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À / TO / AN +3222268841

POUR / ATTN / Z. HD. : IMCEAFAX-022268841@ec.europa.eu

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**EUROPEAN COMMISSION**Directorate-General Communications Networks, Content and Technology
Electronic Communications Networks & Services

Regulatory Coordination & Markets

Brussels, 4 February 2015

CONNECT B3

eCCTF/RK/JC/kw

Institut belge des services postaux et des
télécommunications (IBPT)Elipse Building – Bâtiment C
35 Boulevard du Roi Albert II
B-1030 Bruxelles
BelgiumFor the attention of:
Mr. Eduard Verbeke

Fax: +32 2 226 88 41

E-mail: eduard.verbeke@bipt.be

Subject: Case BE/2015/1696-1697: Cost of capital for wholesale fixed and mobile call termination, wholesale local access provided at a fixed location, wholesale central access at a fixed location for mass-market products and wholesale high-quality access provided at a fixed location in Belgium

Request for information pursuant to Article 5(2) of Directive 2002/21/EC¹

Dear Mr. Verbeke,

On 28 January 2015, your notification of the above-mentioned draft measure was registered. This letter is a request for information, pursuant to Article 5(2) of the Framework Directive and Point 13 of Commission Recommendation 2008/850/EC².

1. INFORMATION REQUIRED

The purpose of this request is to provide the Commission with information that will allow it to make its assessment of the notified draft measure in full knowledge of the facts and the economic context.

Please submit to the Commission the information requested in the annex, which forms an integral part of this letter. We would appreciate if you could provide these submissions as soon as possible, but no later than 9 February 2015.³

¹ Under Article 7 of Directive 2002/21/EC of the European Parliament and of the Council of 7 March 2002 on a common regulatory framework for electronic communications networks and services (Framework Directive), OJ L 108, 24.4.2002, p. 33, as amended by Directive 2009/140/EC, OJ L 337, 18.12.2009, p. 37, and Regulation (EC) No 544/2009, OJ L 167, 29.6.2009, p. 12.

² Commission Recommendation 2008/850/EC of 15 October 2008 on notifications, time limits and consultations provided for in Article 7 of Directive 2002/21/EC of the European Parliament and of the Council on a common regulatory framework for electronic communications networks and services, OJ L 301, 12.11.2008, p. 23.

³ In accordance with Point 13 of the Procedural Recommendation, the reply to a request for information

Please send your reply by email to CNECT-ARTICLE7@ec.europa.eu or by fax⁴ to +32 2 298 87 82

2. CONFIDENTIAL INFORMATION

Provided that you substantiate in writing that your submissions are confidential in accordance with EU and national law on business confidentiality, the Commission will ensure such confidentiality⁵.

Should you have any queries relating to the information requested, please do not hesitate to contact us.

Yours sincerely,



Reinald Krüger
Head of Unit

Enclosures: (1) Annex with information request

should be submitted within three working days.

⁴ This fax number is dedicated to Article 7 notifications only.

⁵ See Article 5 (3) of the Framework Directive.

ANNEX
REQUESTED INFORMATION

MARKETS TO WHICH THE NOTIFIED MEASURE APPLIES

1. In paragraph 18 of your notification you indicate that the estimated cost of capital for fixed networks (i.e. 8.13%) shall be used in Belgacom's reference offers BRIO, BRUO, BROBA, WBA VDSL 2 and BROTSoLL for the period 2015-2017. On this:
 - a. Please explain to which wholesale reference offers applies the estimated cost of capital.
 - b. Please explain to which wholesale reference offers refer each of the acronyms used in your notification. In particular, what do BRIO, BRUO, BROBA and BROTSoLL stand for?
 - c. In Annex 3 of your notification you review the tariffs for BROBA, WBA VDSL2 and Wholesale Multicast wholesale reference offers to make them consistent with the new estimated cost of capital for fixed networks (i.e. 8.13%). Please explain why you have not reviewed the tariffs for the other Belgacom reference offers to which you indicate in paragraph 18 of your notification that the new estimated cost of capital should apply, namely, BRIO, BRUO and BROTSoLL.
 - d. Please indicate if you are planning to notify to us IBPT's decisions regarding these wholesale reference offers and, if so, by when.
 - e. Please indicate if you intend to publicly consult on the new prices for BROBA, WBA VDSL2 and Wholesale Multicast resulting from this WACC change? If not, please indicate why not?
2. In your notification you include an assessment of Telenet (one of the fixed cable network operators in Belgium) that you use to derive the cost of capital for fixed networks. However, in paragraph 77 of Annex 2 of your notification you state that the cost of capital for fixed networks estimated in your notification is not applicable to the wholesale reference offers of cable operators. On this:
 - a. Please explain whether the estimated cost of capital for fixed networks in your notification (i.e. 8.13%) is also applicable to the wholesale reference offers of cable operators.
 - b. If not, please explain what is the cost of capital applied to the wholesale reference offers of cable operators and how it is derived.
 - c. If not, please explain why you include an assessment of Telenet to derive the cost of capital in your notification if it only applies to Belgacom's reference offers.

PARAMETERS USED IN THE ESTIMATION OF THE COST OF CAPITAL

3. In the Table below paragraph 19 of your notification you present the values of the different parameters used to derive the cost of capital for fixed and mobile networks. On this:
 - a. Please explain how you have derived the asset beta for fixed and mobile networks (i.e. 0.60 for both). In particular, please explain why the value of the asset beta is the same for fixed and mobile networks (i.e. 0.60) if you have

- assumed a different-equity beta for each (i.e. 0.78 for-fixed and 0.74 for mobile) and the same gearing for both (i.e. 42%).
- b. We understand that the estimated cost of equity is higher for fixed networks (7.35%) than mobile networks (7.15%). In contrast, the direction of the difference between mobile and fixed networks is the opposite in the case of the debt premium, that is, the estimated debt premium is lower for fixed networks (1.66%) than mobile networks (2.30%). Please explain the rationale behind these results (i.e. why do fixed networks have a higher cost of equity than mobile networks but a lower debt premium than mobile networks?).
4. We understand that you use a long term stabilisation parameter ("%LT" or "ratio de stabilisation financière") to estimate the equity risk premium (ERP) and the risk-free rate (RFR). On this:
- a. Please confirm that the %LT ratio used to derive the ERP and RFR is in both cases 36%.
 - b. Please explain how you have derived the value of the %LT ratio (i.e. what are the mechanics that make you come up with a value of 36% for the %LT ratio) in the case of each of the ERP and RFR.
 - c. We understand that the %LT ratio provides the weighting (in this case a weight of 36%) for the historical (longer term) time series (as opposed to more recent time series) that you have used to derive the ERP and RFR. Please explain to which historical time series you apply the %LT ratio to derive the value of the ERP and RFR.
5. In relation to the notional interest, we understand that you provide in Table 13 the rates applicable in each of the years 2011-2014. The average of the rates for these years shown in Table 13 (i.e. 3.00%, 2.67%, 2.70% and 1.44%) is equal to 2.45% ($([3.00\%+2.67\%+2.70\%+1.44\%])/4= 2.45\%$), however, you indicate that the average notional interest rate used is 2.27% (i.e. different from 2.45%). Please explain how you have derived the average notional interest rate of 2.27%.