



Model documentation for ARCEP

Bottom-up mobile LRIC
model for ARCEP
(Release 1): Model
Documentation

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Contents

1	Introduction	1
2	Model overview	2
2.1	Scope of model	2
2.2	Model structure	3
2.3	Model inputs	5
2.4	Model results	6
3	Traffic module	6
3.1	Introduction	6
3.2	Scenario options implemented in the traffic module	7
3.3	Detailed description of module contents	8
4	Network module	11
4.1	Introduction	11
4.2	Detailed description of module contents	12
5	Cost module	27
5.1	Introduction	27
5.2	Detailed description of module contents	27
6	Service cost module	29
6.1	Introduction	29
6.2	Detailed description of module contents	32

Annexes

Annex A: Treatment of signalling costs

1 Introduction

Analysys has been commissioned by ARCEP to develop a model of the long-run incremental cost (LRIC) of voice and SMS termination delivered by 2G and 3G mobile network operators in France. The purpose of the model is to assist ARCEP in understanding differences between the top-down models already developed by mobile operators.

At this stage, we have held discussions with mobile operators concerning the conceptual choices made in the model and have gathered some qualitative data in order to inform the structure of the model. However, we have had access to only very limited quantitative data. Accordingly, while we believe that the model parameters are of the right order of magnitude, we have not undertaken a detailed exercise to determine the appropriate values. Furthermore, it may be necessary to make modifications to the model structure in order to appropriately reflect the further data that we expect to become available before the model is finalised.

For the avoidance of doubt, the parameters are not intended to represent any particular operator, but are rather intended to be representative of the demand, service provision and associated costs that a generic network operator in the French market might reasonably experience.

The remainder of this document is structured as follows:

- Section 2 provides an overview of the model and its structure
- Section 3 describes the traffic module, which calculates network demand
- Section 4 describes the network module, which includes the key cost drivers and deployment algorithms
- Section 5 describes the cost module which calculates total network costs
- Section 6 describes the service costing module, which calculates service costs.

Annex A provides a summary of the treatment of signalling within the model.

2 Model overview

2.1 Scope of model

The scope of the model is based on that described in the document *Bottom-up mobile LRIC model for ARCEP (Release 1): Conceptual Choices*.

The primary objective of the model is to assess on a LRIC basis the network costs of delivering incoming voice and SMS services on 2G and 3G mobile networks. However, data services are also included in order to take account of economies of scope. The model is based on the use of three core technologies and spectrum bands:

- GSM in the 900MHz band
- GSM in the 1800MHz band
- FDD UMTS using 5MHz paired spectrum in the 2.1GHz band.

We have also built into the model the flexibility (by adjusting some of the parameters) to assess the impact on voice and SMS termination costs of deploying EDGE and HSDPA.

The model explicitly calculates only the capital and operating costs associated with network equipment, in particular the following:

- radio network (including base station sites and equipment)
- backhaul (i.e. links from the base stations to the core network)
- backbone network
- core network switching equipment and other assets
- spectrum fees.

The model includes all network costs through the radio network to the core network, up to and including the gateway switches and interconnect ports. The model also includes an estimate of non-network costs.

The model calculates the costs of a single network operator. However, it allows the following inputs to be varied within reasonable bounds:

- traffic per subscriber over time (including, separately, 2G and 3G voice, SMS and data traffic)
- number of 2G and 3G subscribers over time
- roll-out schedule for 2G and 3G networks
- amount of spectrum available over time by frequency band.

The model calculates the network cost to an operator in delivering voice, SMS and data services to end users. The model explicitly calculates the network costs for the period 1990–2020 and assumes a steady state extending to 2039 for the purposes of the economic depreciation algorithm.

It provides a service cost based on service routing factors and an explicit allocation for the cost of signalling and for the cost of radio channels reserved for GPRS. The model outputs service costs on the basis of both historic cost accounting (HCA) and simple economic depreciation (ED).

2.2 Model structure

The mobile LRIC model comprises four distinct modules, as shown in Exhibit 1.

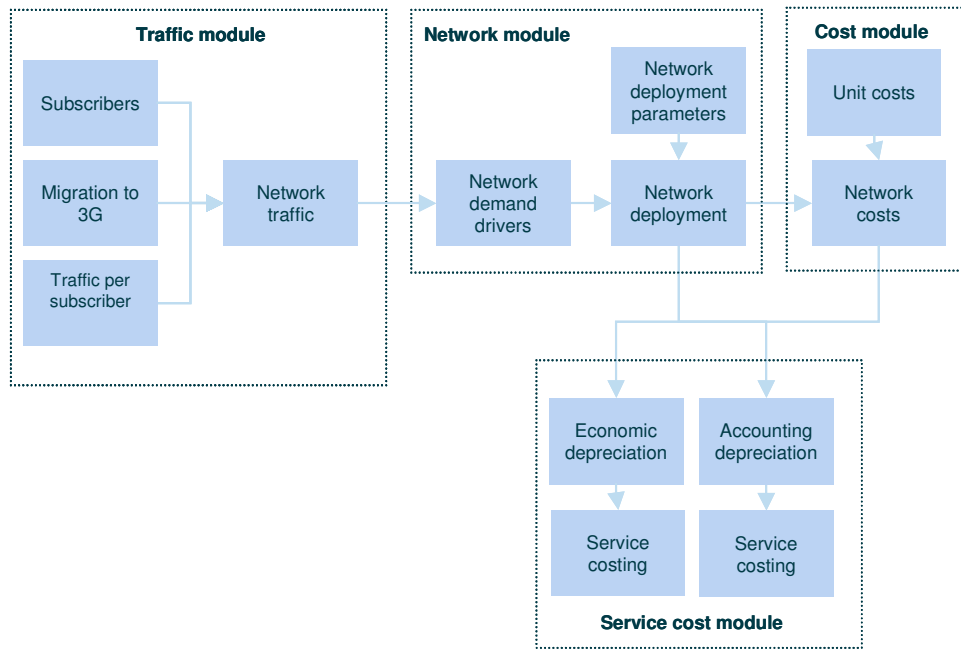
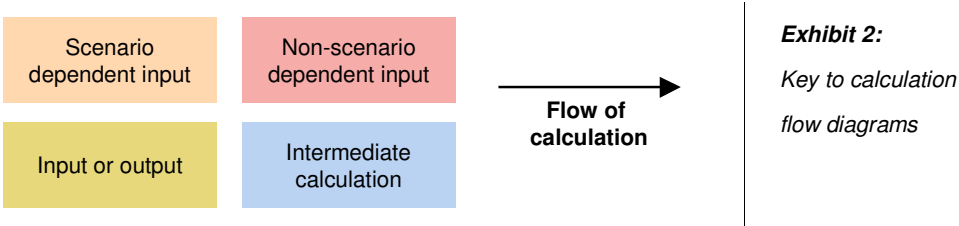


Exhibit 1: Model structure

- The **traffic module** produces network demand forecasts based on forecasts of how number of subscribers, traffic per subscriber and market share evolve over time.
- The **network module** produces the asset demand required to support the input level of subscriber demand, based on a projected network deployment.
- The **cost module** outputs the network costs incurred, based on asset costs and asset demand produced by the network module.
- The **service costing module** allocates costs between services and outputs service costs based on either HCA or ED.

Key to calculation diagrams

In the following sections, we use calculation flow diagrams to describe the relationship between inputs, parameters, calculations and outputs in the model. A key to the colour conventions used in these diagrams is given in Exhibit 2.



2.3 Model inputs

The focus of the model development to date has been to determine appropriate algorithms that reflect the key cost drivers. In particular, we have not attempted to determine input parameters to a high degree of accuracy. While we believe that the parameters currently used in the model are of the right order of magnitude for a generic mobile network operator in France, it should be noted that if several of these are adjusted by a relatively small amount, the combined effect could be to change the overall results significantly.

Parameters in the model are based on preliminary discussions with operators, ARCEP’s accounting data, INSEE, Analysys Research and WCIS. Where no specific data sources are available we have provided estimates based our own judgement.

Once we have received further data from mobile operators the model parameters will be updated to better reflect a generic French operator; we will also adjust parameters to calibrate and reconcile the model to the specific situation of each individual operator.

2.4 Model results

The model calculates the network costs for 2G and 3G networks, and allocates these between network services to produce a blended service cost for incoming voice and SMS services based on either HCA or ED. The results are presented in real 2006 terms.

3 Traffic module

3.1 Introduction

The purpose of the traffic module is to generate a forecast for the demand on the 2G and 3G networks. The flow of calculation in the module is shown in Exhibit 3.

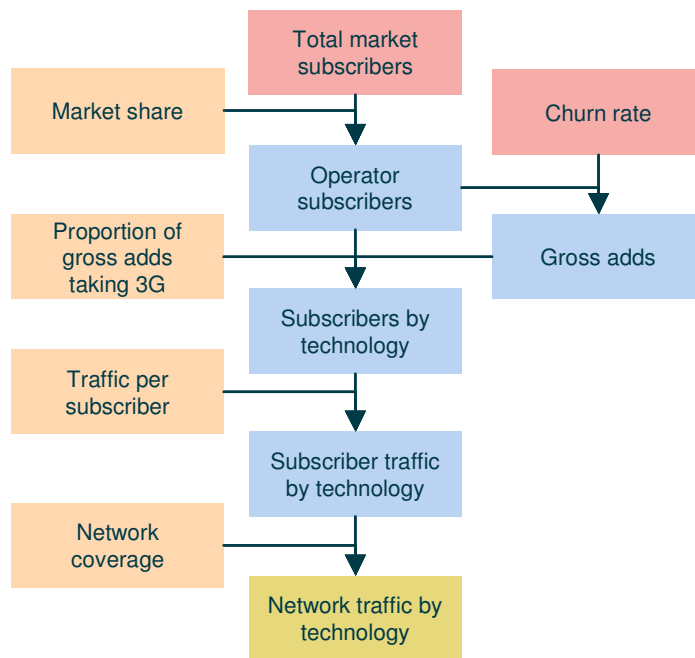


Exhibit 3:
Traffic module
calculation flow

For a key to the colour
conventions used in this
diagram, see Exhibit 2
above.

The subscriber numbers of the modelled operator are calculated based on the total number of subscribers in the market and an assumed market share for that operator.

The migration of subscribers from 2G to 3G is forecast based on an assumed handset churn rate and an assumption about the number of churning subscribers that take 3G handsets in each year.

Traffic per subscriber is extrapolated from the current average monthly usage of voice, SMS and data services. Services are split between on-net, incoming and outgoing calls.

The service demand measure at this point in the module is the level of demand generated by subscribers with 2G and separately, 3G handsets. This traffic is ‘re-balanced’ between the 2G and 3G networks based on their respective coverage, in order to calculate the service demand that is actually delivered on each network. In particular, this accounts for the roaming of 3G subscribers onto 2G networks where 3G coverage is not available and the reduction of packet data usage due to the lower specifications of the GPRS fallback network.

3.2 Scenario options implemented in the traffic module

There are a number of scenario options within the traffic module, listed below by traffic category.

Voice and video

- average minutes per subscriber over time
- proportion of outgoing minutes that are on-net minutes over time
- incoming minutes as a proportion of outgoing minutes over time
- ratio of 3G voice use to 2G voice use as a proxy for usage patterns of early adopters over time
- proportion of 3G users who are active users of video calls
- proportion of minutes that would be video minutes if both originating and called party are in coverage over time

SMS

- outgoing messages per average subscriber over time
- ratio of 3G message use to 2G message use as a proxy for usage patterns of early adopters over time

Data

- proportion of 2G active data users over time
- 2G data usage per subscriber over time
- proportion of 3G active data users over time
- 3G data usage per subscriber over time.

Currently, only one set of parameters is provided for each scenario option – those representing a generic French operator. However, we expect to introduce alternative sets of parameters in finalising the model.

3.3 Detailed description of module contents

This section contains a sheet-by-sheet description of the contents of the traffic module.

Scenario

This sheet contains the scenario switches that may be used to alter key input parameters of the model.

Inputs

The different input parameters for each scenario are entered on this sheet. A list of all scenario options is given in Section 3.2 above.

Geotypes

This sheet contains the definition of the geotypes used in the mobile LRIC model. The model calculates the share of traffic in each geotype based on the share of population in the geotype, adjusted to assume a decreasing traffic per head as geotypes become more rural. In this way, the share of traffic in each geotype accounts for a share of population commuting between rural and urban areas.

Geotypes are defined at the commune level, with each of the 36 000 communes being allocated to a specific geotype. Our analysis of cell site distribution across France indicates that this is a reasonable predictor of cell site density and consequently the allocation to geotype is primarily based on population density. The population boundaries between different geotypes are chosen to coincide with rapid changes in population density in the geotypes, as illustrated in Exhibit 4 below. The rural communes are also identified as either mountainous or non-mountainous.

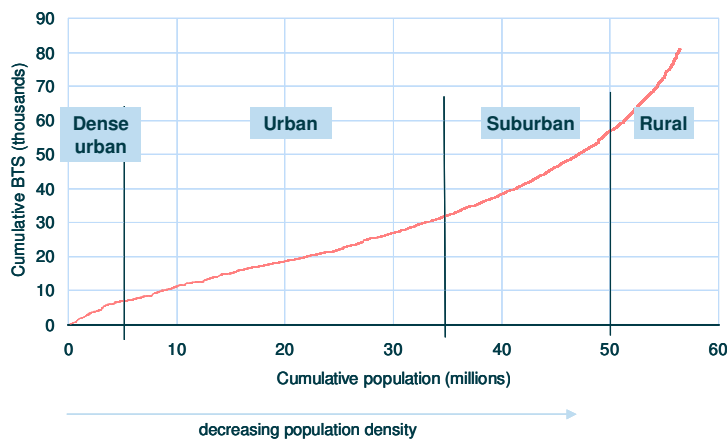


Exhibit 4:
Cut-offs for
geotypes
(cumulative
population and
cumulative base
transceiver stations
(BTS)s)

Subscribers

This sheet produces a forecast of the number of subscribers by technology for the modelled operator. As a first step, total market subscribers are forecast based on mobile service penetration trends. This total is multiplied by the assumed market share of the generic operator to give its subscriber numbers. An assumption about the level of churn is used to

calculate gross adds. Finally, an input specifying the share of gross adds who will adopt 3G determines how many of the gross adds will become 3G subscribers. This gives the split between 2G and 3G subscribers.

Actual data is used for years in which this is available.

Traffic

This sheet first calculates subscriber demand based on the subscriber numbers calculated in the previous sheet, and then performs adjustments to this subscriber demand to give the service demand on both the 2G and 3G networks.

Subscriber traffic is taken from the *Inputs* sheet. The proportion of incoming, on-net and outgoing traffic is based on actual data where possible. Where no real data is available for proportions of incoming and on-net traffic, their volumes are estimated on the basis of operator market share and parameters describing the propensity to call people on the same network; the proportion of outgoing traffic to different types of destination; and incoming traffic as a proportion of outgoing traffic to each of those destinations. Voicemail traffic is defined as a proportion of incoming calls.

Subscriber traffic is then converted into network traffic based on the mix of 2G and 3G subscribers and the coverage of the 3G network compared to the 2G network. In the most complex case, an on-net call from a 3G subscriber could be either:

- an on-net 3G call (the called party is also a 3G subscriber and both are in coverage)
- a 3G–2G call consisting of an outgoing 3G call and an incoming 2G call (the calling party is in coverage and calling either a 2G subscriber or a 3G subscriber who is roaming on the 2G network)
- a 2G–3G call consisting of an outgoing 2G call and an incoming 3G call (the calling party is roaming on the 2G network and calling a 3G subscriber who is in coverage)
- an on-net 2G call (the calling party is roaming on the 2G network and calling either a 2G subscriber or a 3G subscriber who is also roaming on the 2G network).

When a call is transferred from a 3G to a 2G network, we apply conversion factors such that video calls become voice calls, and the quantity of data transferred in a data call is also reduced.

Output

This sheet contains the outputs of the traffic module that are used as inputs to the network module: traffic carried on the operator's own 2G and 3G network, network coverage of both 2G and 3G networks, and number of subscribers.

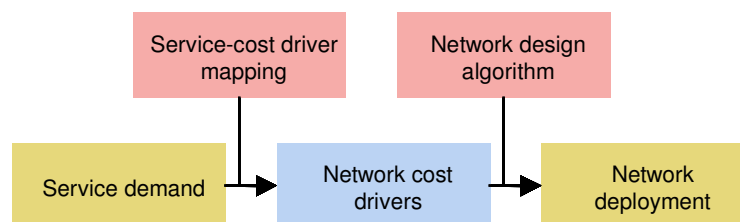
Lists

This sheet contains several lists that are referenced elsewhere in the model.

4 Network module

4.1 Introduction

The network module takes as input the forecasts of service demand produced by the traffic module. The flow of calculation in this module is illustrated in Exhibit 5. The input of the module, taken from the traffic module, is the service demand on the 2G and 3G networks. The output of the module is the network deployment.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 5: Network module flow of calculation

4.2 Detailed description of module contents

This section contains a sheet-by-sheet description of the contents of the network module.

Linked inputs

This sheet links to the outputs of the traffic module (service demand, coverage and subscriber numbers).

Params – 2G

This sheet contains the parameters used in the network design algorithm for 2G network deployment, including the parameters relating to the availability of 900MHz and 1800MHz spectrum. The amount of spectrum may vary over time.

Params – 3G

This sheet contains the parameters used in the network design algorithm for 3G network deployment.

Params – 3G spectrum

This sheet contains the parameters relating to the availability of 3G spectrum. The type and amount of spectrum may vary over time, and this sheet enables different scenarios to be modelled.

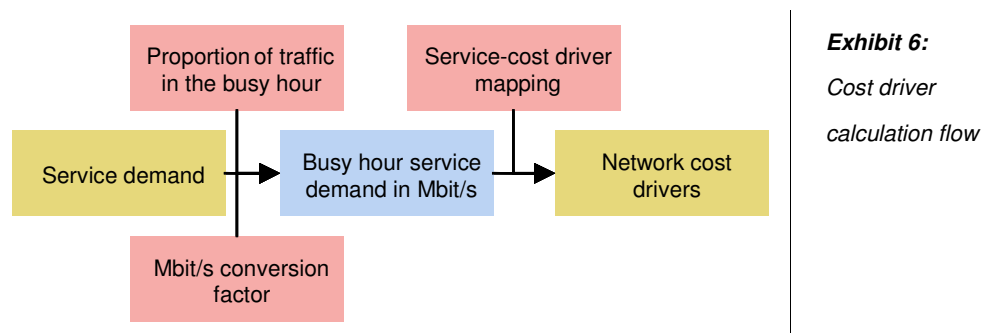
Params – other

This sheet contains the network design parameters relating to the network elements that may be used by both the 2G and 3G networks, including the level of site sharing between

the 2G and 3G networks, the configuration of the backhaul network, and the deployment of switch sites.

Cost drivers

This sheet converts the service demand output by the traffic module into specific cost drivers, which drive the deployment of network assets. Traffic is first converted into busy hour Mbit/s. Busy hour traffic in the radio network is dimensioned in voice-equivalent terms. This is a more predictable measure than data-equivalent terms, since the efficiency with which data can be carried depends on the bandwidth provisioned. Subscribers and selected roaming services are added to the list of services at this point to enable them to be used in the formulation of the network cost drivers. A matrix that maps services to cost drivers is used to calculate the network cost drivers.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

The typical calculation flow is shown in Exhibit 6, although it is different for some cost drivers – 2G radio traffic, 3G radio interface traffic, 3G backhaul traffic – as these cost drivers need to be broken down by geotype, while others are only required at an aggregate level.

The cost drivers do not include the use of dedicated signalling channels or radio channels reserved for GPRS since these are accounted for separately. However, this sheet does output proportions of 2G and 3G traffic in the core and radio network which are used in the allocation of signalling costs in the *service cost* module.

Reasonable growth inputs

This sheet contains the design utilisation, scorched node allowance, look-ahead periods and headroom drivers.

Network design – 2G

This sheet contains the network design algorithms which create the asset demand projections for assets used in the 2G network. The diagram below provides a simplified representation of some of the network elements included in the 2G network design algorithm.

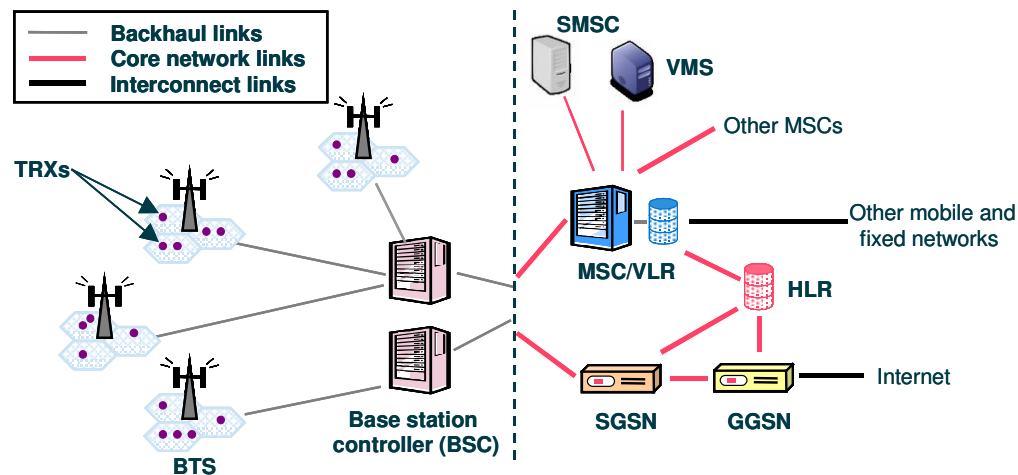


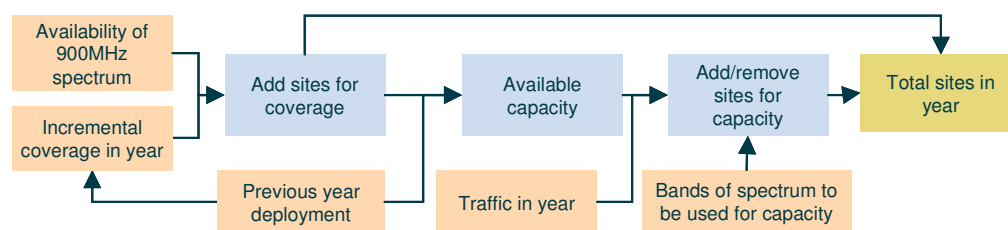
Exhibit 7: Simplified GSM network diagram

- Base station sites, transceivers (TRXs), BTSs, base station controllers (BSCs) and backhaul links form the radio access network. A base station site includes at least one BTS and one TRX for each sector. Sites can be deployed with a variety of sector configurations (omni-sector, bi-sector, tri-sector, etc.) and frequency bands (900, 1800, dual 1800/900MHz). The average number of BTSs per site may vary by geotype and over time. The amount of spectrum in use at each site is determined by the physical

constraints on the number of TRXs per sector and the total amount of spectrum available in the year.

- The circuit-switched core network includes MSCs and SMSCs; calls may pass through several MSCs before being delivered to other networks.
- The packet-switched core network includes SGSNs (Serving GPRS Support Nodes) and GGSNs (Gateway GPRS Support Nodes) which connect to the Internet.
- A Home Location Register and a Voicemail Server also sit in the core network.
- Core network links are illustrated in Exhibit 7 in red. Interconnect links are shown in black, but are outside the scope of the LRIC model.

The algorithm which calculates the number of required **base station sites** uses an incremental approach, as illustrated in Exhibit 8. An incremental approach is adopted as several of the key parameters which govern the network deployment (e.g. maximum cell radius, amount of available spectrum) have been configured so that they may change over time and the network design must adapt to account for these changes without exhibiting unusual behaviour.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

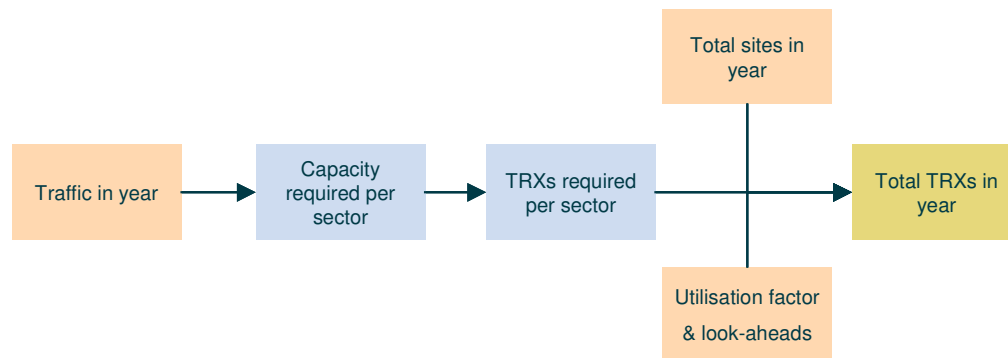
Exhibit 8: Calculation of the number of required sites

- The input to the calculation is the number of sites deployed in the previous year, the traffic and information on the spectrum band to be used for coverage and capacity in year.

- The incremental coverage requirement is based on the area covered by the total number of sites from the previous year's deployment and the maximum cell radius in year. If 900MHz spectrum is available, the model assumes that 900MHz cell sites only will be deployed for coverage since these have a greater cell radius.
- Next, the model calculates the total capacity provided, based on incremental sites deployed for coverage added to the existing sites from the previous year. The aim is to work out the additional capacity required to support the level of demand in that year. If the available capacity is greater than demand, the model will remove sites from those deployed for capacity in previous years. Look-aheads are applied to demand to allow for anticipated roll-out of sites.
- The type of cells deployed for capacity is based on the traffic split by cell type and the proportion of spectrum of each band to be used for capacity, both specified in the 'Params – 2G' sheet.
- The model then calculates the total number of sites in year by adding the incremental numbers of sites required for capacity and coverage to existing ones.

We note that the radio network demand calculation excludes demand for signalling or GPRS. Signalling is assumed to require a fixed number of dedicated channels per TRX and GPRS is assumed to require a fixed number of dedicated channels per sector. In calculating the potential traffic capacity provided by a base station these channels are first removed so that the demand and capacity calculations are consistent.

The total number of **TRXs** is based on the capacity required per sector, derived from the total number of sites, and the traffic in year, with an allowance for utilisation, as illustrated in Exhibit 9. The algorithm first calculates the number of TRXs required per sector and outputs the total number of TRXs by cell size and by geotype to be used in the cost module.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 9: Calculation of the number of required TRXs

The number of **BTSs** required is worked out from the total number of sites and the average number of BTSs per site which may vary over time and by geotype.

The **backhaul** requirement per site, in terms of required 2Mbit/s links per site, is calculated based on the assumed traffic per site. This is used as input to the shared backhaul algorithm on the 'Network design – other' sheet.

BSCs are dimensioned based on the number of TRXs in the radio network.

BSCs have both **BTS-facing ports** and **core-facing ports**. The quantity of BTS-facing ports is equal to the total number of 2Mbit/s links required for BTS backhaul, with an allowance for utilisation. A **concentrator** asset is deployed based on the average number of concentrators per NodeB-facing port. The number of core-facing ports is calculated as the number required to carry all of the traffic in the radio network divided by an assumed capacity, with an allowance for utilisation.

A BSC may be located remotely and as such require microwave or leased line backhaul to reach the core network. **BSC backhaul** design follows a ring structure. The total number and size of links required for BSC backhaul is calculated based on the traffic per BSC, an assumption regarding the number of BSCs per ring, and an assumption regarding the proportion of BSCs which require backhaul, with an additional allowance for utilisation.

The **MSC** handles subscriber-related processing functions, including location updates, and call-related processing functions. The cost driver for the MSC includes demand based on 2G subscriber numbers (to capture the impact of location update processing), and demand linked to incoming, outgoing and on-net call attempts. The total number of MSCs is calculated by dividing the total processing demand by the processing capacity of a single MSC, with an allowance for utilisation. Additionally, it is assumed that a minimum of two MSCs is required for redundancy.

MSCs have both **BSC-facing ports** and **core-facing ports**. The number of BSC-facing ports is driven by the total number of BSCs and the MSCs' processing capacity and utilisation. Core-facing ports required are driven by total circuit-switched traffic including traffic which travels between switches within the mobile operator's network, and traffic which travels across interconnect links. Their dimensioning includes an allowance for utilisation and an overhead for signalling purposes.

Packet-switched traffic is passed from the BSCs to an **SGSN** and then to a **GGSN**. The GSNs are dimensioned based on both the number of active data sessions and the total throughput of data. The number of active data sessions is estimated based on the total packet-switched traffic and an assumed average throughput per session. This is cross-checked against the implied number of active sessions in the busy hour as a proportion of all subscribers. The total number of SGSNs and GGSNs required is the greater of the number required to support the calculated quantity of busy hour sessions and busy hour traffic, with an allowance for utilisation. It is assumed that a minimum of two SGSNs and GGSNs will be deployed for redundancy.

SMSCs are dimensioned based on the number of messages in the busy hour, which is calculated based on an assumed average message size, with an allowance for utilisation. It is assumed that a minimum of two SMSCs will be deployed for redundancy.

The **core transmission** network is dimensioned within the 'Network design – other' sheet.

The number of **SIM cards** required in each year is equal to the number of 2G subscribers in that year.

A **network management system** and an **intelligent network** (including billing systems and prepaid platforms) are deployed in the first year of operation of the network.

A **licence fee** asset is deployed in calendar year 1992.

Network design – 3G

This sheet contains the network design algorithms which create the asset demand projections for assets used in the 3G network. The diagram below provides a simplified representation of some of the network elements included in the 3G network design algorithm.

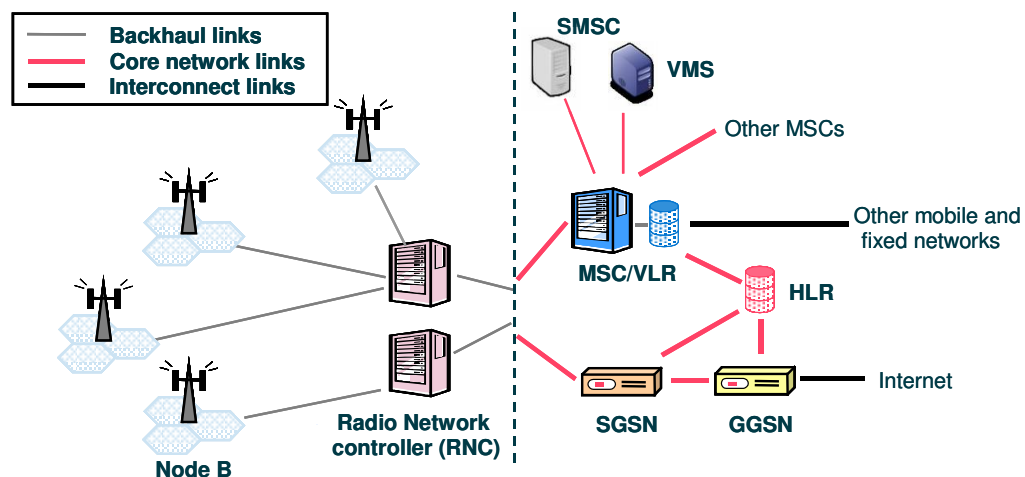


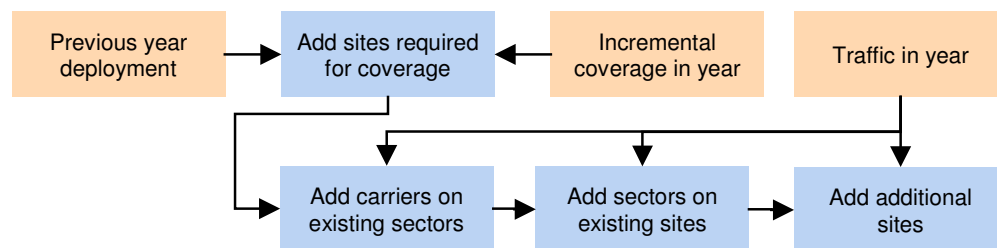
Exhibit 10: Simplified UMTS network diagram

- NodeBs, radio network controllers and backhaul links form the radio access network.
- The circuit-switched core network includes MSCs, which are subdivided into an MSC Server, used for call and subscriber processing, a Media Gateway (MGW), used for switching traffic and a Visitor Location Register (VLR), which contains a record of all active subscribers on the network. Calls may pass through several MSCs before being delivered to other networks.

- The packet-switched core network includes SGSNs (Serving GPRS Support Nodes) and GGSNs (Gateway GPRS Support Nodes) which connect to the Internet.
- A Home Location Register (HLR) and a Voicemail Server also sit in the core network.
- Core network links are illustrated in the Exhibit 10 in red. Interconnect links are shown in black, but are outside the scope of the LRIC model.

There is a single **NodeB** per **base station site**. A NodeB can be deployed with a variety of **sector** configurations (omni-sector, bi-sector, tri-sector, etc.), similar to a 2G site. While in a 2G site the amount of spectrum in use is determined by the number of TRXs per sector, in a 3G NodeB, spectrum usage is determined by the number of **carriers** deployed in a given sector. Each additional carrier uses an additional 2×5MHz of spectrum and adds to the traffic capacity of the cell. We assume that sufficient channel elements are deployed with each carrier to carry the traffic associated with that carrier and that these costs are included in the cost of the carrier asset.

The algorithm which calculates the number of required carriers, sectors and sites uses an incremental approach, as illustrated in Exhibit 11. An incremental approach is adopted as several of the key parameters which govern the network deployment (e.g. maximum cell radius, number of available carriers) have been configured so that they may change over time and the network design must adapt to account for these changes without exhibiting unusual behaviour. We have not accounted for signalling in the deployment of the 3G radio network as there is no dedicated resource reserved for signalling in the 3G radio network.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 11: Calculation of the number of required carriers, sectors and sites

- The input to the calculation is the carrier, sector and site deployments of the previous year.
- The number of sites required to support the increase in coverage which occurs during the year is calculated based on the assumed maximum cell radius, and these sites are added to the deployment from the previous year.
- Next, the model calculates the number of carriers (deployed on a sector on a site) required to support the assumed level of demand in the year. If this is greater than the number of carriers currently deployed, the model will add additional carriers on existing sectors until it reaches the limit of the spectrum available.
- The model then calculates the number of sectors required to support the level of demand in that year assuming that the maximum number of carriers is deployed per sector. If this is greater than the number of existing deployed sectors, additional sectors (and associated carriers) will be deployed as long as there is capacity available on existing sites.
- As a final step, the model calculates the number of sites (with maximum deployment of carriers and sectors) which would be required to support the level of the demand in the year. If the number required is greater than the number of existing sites, new sites (and associated carriers and sectors) are deployed.
- The number of additional carriers, sectors and sites required are added to the previous year's deployment to calculate the total deployment in the current year. This is divided by the overall utilisation of the assets calculated on the 'Reasonable growth inputs' sheet to give the actual number of assets deployed, allowing for future growth.

We note that (unlike in the 2G network deployment algorithm) the radio network demand calculation includes demand for SMS and data services. This is because channels are dynamically allocated in 3G and there is no need to reserve dedicated signalling or data channels. The call setup, handover and location management functions that are necessarily carried out in the 2G network's dedicated signalling channels are accounted for in the 3G network by virtue of the 3G capacity utilisation factors.

The **backhaul** requirement per site, in terms of required 2Mbit/s links per site, is calculated based on the assumed traffic per site. This is used as input to the shared backhaul algorithm on the 'Network design – other' sheet.

RNCs are dimensioned based on the total circuit-switched and packet-switched traffic in the radio network. It is assumed that an RNC will have a different capacity limit for circuit-switched and packet-switched traffic and therefore the number of RNCs required for each type of traffic is calculated separately. The number of RNCs deployed is the sum of those needed to support both circuit-switched and packet-switched traffic.

RNCs have both **NodeB-facing ports** and **core-facing ports**. The quantity of NodeB-facing ports is equal to the total number of 2Mbit/s links required for NodeB backhaul, with an allowance for utilisation. A **concentrator** asset is deployed based on the average number of concentrators per NodeB-facing port. The number of core-facing ports is calculated as the number required to carry all of the traffic in the radio network divided by an assumed capacity, and with an allowance for utilisation.

An RNC may be located remotely and as such require microwave or leased line backhaul to reach the edge of the core network. **RNC backhaul** design follows a ring structure relying on a parameter setting the average number of RNCs per MSC-ring. The total number of links required for RNC backhaul is calculated based on the traffic per RNC, the number of ring nodes required and an assumption regarding the proportion of RNCs which require backhaul, with an additional allowance for utilisation. Links are then distributed between microwave and leased lines accordingly to a parameter set on the 'Params - 3G' sheet. Available backhaul options are identical for RNC backhaul and core network transmission links and are described in section *Network design – other* below..

The 3G equivalent of an MSC is an **MSC Server** and **Media Gateway (MGW)**. The MSC Server handles subscriber-related processing functions, including location updates, and call-related processing functions. The cost driver for the MSC Server includes demand based on 3G subscriber numbers (to capture the impact of location update processing), and demand linked to incoming, outgoing and on-net call attempts. The total number of MSC Servers is calculated by dividing the total processing demand by the processing capacity of a single MSC, with an allowance for utilisation. Additionally, it is assumed that a minimum of two MSC Servers is required for redundancy.

The MGW is assumed to be driven by the number of ports required to accommodate the traffic received from the RNCs (total circuit-switched traffic), traffic which travels between switches within the mobile operator's network, and traffic which travels across interconnect links. The number of MGWs required is the total number of ports divided by the assumed port capacity of each MGW, with an allowance for utilisation.

Packet-switched traffic is passed from the RNCs to an **SGSN** and then to a **GGSN**. The GSNs are dimensioned based on both the number of active data sessions and the total throughput of data. The number of active data sessions is estimated based on the total packet-switched traffic and an assumed average throughput per session. This is cross-checked against the implied number of active sessions in the busy hour as a proportion of all subscribers. The total number of SGSNs and GGSNs required is the greater of the number required to support the calculated quantity of busy hour sessions and busy hour traffic, with an allowance for utilisation. It is assumed that a minimum of two SGSNs and GGSNs will be deployed for redundancy.

SMSCs are dimensioned based on the number of messages in the busy hour, which is calculated based on an assumed average message size, with an allowance for utilisation. It is assumed that a minimum of two SMSC will be deployed for redundancy.

The **core transmission** network is dimensioned within the 'Network design – other' sheet.

The number of **SIM cards** required in each year is equal to the number of 3G subscribers in that year.

A **network management system** and an **intelligent network** are deployed in the first year of operation of the network.

A **licence fee** asset is deployed in calendar year 2001.

Network design – other

The site requirements output by the 2G and 3G network models are adjusted in this sheet to account for **site sharing**. The proportion of incremental 3G sites which will be shared with

It is assumed that **switch sites** are shared between the 2G and 3G networks. They are driven by whichever is the greatest number of assets in the following four asset classes – MSCs in the 2G network, MSC Servers in the 3G network and SGSNs in both networks. An assumed number of switches per site is used to calculate the number of sites required, along with an assumed maximum and minimum number of switch sites.

The total number of **core network** transmission links required is driven by all core traffic, including all 2G and 3G packet-switch and circuit-switched traffic, with an allowance for utilisation and an overhead accounting for signalling set in the 'Params – other' sheet.

Asset demand for costs

This sheet summarises the total number of assets required to support the projected network deployment used in the 'Cost' module.

Element output

This sheet calculates the output of each element based on the service demand and a table of routing factors. For each group of assets, a cost driver is specified over which the costs of the asset should be recovered following either historic cost or economic depreciation. The model then selects the appropriate routing factors to calculate the each elements output.

Further re-allocation of costs from signalling and from radio channels reserved for GPRS is carried out in the 'Service Costing' module.

Lists

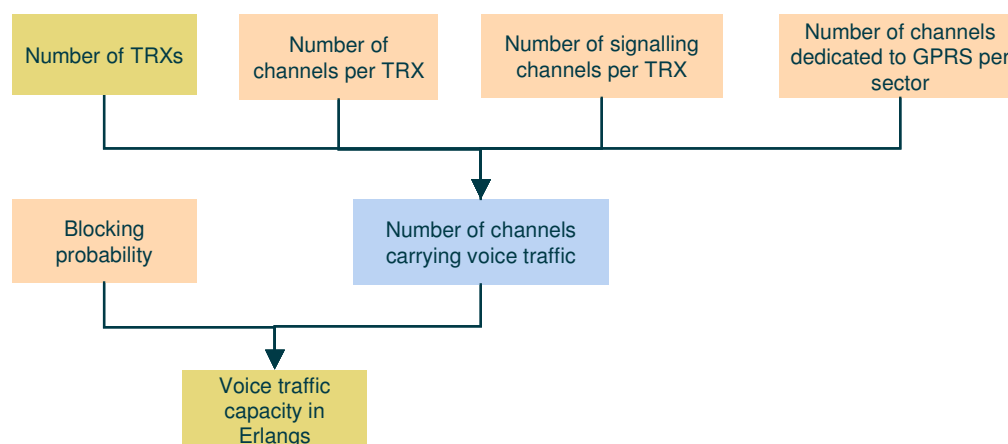
This sheet contains several lists used for reference elsewhere in the model.

Erlang B

This sheet contains two lookup tables respectively used by the *2G* and *3G Network design* sheets to perform the Erlang-B transformation.

The table used in the *3G Network design* sheet corresponds to a classic Erlang B table working out the number of channels required to deliver a certain amount of traffic for a given blocking probability.

The table used for the 2G radio network accounts for a number of dedicated channels per TRX for signalling and a number of dedicated channels per sector for GPRS. It calculates the total number of channels required (including the dedicated channels) to deliver a certain amount of voice traffic for a given blocking probability. The algorithm used to derive this table is illustrated in Exhibit 13 below.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

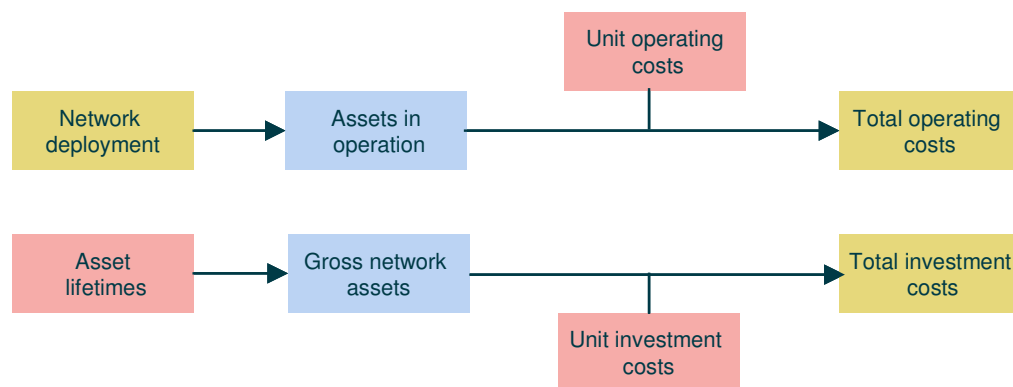
Exhibit 13: *Erlang table accounting for signalling and GPRS overheads*

The number of channels, signalling channels and GPRS channels per TRX and the blocking probability are parameters set in the *Params – 2G* sheet.

5 Cost module

5.1 Introduction

The cost module calculates the total investment and operational expense required to roll out the network deployment. The cost module takes as input the forecasts of assets produced by the network module.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 14: Cost module flow of calculation

5.2 Detailed description of module contents

This section provide a sheet-by-sheet description of the contents of the module.

Linked inputs

This sheet links to the outputs of the network module: the number of assets, asset lifetime and discount rate.

Asset demand for costs

This sheet smooths the rate of asset deployment to avoid spikes in supply. Typically, the rate of deployment of an asset climbs to a peak before declining. The smoothing algorithm ensures that before the peak asset numbers always increase (or remain constant), while after the peak asset numbers always decrease or remain constant.

The number of assets incurring operating expenses is calculated on this sheet. Where asset numbers are decreasing (due to decommissioning), it is assumed that there will be a lag between when the asset is no longer required in the network and when it will no longer incur operating expenses.

The number of assets purchased is calculated as the number of incremental assets required plus the number of assets required to replace assets whose lifetime has expired.

Unit investment

The current MEA price of each asset and the MEA price trend over time are input on this sheet. The resulting MEA price over time is then calculated.

Total investment

Total investment is calculated as unit investment (MEA prices) multiplied by the number of assets purchased. The result is used as input to the ‘Service cost’ module.

Unit expenses

The current MEA expenses of each asset and the MEA expenses trend over time are input on this sheet. The resulting MEA expenses per unit over time is then calculated.

Total expenses

Total expenses are calculated as unit investment (MEA prices) multiplied by the number of assets in operation. The result is used as input to the 'Service cost' module.

Summary

This sheet summarises the cost incurred by various aspects of network deployment in present-value terms.

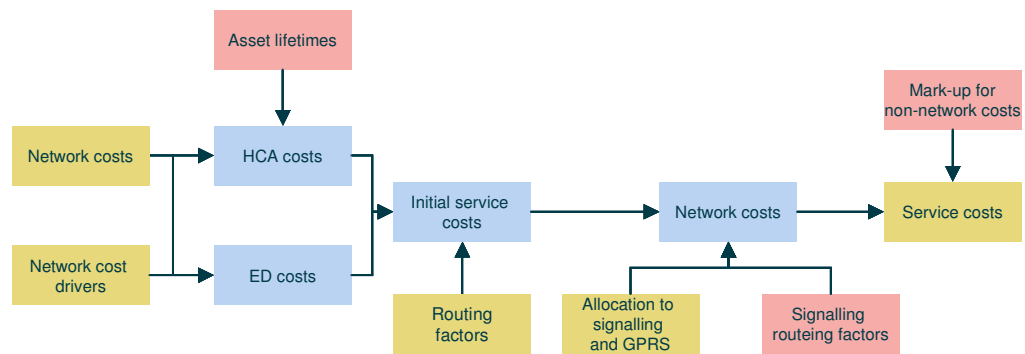
Lists

This sheet contains several lists used for reference elsewhere in the model.

6 Service cost module

6.1 Introduction

The service cost module implements historic cost accounting and simple economic depreciation methods, and produces a service costing on this basis. The inputs to the module are the service demand, service routing factors, network element output, element lifetimes, network investment and expenses, and discount rate. The outputs are the service costs for incoming voice traffic and incoming SMS on the basis of both HCA and simple economic depreciation.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 15: *Service cost module flow of calculation*

The cost allocation method is designed to be consistent with the cost drivers used to determine network deployment. Cost allocation is primarily based on routing factors defined in the *Network* module; certain costs are then re-allocated to signalling or GPRS channels, and in turn via a second set of routing factors to SMS, calls, incoming calls and GPRS.

The cost allocations used are detailed in Exhibit 16 below.

<i>Asset type</i>	<i>Initial routing factor</i>	<i>Further allocation to GPRS based on...</i>	<i>Further allocation to signalling based on...</i>
2G SIM cards	2G subscribers		
2G cell site equipment	2G radio traffic	proportion of radio channels reserved	proportion of radio channels reserved
2G TRXs	2G radio traffic	proportion of radio channels reserved	proportion of radio channels reserved
2G BSCs	2G radio traffic	proportion of radio channels reserved	proportion of radio channels reserved
2G MSCs	2G MSC processing		
2G MSC ports – BSC-facing	2G CS traffic	proportion of radio channels reserved	proportion of radio channels reserved
2G MSC ports – Interconnect facing	2G interconnect CS traffic		core network signalling overhead
2G MSC ports – Interswitch facing	2G inter-switch CS traffic		core network signalling overhead
2G GSN	2G PS core traffic		
2G SMSC	2G SMS		
2G licence fees	2G radio traffic	proportion of radio channels reserved	proportion of radio channels reserved
2G NMS	2G core traffic		core network signalling overhead
2G IN	2G subscribers		
3G SIM cards	3G subscribers		
3G cell site equipment	3G radio interface traffic		radio traffic signalling overhead
3G site upgrade	3G radio interface traffic		radio traffic signalling overhead
3G RNCs	3G core traffic		radio traffic signalling overhead
3G MSCs	3G MSC processing		
3G MSC ports - RNC-facing	3G CS traffic		radio traffic signalling overhead
3G MSC ports – Interconnect facing	3G interconnect CS traffic		core network signalling overhead
3G MSC ports – Interswitch facing	3G Inter-switch CS traffic		core network signalling overhead
3G NMS	3G core traffic		core network signalling overhead
3G GSN	3G PS core traffic		
3G SMSC	3G SMS		
3G IN	3G subscribers		

3G licence fees	3G radio interface traffic		radio traffic signalling overhead
Cell sites	All radio traffic	proportion of 2G radio channels reserved and proportion of radio traffic that is 2G	proportion of 2G radio channels reserved and proportion of radio traffic that is 2G
Remote switching sites	All radio traffic	proportion of 2G radio channels reserved and proportion of radio traffic that is 2G	proportion of 2G radio channels reserved and proportion of radio traffic that is 2G
Backhaul	All radio traffic	proportion of 2G radio channels reserved and proportion of backhaul used for 2G	proportion of 2G radio channels reserved / 3G radio traffic signalling overhead and proportion of backhaul used for 2G / 3G
BSC to MSC links	2G radio traffic	proportion of 2G radio channels reserved	proportion of 2G radio channels reserved
RNC to MSC links	3G radio interface traffic		radio traffic signalling overhead
Transit switches	All MSC processing		core network signalling overhead
HLRs	All subscribers		
Main switch sites	All core traffic		core network signalling overhead
Core transmission	All core transmission traffic		core network signalling overhead

Exhibit 16: Cost allocations

6.2 Detailed description of module contents

This section provides a sheet-by-sheet description of the contents of the module.

Linked inputs

This sheet lists the input to the HCA and ED cost calculations: service demand, service routing factors, network element output, signalling and GPRS adjustments, MEA price

trends, element lifetimes, network investment and expenses, and discount rate. All of the inputs are linked from the network and cost module.

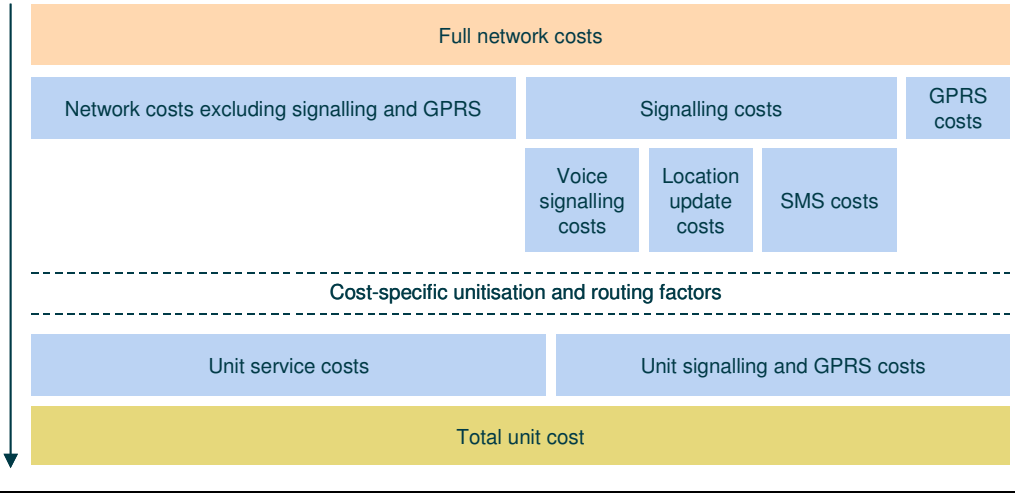
HCA

This sheet calculates the HCA annual cost of the network using historic cost accounting.

HCA Service

This sheet calculates the cost per unit volume of service based on the total annual HCA cost by network element.

The model first splits out from the full network costs a share of costs due to signalling and GPRS as illustrated below in Exhibit 17.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 17: *HCA unit cost calculation flow*

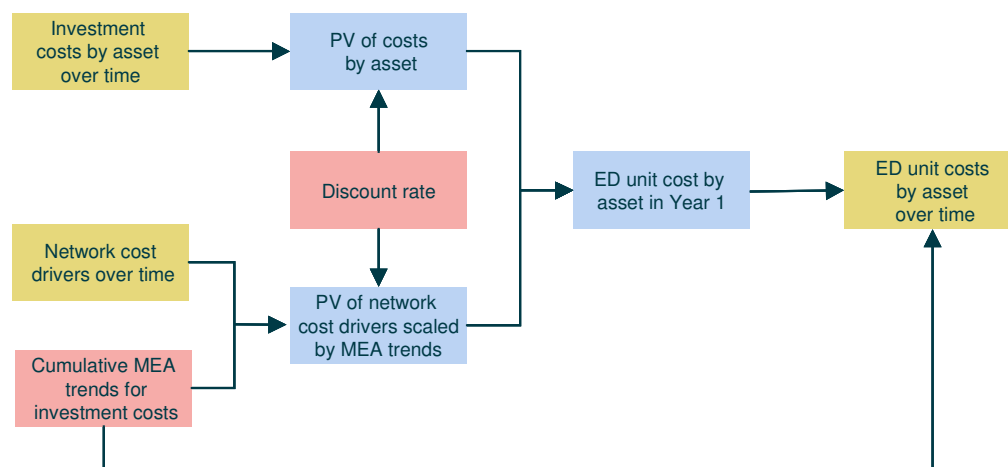
Signalling costs are then further split into voice signalling, location update and SMS. These costs are worked out separately for 2G and 3G.

Unitisation of costs as well as routing factors are specific to each type of cost (all services, voice signalling, location update, SMS, and GPRS).

Finally the model outputs the cost per unit volume of service by summing the unit service, signalling and GPRS costs.

ED

This sheet calculates the economic cost per unit output for each asset type based on a simple economic depreciation algorithm which recovers costs over all time from output over all time for each asset, shaped only by changes in MEA unit prices. The diagram below illustrates the calculation flow for investment costs; a similar approach is used for operating costs.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 18: *ED algorithm calculation flow for investment costs*

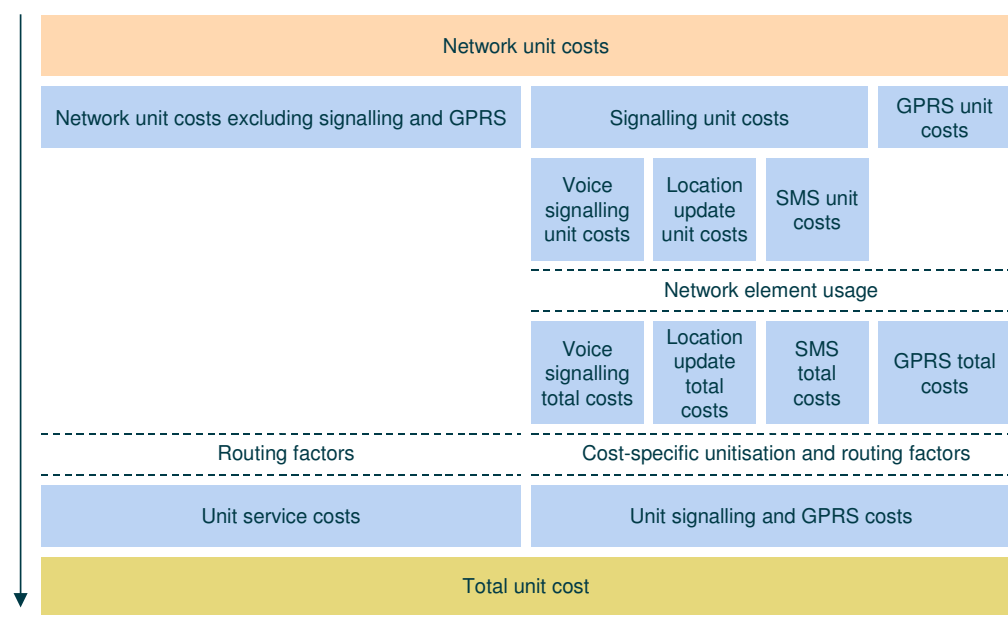
The algorithm calculates the Present Value (PV) of costs associated with each asset over the lifetime of the model and compares this with the PV of output of each asset (as measured by the network cost drivers) over the lifetime of the model. The PV of output is also scaled by MEA trends to reflect the change in unit prices over time. The ED unit cost

in year 1 is then calculated as equal to PV of costs divided by PV of output; the ED unit costs in subsequent years is scaled from this based on MEA trends.

ED Service

This sheet calculates the cost per unit volume of service based on the ED unit cost by network element. The signalling and GPRS costs are dealt with in a similar way as in the HCA Service sheet.

The model first splits out from the network unit costs a share due to signalling and GPRS as illustrated below in Exhibit 19.



For a key to the colour conventions used in this diagram, see Exhibit 2 on page 5.

Exhibit 19: *ED unit cost calculation flow*

Signalling costs are then further split into voice signalling, location update and SMS. These costs are worked out separately for 2G and 3G. As these unit costs correspond to network

element usage units, the model works out the total costs for each before applying the cost-specific unitisation and routing factors as in the *HCA service* sheet.

The allocation of signalling and GPRS costs to services is as presented in Exhibit 17 in the sub-section *HCA service* above.

Finally the model outputs the cost per unit volume of service by summing the unit service, signalling and GPRS costs.

Results

This sheet presents the network cost per unit for incoming voice and incoming SMS services, both separately for 2G and 3G and aggregated. It also adds a mark-up for non-network costs.

Lists

This sheet contains several lists which are included for reference elsewhere in the module.

Annex A: Treatment of signalling costs

The treatment of signalling costs in the mobile LRIC model is intended both to capture the relevant network costs and also to allocate them between call signalling, location updates and SMS functions in a way consistent with ARCEP's determination.

A.1 Capture of relevant costs

Signalling in the 2G radio network

The 2G radio network relies on dedicated channels for signalling. We assume that the number of channels required is a fixed number per TRX (initially set as one signalling channel from the eight channels available on a TRX). In the calibrated versions of the model we will carry out off-line calculations to ensure that this provides sufficient capacity to deliver SMS services.

In order to account for the signalling channel in the network deployment algorithms, the voice traffic capacity of a TRX is adjusted (initially to seven rather than eight channels).¹ This adjusted TRX capacity is used to drive the deployment of both TRX and cell sites based on a cost driver of 2G voice traffic.

The deployment of other assets in the 2G radio network accounts for the signalling channel in the following way:

- BTS deployment is driven by cell sites, which already accounts for the signalling
- BSC deployment is in turn driven by BTS deployment, which already accounts for signalling
- the backhaul (BTS–BSC) deployment is driven by the capacity required for a full eight channels per TRX (which therefore includes the signalling channel)

¹ We note that an adjustment to TRX capacity is also made to account for the reservation of a GPRS channel.

- deployment of BTS-facing ports on BSCs is also driven by the capacity required for a full 8 channels per TRX
- deployment of MSC-facing ports on BSCs is driven by the capacity required for circuit-switched traffic, based on a required number of circuits which accounts for the use of one in eight circuits for signalling
- deployment of BSC–MSC links for remote BSCs is driven by the total number of 2Mbit/s ports at the BSC which are either MSC-facing (which accounts for voice and signalling circuits) or SGSN-facing (which accounts for GPRS traffic)

Signalling in the 3G radio network

The 3G radio network allocates capacity dynamically; we therefore account for SMS traffic on the basis of the loading on the radio network in Mbit/s. Capacity of radio network equipment is parameterised in terms of traffic capacity in Mbit/s and assets are driven by the traffic capacity demand in Mbit/s (including voice, data and SMS traffic). Overheads for handovers, call signalling and location updates are therefore accounted for via the parameterisation of assets in terms of traffic capacity.

Signalling in the core network

MSC and SMSC network deployment algorithms account for call signalling, SMS and location updates using explicit cost drivers for each of these functions. Switch sites are in turn driven by the number of MSCs and GSNs.

Algorithms for the deployment of the core transmission network account for signalling by considering the extra capacity that must be provisioned in order to convey this channel. The extra capacity required is initially set at a mark-up of 1/28 on voice and data traffic on the basis that for each TRX in the radio network seven of the 16kbit/s channels are converted to 64kbit/s channels in the core network and there is an additional one signalling channel at 16kbit/s. We assume that the additional loading on 3G traffic is similar to that for 2G traffic.

In considering the network management system, which helps to support the signalling channels, we do not explicitly include signalling since we assume that a single network management system is deployed for each of the 2G and 3G networks.

A.2 Allocation of signalling costs

Network costs are first annualised for each asset and then allocated by the use of routing factors consistent with the cost drivers for that asset. For MSC and SMSC assets this allocates appropriate signalling costs directly to services. However, for other assets it is necessary to carry-out a pre-allocation of costs to signalling functions and to allocate these signalling costs to services on the basis of a separate set of routing factors. This is designed to be done in a manner consistent with ARCEP's decision relating to the 2G radio network. The initial parameters will be adjusted following analysis of the quantitative data to be provided by operators.

- In the 2G radio network, since signalling channels are initially assumed to account for one of the eight channels per TRX, 1/8 of all 2G radio network costs are pre-allocated to signalling costs. These signalling costs are allocated between call signalling, location updates and SMS functions in proportions set by parameters.
- In the 3G radio network, costs relating to the SMS function (as measured in the loading in Mbit/s) are allocated directly to SMS services. For call signalling and location updates, it is assumed that these account for a fixed proportion of the radio network costs, initially assumed to be 5%. These costs are allocated between call signalling and location updates in proportions set by parameters.
- In the core transmission network, since signalling channels are initially assumed to require a 1/28 mark-up on capacity required, 1/29 of all core transmission costs and switching costs other than those for MSCs and SMSCs are pre-allocated to signalling costs. These signalling costs are allocated between call signalling, location updates and SMS functions in proportions set by parameters.

For some assets that are shared by 2G and 3G networks, it is also necessary to calculate the proportion of costs relevant to either 2G or 3G services before carrying out the allocation described above. In particular:

- backhaul costs are allocated on the basis of the number of 2Mbit/s links required by each of the 2G and 3G networks across all geotypes
- costs for cell sites and remote switching sites are allocated on the basis of the total radio traffic required (as measured in voice-equivalent Mbit/s) by each of the 2G and 3G networks across all geotypes.