

# Calculating the regulated Rate of Return for Wholesale Services

## Client Profile

*Detecon's client was one of the leading South-East Asian regulators intending to grow the country into a dynamic global ICT hub and to leverage ICT for the national economic and social development.*

## Client Situation

As part of the process of wholesale rates regulation, the regulator needs the Weighted Cost of Capital rate (WACC) besides cost information coming either from regulated national operators or from alternative cost models. With the WACC the regulator can then determine the appropriate rate of return on capital employed of network investments carried out by regulated undertakings. The WACC is usually determined annually or biannually.

The client appointed Detecon to calculate the WACC for regulated national undertakings and to develop a related report covering the procedures and methodologies applied for the calculation. The WACC was hereby planned to be used mainly for Interconnection Related Services (IRS) offered by regulated undertakings in the country.

## Our Response

Detecon identified the WACC based on different internationally applied standard methodologies reflecting the risk of investors (both equity and debt providers) for investing into telecommunication network infrastructure. By applying a compilation of different methodologies for the calculation and estimation of the WACC elements, Detecon has calculated a comprehensively backed, feasible, and defensible WACC based on a range of input parameters. Input data was summarized in a spreadsheet model which was used to determine the WACC and was designed to allow a full sensitivity analysis of the determined output. All input parameters were

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## Why Detecon?

*The client has chosen Detecon due to their unique regulatory costing experience as well as international track record in regulatory and costing projects. With their in-depth understanding of the national telecommunications market but also standardized approaches reflecting international best practice methodologies Detecon was the best partner to support the South-East Asian regulator.*

backed up with latest research data and proven financial methodologies ensuring an acceptable return on the capital employed for the investors in the country.

### Client Benefits

Detecon provided the regulator with all input parameters and backed these input data up with latest research data and internationally accepted and well proved financial methodologies. By determining the WACC on the basis of various internationally accepted standard methodologies and on the basis of most recent input data, the resulted WACC had been mutually accepted by all industry stakeholders. To further mitigate possible disagreements, Detecon recommended ranges for each input parameter to allow for reasonable flexibility and to account for possible volatility in the observed data.

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