

### A.3 Tariff System

The Chilean telecommunications law generally provides that prices for telecommunications services should be established by market forces. Nonetheless, if the Chilean commission charged with assuring free market conditions in various sectors of the Chilean economy (the "Fair Trade Enforcement Office") determines that conditions in a given sector of the telecommunications industry distort the operation of market forces, prices and tariffs in that sector will be regulated.

The Fair Trade Enforcement Office has determined that the conditions prevailing in the local and domestic and international long distance telephone services markets (excluding public telephones and cellular telephony) and in the market for certain intermediate and other services are not conducive to the free and fair determination of prices. Under the telecommunications law, the structure, level and indexing of the tariffs that may be charged by any particular company participating in the regulated sector are fixed by a decree issued jointly by the Ministry of Transport and Telecommunications and by the Ministry of Economics, Development and Reconstruction after a lengthy and involved process in which the regulated company participates, as discussed below.

The procedures to determine tariffs for the regulated sectors of the telecommunications industry are currently based on an economic model designed to result in tariffs for various telephone services which reflect an assumed cost of providing such services, including a rate of return commensurate with the providing company's assumed cost of capital. Although tariffs are fixed by using the model, a company's real rate of return is not fixed since a company engaging in a tariff-regulated service can in fact outperform or underperform the model.

Under the tariff-fixing process, which by law takes place every five years and is next scheduled to occur in 1993, the concession holder, based on the economic and technical framework agreed with the Undersecretary of Telecommunications, prepares a special study for each regulated service included in its geographic concession areas. The purpose of the study is to calculate the incremental development and marginal costs with respect to each such service, and to determine on the basis of such calculation the structure and level of tariffs. The