



**MALAYSIAN COMMUNICATIONS AND
MULTIMEDIA COMMISSION**

**CONSULTATION PAPER ON IMPLEMENTATION OF
PRE-SELECTION**

5 August 2004

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1. INTRODUCTION

1.1 Context

Competition is the cornerstone of development in any industry as it promotes desirable and socially optimal outcomes such as efficiency and innovation. Towards this end, Equal Access ("EA") is an initiative by government to promote competition in the fixed services in order to provide choice to end users in terms of service provision. There are two forms of EA, namely call-by-call and pre-selection. Call-by-call EA has been implemented in Malaysia since 1 January 1999. Pre-selection was initially scheduled to be implemented fully by 1 January 2001. The MCMC carried out a consultation on this matter in year 2000 and based on the feedback obtained from licensees, it was decided that implementation of EA by pre-selection will be deferred pending further review. Hence, this consultation is being carried out to ascertain the policy direction on pre-selection. The feedback obtained from this consultation will enable us to evaluate the direct and indirect cost to service providers as well as to examine implementation issues pertaining to pre-selection.

Most of the issues that are addressed in this paper have been addressed in the previous consultation. Notwithstanding that, the MCMC would like to raise similar issues once again as several developments have taken place in the communications and multimedia sector since then. Hence, we hope that licensees as well as general public will provide feedback, taking these developments into consideration. Also, additional views are sought on some new issues that the MCMC considers relevant to implementation of pre-selection.

1.2 Consultation Procedure

The MCMC invites members of the public to participate in this consultation by making written submissions on matters that are discussed in this paper. In addition, the MCMC also encourages public to submit views on additional issues, if any, that are relevant to implementation of pre-selection that have not been addressed in this paper. Submissions in response to this consultation paper should be substantiated with reasons and where appropriate participants are encouraged to provide evidence or make reference to relevant information.

Written submissions both in hard copy as well as electronic form on the matters raised in this Consultation Paper should be provided to the MCMC by **12 noon on 1 October 2004** and addressed to:

The Chairman
Malaysian Communications and Multimedia Commission
Level 11, Menara Dato' Onn,
PWTC, 45, Jalan Tun Ismail
50480 Kuala Lumpur

Attention: Janakky Raju
Tel: +60 3-4047 7000
Fax: +60 3-2693 4881
Email: cps@cmc.gov.my

Please be informed that the address provided above is valid until 27 August 2004. Thereafter, written submissions should be addressed to:

The Chairman
Malaysian Communications and Multimedia Commission
63000 Cyberjaya
Selangor Darul Ehsan

Attention: Janakky Raju
Tel: +60 3-8688 8000
Fax: +60 3- 8688 1000
Email: cps@cmc.gov.my

The MCMC reserves the right to publish extracts or entire submissions received from public in response to this Consultation Paper in a public domain that can be accessed by others. Therefore, if a person wishes to make a confidential submission, a "public" version of the same should also be provided.

1.3 Structure of the paper

This paper is structured into four main sections, which are organised in the following manner:

Section 2 provides the background of EA in Malaysia.

Section 3 discusses key issues in relation to implementation of pre-selection including scope of pre-selection, single basket or multi-basket pre-selection, issues pertaining to cost and operations.

Section 4 proposes the next steps and indicative timelines.

2. BACKGROUND

The policy on EA was announced by the then Minister of Energy, Communications and Multimedia ("the Minister") via a Statement on the Implementation Plan of Equal Access and Cost-Based Interconnection Pricing in Malaysia dated 10 April 1998 ("the Minister's statement").¹

According to the Minister's statement, EA means that the customer has the option of choosing which carrier (i.e. telephone services operator/provider) he wants irrespective of the network he is directly connected to. Further, the Minister's statement indicated that call-by-call EA will be made available to the public from 1.1.1999 and migration to pre-selection will begin 1.1.2000 and will be fully implemented by 1.1.2001. As per the Minister's statement, call-by-call EA was implemented in Malaysia on 1.1.1999.

In year 2000, the MCMC had carried out industry consultation in order to facilitate implementation of pre-selection on 1.1.2001 as determined by the Minister. Towards this end, a discussion paper dated 17 March 2000 was issued, seeking industry submissions on a number of issues relating to the implementation of pre-selection.

Based on the feedback obtained from the consultation, the MCMC carried out cost-benefit analysis and concluded that while the cost of implementing pre-selection is certain and substantial, the economic benefits of implementing pre-selection is uncertain. In addition, the MCMC was also of the view that consumer interests would be best served by reviewing call-by-call EA with the view to make it more effective, thus promoting competition amongst the service providers.

In September 2000, the MCMC recommended to the Minister that the implementation of pre-selection be deferred until further review is undertaken. On 29 December 2000, a press release was issued by the MCMC to announce that the implementation of pre-selection is being deferred. The Minister subsequently issued a Ministerial Direction on Equal Access, Direction No 2 of 2001 dated 23 March 2001. The said Direction states that the implementation of EA by pre-selection previously targeted for completion by 1 January 2001 is to be deferred pending review. The said direction also states that call-by-call equal access will be retained subject to a through review by the MCMC aimed at improving its implementation.

¹ The said statement was enclosed as Appendix 1 to the Determination of Cost-Based Interconnect Prices and the Cost of Universal Service Obligation (TRD006/98).

3. ISSUES FOR CONSIDERATION

3.1 Is it timely to implement pre-selection?

Since year 2000, the MCMC has taken measures to address problems related to implementation of call-by-call EA. In particular, the MCMC considers the inclusion of Equal Access (Fixed Network) Service in the Commission Determination on Access List, Determination No.1 of 2001 ("ALD") and subsequently the issuance of the Commission Determination on Mandatory Standard on Access, Determination No.2 of 2003 ("MSA") to be important regulatory measures that should alleviate most operational problems associated with line-by-line registration. In addition, the MCMC has also revoked the price floor of 20 per cent for STD and IDD retail prices and local access funding that was set by Jabatan Telekom Malaysia. The MCMC believes that these measures have been favourable to the overall development of competition in the fixed market.

The MCMC is of the view that the problems related to implementation of call-by-call EA were the main stumbling block that has hindered the development and growth of call-by-call EA. Since these issues have been addressed, it is timely to explore the possibility of implementing pre-selection.

Q1. Do you agree with the MCMC's view that it is timely to implement pre-selection?

3.2 Implementing pre-selection

There are two ways in which pre-selection can be implemented. The first option is by making switch modifications at the exchanges of the relevant networks, while the second option is by using customer end devices. During the previous consultation, the MCMC had sought views on the preferred method of implementing pre-selection and none of the service providers had supported implementing pre-selection by way of customer end devices as they were of the view that switch modification is a more effective and efficient method. Nevertheless, countries such as UK had used customer end devices as an interim measure before implementing pre-selection on a permanent basis.

Q2. Which is your preferred implementation method? What are your reasons for selecting this option?

Q3. Should customer end devices be used as an interim measure before permanent pre-selection is implemented?

3.3 Scope of pre-selection

The Telecommunication Regulatory Determination on Customer Access Arrangement: Implementation of Equal Access by means of call-by-call selection ("TRD001/98") confines the scope of pre-selection to basic PSTN services for fixed to fixed long distance and international calls which includes voice telephony, facsimile communication and centrex services. Since TRD001/98 has been revoked, the existing regulatory instruments that define the scope of EA are the ALD and the MSA where the scope of EA is still confined to long distance fixed network-to-fixed network calls (including centrex services) and fixed network-to-international outgoing calls.

The MCMC is aware that other countries have progressed far ahead of Malaysia and have included various other types of calls such as local calls, fixed to mobile calls and operator assisted calls. Expanding the scope of pre-selection to include other types of calls will certainly benefit consumers. However, the MCMC is also mindful that the cost of implementation should be weighed carefully against the benefits accruing to consumers. If the incremental benefits to consumers are marginal, while the cost is high, the MCMC is of the view that the scope of pre-selection should be confined to long distance and international calls. Nevertheless, the MCMC would be interested to obtain views from public if the scope should be widened to include other types of calls such as local calls, fixed to mobile calls and operator assisted calls.

- Q4. Do you think that the scope of pre-selection should be widened to include other types of calls? If so, what are the types of calls that should be included? What are the benefits of including such calls?**
- Q5. From the licensees' perspective, if the scope of pre-selection is widened to include other types of services, what is the cost of including these services? What are the technical requirements?**

3.4 Single basket versus multi basket pre-selection

The call-by-call EA requires that end users dial a prefix followed by an area code for long distance calls and country code for international calls. In the case of pre-selection, end users have to register beforehand to use a certain service provider for long distance and international calls. Hence, when the customer dials an area code for long distance calls or country code for international calls, these calls

are automatically routed to a selected service provider. Such a situation is known as single basket pre-selection where end users pre-select one service provider for all types of pre-selectable calls.

Multi basket pre-selection refers to the functionality that would allow end users to select different service provider for different pre-selectable calls. Allowing multi-basket pre-selection would increase consumer choice as they are able to select different service provider for different types of calls based on price, quality of service etc.

- Q6. What are your views in relation single-basket and multi-basket pre-selection?**
- Q7. What are the technical requirements for implementing multi-basket pre-selection?**
- Q8. Please provide cost estimates of implementing single-basket and multi-basket pre-selection.**

3.5 Cost of implementing pre-selection

The cost associated with implementation of pre-selection and how the cost is apportioned among service providers is the most contentious issue in implementing pre-selection. Countries that have implemented pre-selection have identified three broad categories of cost that is outlined below.

- a) System provisioning cost** refers to cost of modifying networks and support systems in order to implement pre-selection. This is a once off cost that is incurred upfront by the incumbent operator prior to implementation of pre-selection.
- b) Operator specific enabling cost** refers to cost incurred by individual operators in setting up commercial agreements.
- c) Per line enabling cost** refers to administrative cost incurred by individual operators in relation to individual customer lines.

- Q9. Do you agree with the three broad categories of cost that have been identified above?**
- Q10. Are there any other types of cost apart from the three identified above? If so, please provide details.**

3.6 Cost apportionment

There are six guiding principles that have been identified by regulators such as Ofcom in UK and ComReg in Ireland to apportion the types of cost that have been identified above. The principles are as follows:

- a) **Cost causation** - the party whose actions caused the cost to be incurred should bear the cost;
- b) **Distribution of benefits** - the parties benefiting from the process/service should bear the cost;
- c) **Effective competition** - the cost recovery mechanism should not deter effective competition;
- d) **Cost minimisation** - the cost recovery mechanism should ensure that operators have made effort to minimise cost by adopting technically efficient solutions;
- e) **Reciprocity** - if services are provided on a reciprocal basis, charges should also be reciprocal; and
- f) **Practicability** - the cost recovery mechanism should be practical and uncomplicated.

Despite these guiding principles, the MCMC is aware that the actual allocation of cost among operators is a complicated matter. This is especially so for system provisioning cost. The MCMC is of the view that it is not appropriate to use principles of cost causation to allocate system provisioning cost, as the incumbent operator will have to modify networks and support systems due to legislative requirement and not on its' own accord. Hence, allocating the cost among all operators in line with the distribution of benefits principle may be more appropriate as other operators will benefit from the modification of networks and support systems carried out by incumbent operator.

Per line cost and operator specific cost should be borne by the individual operators who actually incur the cost. This is consistent with cost causation principle. Other countries such as Ireland have adopted a similar approach.

Q11. Do you agree with the MCMC's stance that the system provisioning cost should be shared equally among all operators, while per line cost and operator specific cost should be borne by the individual operators who incur the cost? If not, please propose alternative cost apportionment methods, supported by reasons.

3.7 Cost recovery method

There are two main methods to recover system provisioning cost, namely up-front cost recovery or spreading the cost over all relevant originating call minutes. The upfront cost recovery method requires the incumbent operator to estimate the system provisioning cost, which will be apportioned to existing service providers.

If upfront recovery method is adopted, new service providers who may enter the market in future will not bear the system provisioning cost. This will create advantage for new service providers as they have lower barriers to market entry.

Spreading the cost over relevant call minutes appears to be a better option as this approach requires all service providers, existing as well as new, to contribute towards the network and system modification cost. If this method is adopted, the incumbent operator would still bear a significant proportion of the cost and this will subsequently create incentive for incumbent operator to minimise cost.

Q12. Do you agree that the system provisioning cost should be spread over relevant originating call minutes?

Q13. What are the difficulties that licensees are likely to face in implementing the proposed cost recovery method?

3.8 Should call-by-call EA be retained?

If pre-selection is implemented, the MCMC is of the view that it should not be the only option that is available to consumers. Instead, consumers should have choice to override the selected service provider on a call-by-call basis. This is in line with the one of the main objective of implementing pre-selection, i.e. to provide choice to consumers. Further, if end users are able to override on a call-by-call basis, they are less likely to switch from one service provider to another, whereby reducing the operational cost incurred by service providers.

Q14. In the event that pre-selection is implemented, do you agree that call-by-call EA should be retained?

3.9 Operational issues

In the event that pre-selection is implemented, there are four main processes that should be developed or modified by service providers. These processes are as identified below:

- a) **Order handling and provisioning:** Refers to processes that operators will have to put in place in order to enable setting up and removal of CPS on a customer's line, including identification of invalid customers.
- b) **Complaint and fault handling:** Existing processes will have to be modified in order to recognise customers who have registered to use pre-selection facilities and subsequently handle their faults. Where necessary, faults need to be passed over to other service providers.
- c) **Inter-operator billing:** The billing system needs to be modified to cater for adding, changing and removing of pre-selection services on customers' lines.
- d) **Management information statistics:** Refers to exchange of information statistics to measure performance and quality of service.

If pre-selection is implemented, it will automatically be subject to the access regime as Equal Access (Fixed Network) Service is a service on the ALD. As a result, the MSA be applicable to pre-selection. The MCMC believes that the MSA addresses most of the operational issues that have been identified above. Nevertheless, if there are some specific issues pertaining to pre-selection that needs to developed, the Malaysian Access Forum Bhd ("MAFB") is the appropriate body to develop these details.

Q15. Do you agree that the Commission Determination on Mandatory Standard on Access, Determination No. 2 of 2003 contains most operational details pertaining to implementation of pre-selection?

Q16. In your opinion, are there any additional operational issues that should be developed in order to ensure that pre-selection is implemented successfully? If so, please provide details of these issues.

Q17. If there are additional operational issues to be developed, do you agree that the MAFB is the appropriate body to develop to develop these details?

4. TIMELINES AND NEXT STEPS

4.1 Timelines for implementation

Based on the previous consultation, service providers have indicated that it may take up to 18 months to fully implement pre-selection. This includes the time taken to place orders as well as the time taken to modify switches.

Q18. What is the approximate time needed by service providers to implement pre-selection?

4.2 Next steps

The following sets out the next steps and indicative timelines.

Steps	Timeline
Submission on the consultation paper	1 October 2004
MCMC to publish consultation report	30 November 2004
Press release to announce the policy decision	30 November 2004