9 May 2024

The Chairperson (Call Termination Review)
The Independent Communications Authority of South Africa
Block C, 350 Witch-Hazel Avenue,
Eco Point Office Park,
Centurion
0169

Per email: CTR2021@icasa.org.za

Dear Chairperson

SUBMISSIONS: DRAFT CALL TERMINATION AMENDMENT REGULATIONS 2024

1. Vox is a leading ISP that provides data, communication, and collaboration solutions to connect South Africans to the world.

2. Vox holds Individual Electronic Communications Network Service-[1] and Individual Electronic Communications Services[2] Licenses. Currently, it offers voice services to [redacted] consumers and businesses in South Africa. The company services in excess of a million numbers ([redacted] assigned numbers and [redacted] ported numbers).

3. Vox is among the few select Microsoft Operator Connect partners in South Africa. Additionally, the company is a 3CX Titanium partner. Microsoft and 3CX have certified Vox's voice network to be the required standard to participate in these highly sought-after programs. A recent independent survey conducted by MyBroadband with over 1,500 commercial respondents revealed that Vox was voted the most trusted VoIP provider in South Africa.

4. Vox has reviewed ICASA's proposal to amend the Call Termination Regulations of 2014. The proposal is in accordance with section 4(3)(j) of the Independent Communications Authority of South Africa Act, 2000 (Act No. 13 of 2000). We have also inspected the Acacia Economics model ICASA utilised to arrive at the proposed termination rate amendments.

5. <u>Cost of terminating a call:</u>

   Vox sets out below its observations from populating the Acacia Economics model with Vox's actual data.

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[1] 0050/IECNS/JAN/2009
[2] 0050/IECS/JAN/2009

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5.1. Volume:

5.1.1. In 2023, the total traffic volume of Vox's voice business is estimated to be [redacted]% of the total traffic volume in South Africa, as per the Acacia model. This means that while we believe our voice business is efficient, our economies of scale are not as large as those of the major operators in the country.

5.2. Costs:

5.2.1. The Acacia model indicates that the correlation between capital and operational expenditure is much higher for licensees with larger traffic volumes.

5.2.2. It is worth noting that Vox's capital expenditure is significantly lower than the expenditure in the Acacia model. This leads to our operational expenditure being much higher than the [redacted]% correlation in the Acacia model. It is important to remember that the Acacia model does not factor in personnel costs when calculating the total running costs of a licensee. For Vox, these personnel costs make up [redacted]% of our operational expenditure on VoIP services equipment in our network. Therefore, they need to be considered when calculating the fully burdened cost of termination. However, we have not included these personnel costs in our analysis of the model.

5.3. Dimensioning:

5.3.1. Ensuring that the integrity of the Acacia model has been maintained, we have additionally populated the Dimensioning sheet with Vox's actual network demand elements. It is again evident that the demand assumptions entered by Acacia in the model represent a significantly larger licensee than Vox.

5.4. Results:

5.4.1. When applying Vox's real volume, costs, and dimensioning information to the Acacia model, it is found that the cost of terminating a call on the Vox network is [redacted], excluding VAT. In other words, [redacted] (ex VAT) is the absolute lowest interconnect charge that Vox can charge without incurring a loss. This figure escalates into the future due to inflationary pressures.

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5.4.2. Our analysis reveals that a larger operator's economies of scale are different from those of Vox, which supports the asymmetry in termination rates between larger and smaller operators. Therefore, asymmetry should be based on volume parity but need not consider where the call originated. Vox, therefore, submits that asymmetry should be applied between SMP and non-SMP licensees.

5.4.3. It is important to note that regardless of the network from where a call originates, be it fixed, mobile or international, the cost of terminating a call on Vox's network remains constant.

6. <u>Reciprocal international termination rates</u>

6.1. There are certain challenges related to routing international calls that require careful consideration and regulatory guidance to ensure fairness and efficiency in their implementation.

6.2. In most cases, when international operators process calls destined for a South African licensee, they generally hand them over to larger South African licensees (International IX parties) instead of directly to the operator hosting the number on their network (final destination licensee). The International IX parties then transit the calls to the final destination licensee. However, the final destination licensee does not have access to detailed routing information, which is only available to the International IX party that received the call from the international operator.

6.3. This lack of information makes it impossible for the final destination licensee to accurately determine whether the call originated internationally or locally, especially when mobile subscribers are roaming internationally. This lack of clarity complicates the application of appropriate rates, highlighting the need for robust mechanisms mandated by ICASA to differentiate and classify internationally originated calls.

7. <u>Conclusions:</u>

7.1. It is clear from our analysis using the Acacia model – along with our own independent cost analysis that it costs significantly more to terminate a call on Vox's voice network than the proposed amended rates.

7.2. ICASA aims to reduce termination rates to lower the cost of voice calls for South African consumers and promote fair competition. However, if ICASA goes ahead with the proposed uniform reduction of termination rates, it may harm the South African voice market. This is because smaller licensees might not be able to offer services to the market without increasing the rates they charge their customers. This would defeat both objectives set out above and could potentially reduce the number of voice providers in the country in the medium term.

7.3. We urge ICASA to consider the implications of the proposed rate cuts on smaller licensees whose cost economics are vastly different to those of the larger licensees and to extend the asymmetry of rates to fixed line licensees.

7.4. We further urge ICASA to carefully consider the mechanisms that will be used to regulate reciprocity of the proposed international termination rate framework and specifically to consider the aspect of licensees being able to accurately identify and verify the origin of a call.

Vox would welcome the opportunity to make an oral presentation on our findings.

Yours sincerely,

Andrew King
Head of Division: Voice, Visual Communications and Microsoft.

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