

ANALYSIS



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3G auction sets stage for winds of change

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THE NATION

The country's first-ever telecommunication auction, held on Tuesday for the 2.1-gigahertz spectrum, will trigger a chain of changes on many fronts – not least for future auctions of other prized spectra.

It has also raised a string of questions, ranging from whether the auction terms and conditions were appropriate through to what motivated some companies to make higher bids and others to surprise observers by selecting certain spectrum ranges.

The telecom committee of the National Broadcasting and Telecommunications Commission (NBTC) will hold a special meeting today, when it is expected to approve the auction outcome and confirm that it will soon officially announce the bid winners' names.

All three bidders – Advanced Wireless Network, a subsidiary of Advanced Info Service (AIS); DTAC Network, a unit of Total Access Communication (DTAC); and True

Corp's Real Future – grabbed three spectrum slots totalling 15 megahertz of bandwidth each in what turned out to be a contest almost lacking any real competition.

The granting of licences in January will kick off a cycle of investment in third-generation networks worth many billions of baht by the three cellular operators. With new networks and 15MHz bandwidth on the 2.1GHz spectrum for each of them, the companies can unload the burden of their existing spectra – and consumers can expect better voice and mobile data service quality.

However, the NBTC will be closely watched as to whether it can ensure that consumers enjoy reasonable service fees, as the three operators are expected to initially pass some of the costs from upfront spectrum-licensing fees on to subscribers.

Nattaporn Phan-Udom, partner and leader of PricewaterhouseCoopers' technology, infocomm and entertainment and media practice in Thailand, earlier said the number of consumers using voice and data services provided under all the 3G plat-

forms is expected to soar 35 per cent to 19 million in the next five years. The service fees will, however, remain high initially because of the companies' auction and network-investment costs.

3G DEBUT BY MID-2013

The granting of licences will further liberalise the sector from the current state-concession regimes to the NBTC's licensing regime.

The three bid winners all expect to launch 3G-2.1GHz service in major cities by the middle of next year. They are each obliged by the NBTC to complete networks covering 80 per cent of the population within four years.

AIS is expected to join its concession owner TOT to establish a network on an infrastructure-sharing basis, while True can rely on the combined 7,000 cellular base stations of CAT Telecom and its own subsidiary BFKT (Thailand) for a quick roll-out of its 3G-2.1GHz network.

True will seek a strong partnership to enhance its upcoming 3G-2.1GHz business. Its chief executive officer, Suphachai Chearavanont, earlier said the company would strenuously seek a strategic partner to bolster its 3G business under an NBTC licence.

The three operators are expected to further expand capacity of the mobile-number portability service from the present 4,000 numbers per day in order to migrate their customers from concession regimes to 3G networks.

The service enables mobile-phone users to move to different networks and continue to use their existing numbers.

Customer migration to 3G networks will enable the companies to make significant savings on their regulatory fees, as the 3G licence fee of 5.75 per cent is considerably lower than the concession fee of 25 to 30 per cent that they currently pay. The cost savings will be material once they can migrate a sufficient number of subscribers to the new 3G networks.

AIS has more than 34.8 million subscribers, while DTAC has more than 23.6 million and TrueMove more than 17 million. They are expected to migrate their 3G-900MHz and 3G-850MHz customers first to the new 3G networks.

A telecom analyst expects the operators' EBITDA (earnings before interest, tax, depreciation and amortisation) margins initially to decline next year because of higher network and marketing expenses, before the regulatory cost savings gain momentum and cause the margins to rebound from 2014.

AUCTION TERMS SLAMMED

Tuesday's auction was slammed by many parties after the bidding closed, with the authorities accused of having paved way for a low-competition contest and costing the state coffers more than Bt10 billion in potential gains as a result.

A low-bid contest had been expected as there were nine spectrum slots available for the three companies, each of which could grab a maximum of three slots. The reserve per-slot price of Bt4.5 billion had been slammed for being too low in a likely low-bidding environment.

The spectrum auction saw the three highest bidders paying a combined Bt41.625 billion – less than 3 per cent above the reserve price – for the nine prized slots after seven rounds of bidding. The price of six of the slots remained unchanged from the reserve price throughout the seven rounds.

NBTC member Suthiphon Thaveechaiyagarn argued on Tuesday that critics were focusing solely on the per-slot spectrum price calculated by the regulator's reserve-price committee, while ignoring the conclusion of the panel's study that the appropriate reserve price must not be lower than 67 per cent of the full price.

The reserve price of Bt4.5 billion per slot was 70 per cent of the full price, he said, adding that the main objec-

HISTORIC AUCTION

The NBTC attracted aggregate bids worth Bt41.625 billion in the 2.1GHz spectrum auction, only 2.77% above the reserve price of Bt40.5 billion and 22.78% below the full value of Bt57.96 billion.

Advanced Wireless Network

Bids (Bt bn): 4.95, 4.95, 4.725

Frequency range: 1,950-1,965MHz, and 2,140-2,155MHz

Total: Bt14.625bn

Real Future

Bids (Bt bn): 4.5 for all

Frequency range: 1,935-1,950MHz, and 2,125-2,140MHz

Total: Bt13.5bn

DTAC Network

Bids (Bt bn): 4.5 for all

Frequency range: 1,920-1,935MHz, and 2,110-2,125MHz

Total: Bt13.5bn

Note: Prices exclusive of VAT NATION GRAPHICS
Source: NBTC

tive of the auction was to allocate all nine spectrum slots effectively. Price was not the priority, he asserted.

MORE AUCTIONS TO COME

This week's successful yet heavily criticised auction will set the scene for a chain of auctions of other spectra.

The 1,800MHz concessions of TrueMove and Digital Phone Co (DPC) expire next September, while the AIS concession under TOT expires in late 2015 and that of DTAC ends in 2018. The spectrum can be used to provide 4G service.

However, Thailand Development Research Institute president Somkiat Tangkitvanich has warned the NBTC not to use similar auction terms for any spectra in the future, as doing so would cost the country dearly.

Jesada Sivaraks, secretary to the NBTC vice chairman, said the final price in the 2.1GHz auction would be used as the basis for setting the reserve price for the 1,800MHz spectrum soon. The reserve price for 1,800MHz slots would have to be higher than the Bt4.5 billion per slot of the 2.1GHz spectrum, as the bandwidth could be used to provide fourth-generation cellular broadband service.

However, no one can tell at this stage whether the NBTC will be able to auction the 1,800MHz spectrum shortly after the 2.1GHz auction. The watchdog is facing an attempt by CAT to retain its 1,800MHz spectrum after the concessions granted to TrueMove and DPC end.

SELECTION OF SPECTRUM SLOTS

An NBTC source said AIS's Advanced Wireless Network seemed to be looking beyond 3G when it paid the highest prices for spectrum slots in the 2.1GHz auction in order to be the first bidder to select desired spectrum ranges adjacent to those being used by TOT to offer 3G-2.1GHz service. (See table.)

AIS might think that if the watchdog failed to auction the 1,800MHz spectrum slots in the near future, it could join with TOT to provide 4G service on their combined 2.1GHz spectrum bands, the source said.

"AIS and TOT each have 15MHz of bandwidth under 2.1GHz and their spectrum ranges are connected. They can split their combined 30MHz bandwidth into 10MHz and 20MHz – the former for providing 4G and the latter for 3G," he added.

The NBTC's Jesada said that technically, the 2.1GHz spectrum could be utilised to provide 4G service.

Real Future was the second bidder to select spectrum ranges on Tuesday, but the company surprisingly opted for ranges that the NBTC had previously said were not the best of those on offer.

However, True chief executive officer Suphachai Chearavanont said the company had selected the best thing for its business. He denied a rumour that the decision was based on advice from the company's fortune-teller.

The NBTC source said that as the ranges Real Future had chosen "stand in between" those of the selected Advanced Wireless Network and DTAC Network ranges, True might want to make it inconvenient for its two rivals to join forces in the future regarding possible collaboration over their 3G ranges.

AIS and DTAC were earlier in talks on possible collaboration in infrastructure-sharing when setting up the new 3G networks, to save costs.

Under the 2.1GHz auction rules, the bidder quoting the highest price was the first to select the desired spectrum ranges. If companies quoted the same price, they would draw lots for the privilege.

Real Future and DTAC Network quoted equally high prices for slots, but lower than those from Advanced Wireless Network. Real Future won the lot drawing and therefore chose its slots second, after the AIS unit.