MALAYSIAN COMMUNICATIONS AND MULTIMEDIA COMMISSION

A REPORT ON PUBLIC INQUIRY UNDER SECTION 65 OF THE COMMUNICATIONS AND MULTIMEDIA ACT 1998 ON COST OF CAPITAL

31 JULY 2002

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ABBREVIATIONS

CAPM	Capital Asset Pricing Mechanism
EPS	Earnings per share
ERP	Equity Risk Premium
KLCI	Kuala Lumpur Composite Index
KL EMAS	Kuala Lumpur Exchange Main Board All Share Index
KLSE	Kuala Lumpur Stock Exchange
MCMC	Malaysian Communications and Multimedia Commission
NERA	National Economic Research Associates
WACC	Weighted Average Cost of Capital

SECTION 1: SUMMARY

1.1 Introduction

1.1.1 On 12 March 2001, the Malaysian Communications and Multimedia Commission (the Commission) published a report entitled "A Report on a Public Inquiry under Section 55 of the Communications and Multimedia Act 1998 on Access List Determination" (the Report)[1]. In the Report, the Commission had set out both the principles for the application of cost-based Access Prices and a methodology for determining cost-based interconnection prices.

1.1.2 Further, in the Report, the Commission acknowledged that the modelling of long run incremental costs (LRIC) was complex but that the economic benefits of using forward-looking costing approaches outweighed the costs. The methodology outlined in the draft statement specified that cost-based interconnection charges should be set at a level that covers the long run incremental cost (LRIC), including cost of capital, economic depreciation and operating and maintenance costs.

1.1.3 Against this background, the statement included a commitment to embark on a costing study that may result in a set of interconnection prices for selective network facilities or network services in the Access List. In August 2001, the Commission engaged National Economic Research Associates (NERA) to conduct a LRIC study of both fixed and mobile interconnection prices. As part of the study, the cost of capital for licensees providing fixed and mobile services in Malaysia has also been calculated.

1.2 Public Inquiry

1.2.1 After NERA has concluded the Costing study, the Commission conducted a Public Inquiry process with respect to the methodology and result of the cost of capital calculations that was recommended by NERA. The process began on 13 May 2002 and the closing date for submissions was at 12 noon, 1 July 2002. The Commission invited written submissions from interested parties on the content of the Public Inquiry document entitled "Consultation Paper on Cost of Capital[2]. The purpose of the Public Inquiry process was to provide industry with opportunity to provide comments, as well as to open up the consultation process to a wider audience.

1.2.2 At the close of the Inquiry, the Commission received 5 submissions from the following parties:

(a) Celcom (M) Berhad (Celcom);

(b) Digi Telecommunications Sdn Bhd (Digi);

(c) Maxis Communications Berhad (Maxis);

(d) Telekom Malaysia Berhad (Telekom Malaysia); and

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[1] Available at http://www.cmc.gov.my/registerframe.htm under "Register of Reports"

[2] Available at http://www.cmc.gov.my/dis_papersframe.htm under "Consultation Paper on Cost of Capital"

(e) Time dotCom Berhad (Time).

1.3 Public Inquiry Report

1.3.1 With respect to the Public Inquiry process, the Commission is under an obligation to issue a Public Inquiry Report under section 65 of the Communications and Multimedia Act 1998 (the Act), setting out the findings of the Inquiry.

1.3.2 This Report is issued in conformance with the requirement of section 65 of the Act.

1.4 Structure of Report

1.4.1 The Commission has structured this Public Inquiry Report according to the format that was used in the Public Inquiry document (Consultation Paper on Cost of Capital) where the Commission will re-produce an extract of the submissions according to the Sections (and the accompanying questions from the Consultation Paper) and provided its comments and conclusions on the submissions.

1.4.2 In essence, this Report is structured in the following manner.

Section 2 discusses the submissions received and the Commission's response on the methodology and the factors taken into account to decide on the reference market and the calculation of beta

Section 3 discusses the submissions received and the Commission's response on the approach taken to calculate the cost of equity;

Section 4 discusses the submissions received and the Commission's response on the approach taken to determine the cost of debt and the level of gearing;

Section 5 discusses the submissions received and the Commission's response on the issue of taxation and how a pre tax cost of capital should be derived;

Section 6 discusses the submissions received and the Commission's response on the estimates of the cost of capital for Malaysian licensees who provide fixed and mobile services.

Section 7 provides conclusions and recommendations with regards to the subject matter of Cost of Capital

SECTION 2: METHODOLOGY

2.1 Introduction

2.1.1 The Commission has applied best practice methodology to estimate the cost of capital for the Malaysian licensees who provide fixed and mobile services, using the weighted average cost of capital (WACC).

2.1.2 Section 2 discusses the submissions received on the proposed methodology and the factors taken into account to decide on the reference market and the calculation of beta and the Commission's response.

Question 1

Do you agree that Malaysia is the relevant reference market when calculating the cost of capital?

Comments on the relevance of using Malaysia as the reference market:

We summarize below the comments received on this issue:

- All operators, except for Time, agreed that Malaysia is the relevant reference market.
- Celcom and Digi also commented that the foreign market should not be totally ignored as some operators are exposed to foreign markets through foreign borrowings.
- Telekom Malaysia also noted that the information gathered from Malaysian market must be used with caution. For example, some information is not readily available in the market, causing the need to adopt "pure play" approach by comparing information with similar companies. To depend entirely on data on Malaysian companies may not be fair if it differs materially from the comparable global/regional peers.
- Time suggested that instead of trying to make adjustment for funding decisions of operators, the cost of capital should be pegged at 1.5% per annum above the average coupon rate of government bond. The spread of 1.5% is envisaged to be the average pricing imposed on long term project financing.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that 4 out of 5 respondents were agreeable to use the Malaysian market as the reference market. The Commission believes that the additional comments raised on the issue have been addressed in the Consultation Paper in the sections, which describe in more detail the calculations carried out.
- The Commission rejects the suggestion of determining the cost of capital as a simple peg related to the average coupon rate of government bond. The methodology described in the Consultation Paper is in line with the methodology accepted by other world-class regulators in the telecommunication sector or in other sectors indeed.

Question 2

Do you support the calculation of a separate beta for Telekom Malaysia ("integrated" beta) and a separate beta for other licensees ("cellular" beta)? Please explain your answer.

Comments on the use of a separate beta for Telekom Malaysia ("integrated" beta) and a separate beta for other licensees ("cellular" beta):

We summarize below the comments received on this issue:

- Using various arguments, all operators came to the conclusion that there should be a different beta depending upon the nature of the business. Celcom, Digi, and Maxis agreed to the use of an integrated beta for Telekom Malaysia and of a cellular beta for cellular operators. Time and Telekom Malaysia indicated that a PSTN beta should be calculated for fixed line operations.
- Celcom further commented that it is important for the regulator to be transparent on the assumptions used in concluding that a licensee should be using an "integrated beta" or "cellular beta". Indeed, all operators are offering a mix of cellular and PSTN services, although the operators (with the exception of Telekom Malaysia) are mainly offering the public cellular services.
- Digi commented that it was agreeable to it provided Telekom Malaysia ('integrated' beta) was lower than other licensees ('cellular' beta). Lower 'integrated' beta is expected due to more diversity of Telekom Malaysia business as compared to other licensees who are more focus on mobile business.
- Telekom Malaysia also noted that there are regulatory precedents to calculate a different WACCs for different parts of a one business.

- Time commented that the business of fixed lines was different to the one of mobile lines and that therefore one should not calculate an integrated beta for Telekom Malaysia but calculates a fixed line data based on least cost routing and network elements.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that 3 out of 5 respondents agree with the use of an integrated beta for Telekom Malaysia and of a cellular beta for cellular operators.
- The Commission agrees on the fact that a WACC (and therefore a beta) could be calculated for each project. In practice the absence of pure fixed telephony players makes it more credible to estimate integrated business betas.
- By way of clarification, the Commission would like to point out that it intends to use the integrated WACC (as calculated) for the determination of prices for fixed interconnection and the cellular WACC (as calculated) for the determination of the price of mobile termination. The opportunity of using these WACC for other regulatory purposes will be considered on a case-by-case basis when the need arises.

SECTION 3: ESTIMATING THE COST OF EQUITY

3.1 Introduction

3.1.1 Section 3 discusses the submissions received on the approach taken to calculate the cost of equity particularly on factors such as risk free rate, equity risk premium and reasonable timeframe and the Commission's response.

> **Question 3**
>
> **Do you agree that the above parameters are reasonable when calculating the risk free rate for licensees in PSTN and public cellular services in Malaysia? Please explain your answer.**

Comments on the parameters used to calculate the risk free rate for licensees in PSTN and public cellular services in Malaysia:

We summarize below the comments received on this issue:

- Celcom found the parameters reasonable.
- Noting that the bond maturity period selected should correspond with the interconnection cost review period, Digi commented that it was agreeable to the parameters provided the interconnection rates were reviewed annually based on a 1 year bond maturity with 3 month average rate.
- Maxis found that the assumptions adopted were not unreasonable but commented that there could be other variations which could be considered as well, e.g. using a benchmark bond with a longer maturity for computing the risk free rate, using geometric means instead of arithmetic means for deriving an average value for the yield to maturity.
- Telekom Malaysia commented that the period of bonds used to measure the Risk Free Rate should match the period of the relevant regulatory decision instead of being 1 year. Telekom Malaysia also noted that the data use in the Consultation Paper for a 3 month average of yields to maturity was taken from 12 July 2001 to 12 October 2001, commenting that more contemporary data, particularly from the year 2002 (and over a longer period) would be more appropriate.
- Time commented that coupon rate for bonds with 8 to 10 years maturity should be used as benchmark because telecom operators may achieve breakeven on a conservative frame of 8 to 10 years. 1 year maturity bonds are more appropriate for short-

term borrowing consideration. With respect to the gearing position, time suggest using a benchmark on gearing adopted by the Securities Position since all major telecom operators will have listing status. As for the risk-free rate, instead of a 3 months average daily yield, taking into account the funding of telecom operators, it may be more relevant to use a 6 to 9 months period (the average settlement period of bills is in that region).

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission agrees that the maturity of the bonds being considered should be in line with the regulatory period. Based on the submissions received on the Consultation Paper on Access Pricing, the general consensus is that the regulatory period should be 3 years.
- The Commission therefore has decided to adopt a 3 year maturity of the bonds (3.06%) as the basis for the calculation of WACC instead of 1 year maturity (2.95%). With this adoption, the WACC figure has changed from 8.15% for integrated and 10.32% for mobile (as per Table 6.4 of the Consultation Paper) to 8.27% for integrated and 10.43% for mobile respectively. As a result, there will be a change for the respective interconnection prices as well.
- The Commission agrees that the data use in the Consultation Paper for a 3-month average of yields to maturity was taken from 12 July 2001 to 12 October 2001. This is in line with the date at which the Cost of Capital study was commissioned for from NERA.

Question 4

Do you support the approach taken to estimate the ERP? Please explain your answer.

Comments on the approach taken to estimate the ERP:

We summarize below the comments received on this issue:

- Celcom noted that historical data are used to estimate the ERP. As future data may differ from historical data, Celcom suggested that the ERP be reviewed from time to time.
- Digi noted that the approach used is consistent with world estimates of the equity risk premium and the methodology used to derive these estimates consistent with best international regulatory practice such as that observed in USA and Australia.
- Maxis was of the opinion that the general methodology suggested does not appear to be unreasonable.
- Telekom Malaysia commented that the ERP seemed to be an average of the ex post and ex ante approaches. Telekom Malaysia noted that based on the analysis on ex post data, the ERP for US and World Average (developed countries) are in the range of between 6.7% and 7.5%. Telekom Malaysia noted that the international capital market had generally accepted that Malaysia has a higher sovereign risk than the US and other developed countries, implying that the ERP for Malaysia should not be lower than 7.5%. Telekom Malaysia believes that the implied ex ante ERP should be higher than KLCI, since telecommunication companies are generally riskier than the average stocks in KLCI as reflected by the higher beta. Based on the above arguments, Telekom Malaysia believes that the ERP should at least be 7.5%.
- Time noted that in principle the approach was acceptable. Time also volunteered some improvements to the calculation approach in the future to take advantage that with the listing of Maxis, all telecom operators are now listed. Time agreed on a 6% ERP subject to the rates being reviewed on a 3-year cycle.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that 4 out of 5 respondents support the approach taken to estimate the ERP.

- The Commission agrees that ERP estimates, and more generally WACC calculations, should be revised regularly.
- By way of clarifications, the Commission would like to point out that
    - the sovereign risk reflected in the yield on government bonds has already been taken into account in the risk-free rate. Taking it into account in the estimation of ERP would amount to double counting.
    - the ERP is estimated on a forward-looking basis and is below the historical evidence. Indeed historical evidence of ERP over-estimates the ERP because there have been period in the past where there has been unanticipated inflation (producing a reduction in real yields on bond and therefore an increase in the historical measure of ERP.

Question 5 **Do you consider these time frames to be reasonable?**

Comments on the time frames:

We summarize below the comments received on this issue:

- Celcom agreed with the time frames (2 years for short term, and 5 years for medium term).
- Digi agreed with the time frames.
- Maxis was of the opinion that time frames appeared to be reasonable.
- Telekom Malaysia believes that the use of the two-year data series would seem to be more appropriate than the five-year, to reflect a more contemporary WACC calculation. However, an analysis on one-year data series will provide more information in estimating the beta. Telekom Malaysia further commented that the Consultation Paper uses KL EMAS as the relevant market index. However, Telekom Malaysia believes that a comparison should be made to KLCI and to take into account any material difference between the two betas.
- Time commented it would be more comfortable with 3 years, arguing it was a good basis given the development of the industry and capabilities of electronics doubling every 18 months. With a 3-year interval, it may not be necessary to use 5 years for medium term.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The commission takes note of the fact that 3 out of 5 respondents agree with the time frames considered while the other 2 respondents volunteer other time frames.
- The Commission considers that the relevant market index is to be chosen with reference to the broadest opportunity investment set as explained in the Consultation Paper. The KL EMAS index is the index offering the broadest portfolio of stock.
- The Commission is of the view that since there is not a strong opposition to the time frames considered and since these time frames are generally used by other regulators in their WACC calculations (5 years for evidence of systematic risk over the business cycle, 2 years for more recent evidence), they will be retained.

SECTION 4: ESTIMATING THE COST OF DEBT AND THE LEVEL OF GEARING

4.1 Introduction

4.1.1 Section 4 discusses the submissions received on the approach taken to determine the cost of debt and the level of gearing and the Commission's response.

Question 6

Do you agree that gearing levels of 20% are reasonable for this exercise? Please explain your answer.

Comments on the level of gearing:

We summarize below the comments received on this issue:

- Celcom noted that the data used in arriving at a gearing level of 20% are not representative of all operators in Malaysia. Celcom acknowledge the fact that some operators are not public listed companies (namely Celcom and Maxis) and hence, sufficient data may not be available. However, Celcom commented that the gearing level of these operators should not be ignored in the analysis, as they are the two largest mobile operators in the country. For instance, TRI should be used as an indicator for Celcom as Celcom will soon be taking over the listing status of TRI. At present TRI's market gearing hovers around 40%, which is far higher than that of TM (19%) or DiGi (15%). Maxis, on its way to become a public listed company, has issued its prospectus disclosing the relevant information.
- Digi commented that a 20% gearing seemed low for cellular operators. Although the report indicated low gearing for cellular operators as they are currently funded mostly by equity, Digi considers that future debt funding may be increased as the business expands.
- Whilst Maxis acknowledged that different companies will have different levels of gearing, Maxis also noted that the model used will require a definitive figure for this parameter. Hence, for the sole purpose of this exercise, Maxis feel that the assumptions used are not unreasonable provided that such assumptions will be subject to a periodic review, done in consultation with all relevant operators.
- Telekom Malaysia noted that the appropriate gearing level used in the calculation of WACC should reflect the anticipated gearing that

will be applied over the relevant period. In the absence of any expected changes the current gearing level would be appropriate. Telekom Malaysia commented that the use of 20% gearing level in the case of the cellular operator was at best arbitrary. Noting that the real issue was whether the PSTN and cellular business would optimally require a different gearing level and considering that the empirical evidence presented suggested that this was the case, Telekom Malaysia considers that a lower gearing level would be justified.

- Time commented that the Commission should reconstruct the actual gearing of Telekom Malaysia and all operators to include only assets that relate to the provision of telecom services. Time commented it would not be fair to take the market or book gearing of Telekom Malaysia as it also engage in foreign investment (some of the borrowing could be to fund overseas investment or inter-company borrowings). Commenting further that it would not be appropriate to use a 20% gearing for companies which resort to project financing, Time proposed instead to use a 30% gearing.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that although the use of 20% as gearing for the calculation of the integrated WACC does not seem to be opposed, only 1 respondent out of 5 agrees to the gearing used by the Commission for the calculation of the cellular WACC. The Commission also notes that the gearing proposed by Time is not supported by any evidence and that the other operators seem to have opposite conclusions (Digi believing the cellular gearing should be higher, and Telekom Malaysia believing the gearing should be lower.
- The Commission refuses to consider that its choice for the cellular gearing is arbitrary. The commission would like to point out that the choice of 20% is consistent with
    - the range of empirical evidence for cellular operators presented in table 4.1 of the Consultation Paper.
    - The average of gearing levels for cellular operator in table 4.1 once the operators with abnormally low gearing (close to 0%) have been excluded[3], that is 20.1%.

[3] When NTT DoCoMo (0.05), TimeDotCom (0) and Telecel (0.02) are excluded, the average market gearing becomes 20.1%

Question 7

Do you have any comments on the debt spread adopted for use in MCMC's WACC calculations?

Comments on the debt spread adopted for use in MCMC's WACC calculations:

We summarize below the comments received on this issue:

- Celcom was of the view that the debt spread adopted is within the acceptable range. However, one should not assume that the credit rating of the mobile operators will be maintained at all times. There are various external factors (which are beyond the company's control) that may have an impact on a company's credit rating. It is preferable to take into account the possible changes in credit rating, as any downgrade in credit rating will have an adverse impact on the debt spread, and ultimately the WACC.
- Digi did not have any comment.
- Maxis concurred with the Commission on the debt spread adopted provided it is subject to a periodic review, done in consultation with all relevant operators
- Telekom Malaysia suggested that the actual cost of debt experienced by the telcos be applied. In addition, theoretically, the flotation cost should also be added so as to obtain a fair cost of debt. Telekom Malaysia noted that the debt spread in the case of the "integrated operator" was appropriately based on empirical evidence from Telekom Malaysia's historical data, noting further that the key issue is what is this likely to be in the future. Telekom Malaysia suggested that the maturity period of the bond examined be set to be approximate to the end of the review period by the Commission. In the case of the cellular operator, Telekom Malaysia suggested that the debt spread appeared to be arbitrarily set, asking whether further research might yield a result different than what the limited empirical evidence suggests.
- Time concurred with the Commission on the debt spread adopted.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that 4 out of 5 respondents believe that the debt spread considered is reasonable or within an acceptable range.

- The Commission does not agree that the cost of debt used the calculation of the cost of capital should be taken as the actual cost of debt experienced by the company. When estimating the cost of capital, it is important to determine a forward-looking cost of debt (to finance future projects). The premium should be forward-looking based on the market evidence for current cost of debt.
- The Commission does not agree that the maturity period of the bond examined should be set to be approximate to the end of the review period. A range of maturity should be examined instead, with reference to actual maturity on bon issued by comparator companies. Indeed, there is no rational for (nor evidence of) a company to issue bonds with maturity matching the end of regulatory period when financing projects.

SECTION 5: TAXATION

5.1 Introduction

5.1.1 Section 5 discusses the submissions received on the issue of taxation and how a pre tax cost of capital should be derived and the Commission's response.

Question 8

Do you agree with MCMC's approach in erring on the side of caution and taking the 30% restriction on foreign ownership as binding?

Comments on MCMC's approach in erring on the side of caution and taking the 30% restriction on foreign ownership as binding:

We summarize below the comments received on this issue:

- Celcom disagreed, noting that the telecommunication industry is highly capital intensive and dynamic with continuously ever changing technology. As the industry is going global, industry players may be seeking for strategic investors to tap their knowledge and expertise. Celcom also noted that local investors may be limited in funds and expertise.
- Digi disagreed noting that the current policy allows a maximum of 61% foreign ownership (reducing to 49% within 5 years investment period).
- Maxis remarked that, for the sole purpose of deriving the cost of capital figure using the prescribed model, the model will require an input indicating the percentage restriction on foreign ownership, and to this end Maxis is of the view that the percentage adopted does not look unreasonable.
- Telekom Malaysia commented that this approach would seem appropriate, and noted that any other alternative would necessarily be subjective.
- Time did not agree. Under the assumption that foreign equity holders are willing to invest in Malaysia in expectations of returns which can be provided by Malaysian operations, the mere willingness to invest in Malaysian companies is a reflection that there is a lower risk premium. Time further noted that the rules allow 61% of ownership.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that 2 respondents out of 5 find reasonable the use of the 30% restriction on foreign ownership as binding.
- The Commission takes note of the comments submitted by Celcom, Digi and Time. The Commission further notes that the 61% limit is only permitted on a case-by-case basis and for no more than 5 years. The Commission is of the view that rather than arbitrarily opting for another figure, it will retain its approach.

SECTION 6: WACC

6.1 Introduction

6.1.1 Section 6 discusses the submissions received on the estimates of the cost of capital for Malaysian licensees who provide fixed and mobile services and the Commission's response.

Question 9

Do you believe that MCMC should determine the WACC for Malaysian licensees who provide PSTN and public cellular services for use in a regulatory context? Please explain your answer.

Comments on whether MCMC should determine the WACC for Malaysian licensees who provide PSTN and public cellular services for use in a regulatory context:

We summarize below the comments received on this issue:

- Celcom was of the view that the WACC are within the acceptable range, subject to the change in gearing ratio discussed earlier. However, the WACC should be reviewed on a regular basis and inputs from all operators should be obtained prior to WACC determination.
- Digi agreed that the Commission should determine the WACC for Malaysian licensees who provide PSTN and public cellular services for use in a regulatory context provided the Commission seeks consultation with the respective operator.
- Maxis remarked that, for practical reasons, the Commission should determine the WACC rate for Malaysian licensees. Maxis recommended that the underlying methodology or assumptions used in the derivation be made transparent and that the WACC figure derived therefore should be subject to a periodic review, done in consultation with all relevant network operators. Maxis also suggested that the final WACC rate be tabled to the various operators before being adopted.
- Telekom Malaysia commented that the relevance of the Commission providing input or data such as the cost of capital would provide a benchmark of a discount rate to all licensees in their commercial negotiations. However, such information should not be binding upon the licensees as it would negate the competitive nature of the industry that the Commission attempts to promote. The WACCs of each licensee are different from one

another since each licensee has different risk profile and capital structure. However, where a project undertaken is common to all licensees, the risk profile is common and hence, a single discount rate should be used by all licensees. This common discount rate could be the project WACC and not any licensees' WACC. As a solution, Telekom Malaysia would propose a single specific WACC for PSTN related business and another single specific WACC for cellular related businesses.

- Time agreed with the range of WACC presented in the Consultation Paper and asked clarifications as to how these figures would be used.

The Commission would like to thank all operators for their constructive comments. The Commission would like to make the following points:

- The Commission takes note of the fact that 2 respondents believe that the Commission should determine the WACC for Malaysian licensees who provide PSTN and public cellular services for use in a regulatory context while 2 other respondents agree with the range of WACC as calculated by the Commission. The Commission takes it as a support for the Commission to set the WACC for regulatory purpose.
- By way of clarification, the Commission would like to point out that it intends to use the integrated WACC (as calculated) for the determination of prices for fixed interconnection and the mobile WACC (as calculated) for the determination of the price of mobile interconnection. The opportunity of using these WACC for other regulatory purposes will be considered on a case-by-case basis when the need arises.
- The Commission agrees that the WACC calculations should be reviewed regularly.
- The Commission takes of the fact note that most operators are of the view that WACC calculations should be discussed with operators. The Commission would like to point out that this was precisely the aim of this Public Inquiry.

SECTION 7: CONCLUSIONS AND RECOMMENDATIONS

7.1 Introduction

7.1.1. Section 7 discusses the Commission's conclusions and recommendations with regards to the Cost of Capital.

7.1.2 From the Inquiry, the Commission takes note of the general support by the industry of the robust approach taken by the Commission to calculate the cost of capital, using the Weighted Average Cost of Capital (WACC) and of the support for the Commission to set the WACC in the regulatory context. The Commission is of the view that the WACC calculations should be reviewed on a regular basis although it has not formed a definitive view on the timeframe.

7.1.3 By way of clarification, the Commission would like to point out that it intends to use the integrated WACC for the determination of fixed interconnection prices and the mobile WACC for the determination of mobile interconnection prices. The opportunity of using these WACC for other regulatory purposes will be considered on a case-by-case basis when the need arises.

7.1.4 The Commission has taken on board where necessary the submissions received and the new WACC figures have been changed to reflect the comments. For the purpose of setting interconnection prices, WACC figures of 8.27% for integrated and 10.43% for mobile operator has been adopted compared to WACC figures of 8.15% for integrated and 10.32% for mobile operator respectively (as per Table 6.4 of the Consultation Paper).

7.1.5 As a result of the change, there will be a change for the respective interconnection prices as reflected in the "Report on Public Inquiry under section 65 of the Communications and Multimedia Act 1998 on Access Pricing"[4].

[4] Available at http://www.cmc.gov.my/registerframe.htm under "Register of Reports"