

Cite as: 4 Tech. L. Rev., Oct. 2007, at 199.

Comparative Study on the Price Cap Regulation of Telecom Retail Services

Kung-Chung Liu

Abstract

When liberalizing telecom markets in the 1980s, countries world over adopted the price cap regime to regulate retail prices that telecom companies may charge their customers. Under price cap telecom companies may not raise the retail prices above the level where efficiency gains—commonly known as the efficiency factor or X factor—minus inflation rate. The National Communications Commission (NCC) promulgated new X factors for various telecom services at the end of 2006: X for ADSL is $\Delta\text{CPI} + 5.35\%$, X for the following three mobile services that utilize 900MHz and 1800MHz spectrums is $\Delta\text{CPI} + 4.88\%$: local phones calling mobile phones, prepaid services and services that charge the highest unit rates. This paper examines price cap practices in the UK and USA and determines that its importance is declining. This paper then critically reviews the adjustment of X factors made by the NCC and finds three flaws: 1. The NCC failed to further reasonably reduce ADSL prices. 2. Services that charge the highest unit price do not necessarily suffer from insufficient competition. 3. There lacks a clear explanation about the composition elements of the X factor. In conclusion it points to the fact that retail price regulation is not to be maintained in the long run and more attention

shall be shifted to the study and regulation of prices among telecom service providers.

Keywords: price cap, rate of return, X factor, telecom law, NCC,
National Communications Commission