Administration endorses the Míla ehf. cost analysis pursuant to the most recent update of the analysis which was received by the Administration on 11 December 2018.

2. The following tariff shall apply to Míla services:

Service	Price per month
Fibre-optic in access network, one thread	ISK 13,777
Fibre-optic in access network, one pair	ISK 19,681
Fibre-optic to street cabinet, 1 thread	ISK 6,888
Fibre-optic to street cabinet, 2 threads	ISK 9,840
Fibre-optic to street cabinet, 3 threads	ISK 12,793
Fibre-optic to street cabinet, 4 threads	ISK 15,745

3. Prices are ex VAT.

4. The setup charge for installation of fibre-optic line is ISK 96,680 ex VAT.

5. Míla ehf. shall notify the coming into force of the new tariff with at least 60 days' notice. The new tariff Míla ehf. shall come into force concurrently with the new Míla Tariff for access to copper local loops. The new Míla ehf. tariff shall be part of the company's reference offer for wholesale access to local loops and the reference offer for leased lines at the same time.

6. This Decision can be appealed to the Appellate Committee for Electronic Communications and Postal Affairs, see Article 13 of Act no. 69/2003 on the Post and Telecom Administration. The appeal shall have reached the Appellate Committee four weeks from the time that the party in question became aware of the Decision of the Post and Telecom Administration. Costs for an appeal are according to Paragraph 5 of Article 13 of the same Act, and in addition to this there is a special appeal charge to the amount of ISK 150,000 to be paid pursuant to Article 6 of Regulation number 36/2009 on the Appellate Committee for Electronic Communications and Postal Affairs. Pursuant to Paragraph 4 of Article 13 of the same Act, a party can also refer a decision of the Post and Telecom Authority directly to the courts without the case having been first referred to the Appellate Committee. Such a case shall be brought within 3 months from the time that the party in question received knowledge of the Administration's decision. Referral of the case does not postpone the legal impact of the Decision of the Administration. Referral of the case direct to the courts, prevents the Appellate Committee from being authorised to process an appeal.

Reykjavík, XX XX 2019

Hrafnkell V. Gíslason

Óskar Þórðarson