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## **Competition Commission SA**

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## **DATA SERVICES MARKET INQUIRY**

### **1. Introduction**

- 1.1 Broadband Infraco is pleased to participate in this *Data Services Market Inquiry* initiated by the Competition Commission (“the Commission”).
- 1.2 Broadband Infraco notes the highly confidential nature of the information contained in this submission and requests that the Commission exercise its powers in terms of section

2. Market inquiry into the market(s) for data services in South Africa (“the Data Services Market Inquiry”) covering all relevant players in the value chain who contribute to or influence prices of data services in South Africa.

3. The purpose of a market inquiry is to examine whether there are features or a combination of features in data services markets which prevent, distort or restrict competition and/or to achieve the purposes of the Competition Act.

### **4. What does Broadband Infraco do?**

Broadband Infraco was established in terms of the Broadband Infraco Act, No. 33 of 2007. The Company has a statutory mandate to:

- 4.1 Extend the availability and affordability of access to electronic communications, including but not limited to under-developed and under-serviced areas through the provision of:
  - 4.1.1 Electronic communications network services; and

4.1.2 Electronic communications services

4.2 To execute its statutory mandate, Broadband Infraco deploys long-distance high capacity fibre across the length and breadth of the country. Of the almost 160 Points of Presence (“PoPs”) in the Company’s network, it hosts six PoPs in strategic areas located at South Africa’s borders with its nearest SADC neighbours.

**5. Who are Broadband Infraco’s customers?**

As an SOC with a statutory mandate, Broadband Infraco’s customer profile spans the spectrum of fibre backhaul users in the country. The list includes:

- 5.1 mobile network operators;
- 5.2 other State Owned Enterprises;
- 5.3 government departments;
- 5.4 ISPs; and
- 5.5 WiFi providers.

**6. What services does Broadband Infraco provide to its customers?**

Broadband Infraco’s services are based on the provision of high capacity managed bandwidth from Point of Presence (POP) to POP within our National Long Distance DWDM fibre-optic network. Our Services are Synchronous Digital Hierarchy (SDH) based and are available to licensed operators in the following capacities on a wholesale basis only:

- 6.1 STM-1 or 155 Megabits;
- 6.2 STM-4 or 622 Megabits;
- 6.3 STM-16 or 2.5 Gigabits;
- 6.4 STM-64 or 10 Gigabits;
- 6.5 Carrier Ethernet; and
- 6.6 Co-location.
- 6.7 Broadband Infraco also provides maintenance services for its fibre connectivity. The maintenance services are for the links mentioned in clauses 6.1 to 6.4 above.

## **7. What prices does Broadband Infraco charge its customers?**

- 7.1 Broadband Infraco's pricing is based on the radial distance between the respective points, similar to current market practice. Broadband Infraco offers leased circuits based on the radial distance between the respective points. Broadband Infraco offers leased circuits on a one (1), three (3) and five (5) year contract basis, with pricing for one year outlined in the table below.
- 7.2 Moreover, Broadband Infraco's pricing is based on different rates per kilometre, depending upon the distance between the different points.
- 7.3 Broadband Infraco does not charge installation fees, which makes a notable difference in the overall cost to operators connecting to its network.

## **8. PRICING INFORMATION**

### **8.1 Term Discounts**

Term Discounts for different Services are available to Customers. Such discounts are provided on a duration and distance and distance basis.

### **8.2 Historical Cost model**

- 8.2.1 Broadband Infraco's current tariffs are based on both Historical Cost and future model basis. Essentially this pricing model is premised on the fact that Broadband Infraco's tariffs for the current financial year are predicated upon the Company recovering 25% of the investment it made in building and maintaining the network and future investment it intends to make in the short-term.
- 8.2.2 This pricing methodology has the consequence of the Company's tariffs being higher than its peers.
- 8.2.3 BBI periodically sanction the industry benchmark exercise to determine market prices which determines discretionary discounts offered to its customers.

### **8.3 New Pricing Model**

- 8.3.1 The industry inherently requires huge capital investment at huge cost to operators. With global data prices coming down drastically, Broadband Infraco is currently reviewing its pricing strategy and methodology of recovering a percentage of its historical cost. The Company has decided to treat its historical costs as sunk-costs. Consequently, it is devising a new pricing strategy /costing model which will only consider the only future network investment as cost drivers or elements to be included in the future Pricing Model / Costing Model.

**Not yet approved for implementation**

8.3.2 However, the new Pricing Model has not been approved yet for implementation. We expect the new Pricing Model to be approved by the end of the 2017 / 18 FY. This new Pricing Model will reduce backhaul prices overtime.

**8.4 How new Costing Model may impact backhaul input costs for MNOs**

The new costing model will result in bigger capacity being sold and potentially, Broadband Infraco acquiring more customers. The benefits will result in economies of scale for the Company and potentially driving the marginal costs of broadband backhaul down.

**9. CONCLUSION**

9.1 We trust that the Commission finds the above information in order.

9.2 We are available to provide *in camera* evidence to support the statements made in this submission.

Yours sincerely,

**Phatang Nkhereanye**

Date: 19 July 2018