Office of Utility Regulation

Price Control for Telecommunications Services in Guernsey:

Review of Price Control Scope and Structure

Consultation Document

Document No: OUR 04/10

June 2004

Office of Utility Regulation
Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey, GY1 2NH
Tel: (0)1481 711120, Fax: (0)1481 711140, Web: www.regutil.gg

Contents

1. Introduction

The telecommunications sector in the Bailiwick of Guernsey is going through considerable changes as the foundations are laid for the development of a competitive market. However, until effective competition develops in that market, certain regulatory controls are necessary to protect the interests of consumers, including price controls for certain retail services.

In September 2001 the Director General of Utility Regulation (DG) found that the incumbent operator (Guernsey Telecoms at the time) – Cable & Wireless Guernsey (C&WG) was dominant in the fixed and mobile telecommunications markets in the Bailiwick of Guernsey and the company's licences includes certain provisions that allow the DG to control the prices it charges for a range of services in those markets.

In March 2002 following widespread consultation on the type and form of price control that was appropriate, the DG set a price control for four baskets of fixed telecommunications services provided by C&WG to end users, ranging from the provision of leased lines to call charges and line rental. That price control is due to expire on 31 March 2005.

The DG is now consulting, in this, and a number of related papers, on the existing price control, the changes in the market since the control was put in place and the scope and nature of any new price control that should apply.

This paper looks at the type of price control that has been in place (incentive regulation), revisits the strengths and weaknesses of that type of control and considers whether a control should continue to apply. It goes on to consider the range of services included in the control and whether there should be any changes to these and finally, looks at the structure of the control and again, consults on whether this should be changed.

To inform the consideration of these issues, the paper summarises developments in prices during the period of the existing control and considers what effects these have had on consumers and the market to consider whether the objectives of price control are being met.

Related Consultation Document OUR 04/09: "Market Dominance in the Telecommunications Sector in Guernsey", looks at the market developments since the opening of the telecommunications sector to competitive entry and the DG's finding that C&WG is dominant in the fixed and mobile telecommunications markets in Guernsey.

Consultation Document OUR 04/11: "Price Control for Telecommunications Services in Guernsey: Calculating Allowed Revenue and the Cost of Capital" addresses some specific technical aspects of the price control. The paper looks at the inputs into calculating the allowed revenue of the price controlled business over the price control, including calculating the asset base and allowance for capital investment and setting the cost of capital.

2. Structure and Comments

2.1. Structure

The rest of this paper is structured as follows:

Section 3:	describes the legal, licensing and market background to retail price control;
Section 4:	provides an introduction to the overall objectives of the price control, gives an overview of the range of issues that are being consulted on in this paper, and provides a brief description of the current characteristics of the price control that is in place;
Section 5:	describes in more detail the development of prices in the Guernsey market for a range of key services within and outside the control over the period of the existing price control;
Section 6:	sets out the issues for consultation in this paper and the questions that respondents are asked to comment on; and
Section 7:	draws together the conclusions and proposed next steps.
Annex 1:	describes the existing Price Control baskets of services
Annex 2:	sets out all of the questions in this Consultation Paper

2.2. Comments

Interested parties are invited to submit comments in writing on the matters set out in this paper to the following address:

Office of Utility Regulation
Suites B1& B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

Email: info@regutil.gg

The consultation period will run from 30th June to 27th August 2004. All comments should be clearly marked "**Comments on Price Control for Telecommunications Services - Consultation Document**" and should arrive before 5pm on 27th August, 2004.

In line with the policy set out in Document OUR 04/01 – "Regulation in Guernsey; Revised Consultation Procedures", the DG intends to make responses to the consultation available on the OUR website. Any material that is confidential should be put in a separate Annex and clearly marked so that it can be kept confidential.

The DG regrets that she is not in a position to respond individually to the responses to this consultation.

This document does not constitute legal, technical or commercial advice; the DG is not bound by this document and may amend it from time to time. This document is without prejudice to the legal position or the rights and duties of the DG to regulate the market generally.

3. Background

The Office of Utility Regulation (OUR) was established in October 2001 to regulate the telecommunications, post and electricity sectors in Guernsey independently from the companies and from the States of Guernsey.

The objective of the regulatory regime is to ensure that Guernsey consumers receive the best in price, choice and quality of utility services and that Guernsey has strong vibrant utility sectors that contribute to and underpin the continued economic success of the Bailiwick.

The Guernsey telecommunications market is going through a number of changes as it evolves from the former monopoly structure towards a more competitive market structure. While such developments are taking place, and where effective competition does not, or is not likely to, develop, the DG has the power to use specific regulatory measures to act as a proxy to competition and protect consumers' interests. One such measure is retail price control.

This section sets out the legal and licensing background to price control, briefly describes the existing price control that exists in the Guernsey telecoms sector, and considers key developments in the market since that price control was set.

3.1. Legal and Licensing Background

Section 5(1) of the Telecommunications (Bailiwick of Guernsey) Law, 2001 ("the Telecoms Law"), provides that the DG may include in licences such conditions as she considers necessary to carry out her functions. The Telecoms Law specifically provides that such conditions can include (but are not limited to):

- conditions intended to prevent and control anti-competitive behaviour[1]; and
- conditions regulating the price premiums and discounts that may be charged or (as the case may be) allowed by a licensee which has a dominant position in a relevant market[2].

In accordance with these provisions, both the "Fixed Telecommunications Licence Conditions"[3] and the "Mobile Telecommunications Licence Conditions"[4] include the following:

> *"The Director General may determine the maximum level of charges the Licensee may apply for Licensed Telecommunications Services within a Relevant Market in which the Licensee has been found to be dominant. A determination may;*

[1] Condition 5(1)(c) of the Telecommunications (Bailiwick of Guernsey) Law, 2001.
[2] Condition 5(1)(f) of the Telecommunications (Bailiwick of Guernsey) Law, 2001.
[3] Document OUR 01/18; Condition 31.2
[4] Document OUR 01/19; Condition 27.2

a) *provide for the overall limit to apply to such Licensed Telecommunications Services or categories of Licensed Telecommunications Services or any combination of Licensed Telecommunications Service;*

b) *restrict increases in any such charges or to require reductions in them whether by reference to any formula or otherwise; or*

c) *provide for different limits to apply in relation to different periods of time falling within the periods to which the determination applies."*

This condition allows the Director General to regulate the prices that a licensee charges for its telecommunications services in a way and for a time that she deems appropriate, provided the licensee has a dominant position in the relevant market.

In November 2001 the DG consulted on the question of dominance in telecommunications markets in Guernsey and concluded that Guernsey Telecoms (now C&WG) is dominant in the fixed telecommunications network and services markets and in the mobile telecommunications network and services markets[5], and therefore the licence conditions relating to retail price control apply in both the fixed and mobile telecommunications licences held by that company.

The question of market dominance in the telecommunications sector is being consulted on in Consultation Document OUR 04/09.

3.2. Setting of the First Price Control

In November 2001, the OUR consulted on the need for, and the format of price control in the telecoms market[6], and published a report on that consultation in March 2002[7], along with a decision to impose price control on a range of fixed telecommunications services using the internationally recognized mechanism of incentive regulation.

The price control set an upper limit for the prices of a range of baskets of services, allowing individual prices for service within those baskets to change upward or downward within the overall constraint of the control. The control was initially set for the period from 1st April 2002 to 31st December 2004. This was later amended to be aligned with a change in the year-end of C&WG so as to facilitate reporting and compliance monitoring. The price control was therefore extended to 31st March 2005.

Interested parties are encouraged to read the original report on the consultation and the decision notice on the first control to provide a framework for the issues raised in this consultation.

---

[5] Document OUR 01/14: Decisions under the Telecommunications (Bailiwick of Guernsey) Law, 2001; Decision Notice and Report on the Consultation

[6] Document OUR 01/22: Proposals for the Price Regulation of Fixed Telecommunications Services; Consultation Paper

[7] Document OUR 02/11: Price Regulation of Fixed Telecommunications Services: Report on the Consultation and Decision Notice

3.3. Developments in the Guernsey Telecoms Market

There have been a number of key developments in the Guernsey telecoms market since 2001. These are summarised briefly in the following paragraphs.

3.3.1. Incumbent Operator: Ownership Change

Until October 2001, the incumbent telecommunications operator in Guernsey was the States Telecommunications Board, Guernsey Telecoms (GT). On 1st October 2001 the Board was commercialised becoming a limited liability company wholly owned by the States of Guernsey. In May 2002, the company was sold to Cable & Wireless Ltd and has since been re-branded as Cable & Wireless Guernsey (C&WG). C&WG is a wholly owned subsidiary of Cable & Wireless Group and is 100% privately owned.

This development does not alter the structure of the market, merely the ownership of the main player. However, it does have implications for the regulatory regime. For example, it may affect the strength of the company in the Guernsey telecommunications market as it changes its position with regard to some key variable such as access to capital, economies of buying power etc. These issues are relevant to the review of dominance in the market and are considered in Document OUR 04/09.

The change in ownership may also change the company's behaviour in relation to investment and access to capital in particular and this is relevant for the setting of the allowed revenue and calculation of C&WG's cost of capital – matters that are considered in Document OUR 04/11.

3.3.2. Liberalisation of the Market

A significant change since 2001 has been the removal of the legal monopolies that were previously enjoyed by the incumbent operator in the provision of certain telecommunications services and networks. This means that the entire telecommunications market is now open to competitive entry, subject to licensing. The key dates for liberalisation were:

- The fixed telecommunications services market was opened up to competitive entry from 30 June 2002;
- The fixed telecommunications network market was opened to competitive entry from 30 November 2002; and
- The mobile telecommunications network and services market was opened up to competition on 1 April 2003.

In parallel with the removal of exclusive rights, licences were made available in the newly opened markets and key enablers of competition were also put in place including a Reference Offer for Interconnection and Access which sets out the terms and conditions on which new entrants can use the dominant incumbent's network. At the same time, certain services and activities previously requiring a licence, such as internal wiring of self provided networks were exempted from the requirement to be licensed.

3.3.3. Market Entry

Since the opening up of the market a number of licences have been issued by the OUR to competing operators, including two fixed licences, one each to Newtel Guernsey and Wave Telecom. In addition, following a tender process, licences to provide 2G and 3G mobile networks and services were granted to Wave Telecom Ltd in March 2003.

Notwithstanding the issuing of licences, the commencement of telecoms services by new entrants usually takes some time due to the need to build networks and/or conclude service agreements to use the incumbent's network.

In the case of Guernsey, the new fixed entrants have recently begun to provide services to business users and a Carrier Select based service was launched by Wave Telecom for all customers in May 2004. The launch date for competing 2G and 3G mobile services was 30 April 2004, however, the new operator has experienced delays in this and has been directed to remedy the delay by rolling out service by the beginning of July 2004.

3.3.4. New Services

Certain new services and/or packages have been introduced into the market since the last price control. The most notable of these are:

- The introduction of Broadband ADSL services;
- The introduction of Frame Relay services;
- The imminent launch of competing mobile telephony services; and
- Access to a number of new Directory Enquiry service providers in the UK.

In addition, C&WG has introduced a new pricing package for vulnerable users – the TAS scheme; this is in addition to the existing Shortcall service.

3.4. Conclusion and Related Consultations

With the current retail price control due to expire at the end of March 2005, the OUR is now proceeding to consult, in this and a number of related papers, on matters that will influence any new price control on retail telecommunications services provided by a dominant operator in Guernsey.

This paper addresses the scope and type of control and how it should be structured so as to achieve regulatory objectives.

Document OUR 04/09: "Market Dominance in the Telecommunications Sector in Guernsey – Consultation Document", addresses the finding that C&WG is dominant in the fixed and mobile telecommunications markets, developments in the market since that finding and how market data is being gathered to reconsider the finding of dominance if appropriate.

Consultation Document OUR 04/11: "Price Control for Telecommunications Services in Guernsey: Calculating Allowed Revenue and the Cost of Capital" addresses some specific technical aspects of the price control. The paper looks at the inputs into calculating the allowed revenue of the price controlled business over the price control including calculating the asset base, the allowance for capital investment, setting the cost of capital and assessing the level of operating costs.

4. Telecommunications Price Control in Guernsey

In the consultation on retail price control and the report on that consultation and associated decision notice in 2002, the DG described the purpose of price control in telecommunications where there is a dominant operator and explained why the control was being put in place. This section briefly revisits the objectives of the control, describes the various aspects of the existing control that are being considered in this review and describes the current characteristics of that control.

4.1. The Need for Price Control

The purpose of price control is to protect consumers' interests in circumstances where market forces have failed, or are likely to fail, to do so. In an effectively competitive market, consumers' interests are protected by competition, which ensures that companies seek to meet consumers' needs in terms of prices as well as quality. Consumers also benefit from innovation and choice as companies develop new products and service offerings in an effort to win their custom. Efficient investment into maintenance, upgrading and development of the underlying infrastructure is essential to enable this. Thus, competitive markets ensure efficient investment and operating costs, facilitate and drive innovation, and put price pressure on services to end users.

Where there is a dominant operator, and in particular an operator which has recently had a legal monopoly, those market forces are unlikely to be operating effectively. The dominant company can, if it wishes to, act independently of its customers and competitors and set the prices it wants and provide the quality it wants, not what the customer wants. In those circumstances customers can suffer from prices that reflect inefficient costs or are designed to extract excessive profit. At the same time investment may not be made in maintaining and upgrading essential underlying networks and facilities such that quality or innovation and choice may also suffer.

Price controls are put in place to prevent operators charging excessively high prices, either to cover inefficient costs or make supernormal profits. When appropriately targeted, controls can be designed to allow or encourage the prices charged for products to trend towards the true efficient costs of providing such products. This eliminates unfair cross subsidisation and can, in turn, facilitate market entry by competitors, thus allowing competition to develop to the benefit of end users.

At the same time, price controls can be used to protect vulnerable users who could be adversely affected by increases in specific prices. In addition, where cross-subsidies are not unfair but may be of social or economic value – for example in the case of ensuring uniformity of pricing – these can be permitted within a price control.

With regard to investment, if a price control is set to permit the regulated business to price at a level that permits it to recover a reasonable return on its capital, the incentive to invest further capital in the business so as to make that return should be self evident to the company and should not require any further regulatory intervention. Such investment, as already mentioned, would be necessary to maintain services but also so as to innovate and develop new choice and services as would happen in a competitive market.

4.2. Type of Price Control Regulation

When first establishing which type of price control is most appropriate for Guernsey, the OUR consulted on a number of options including; case by case approval; rate of return regulation; profit sharing; and incentive regulation. The benefits and drawbacks of each were discussed in Document OUR 01/22 and there was consensus from all respondents that incentive regulation of the form "ΔRPI-X" and "ΔRPI+Y" was the most appropriate for the Guernsey market.

The benefits and drawbacks of various types of regulation[8] remain unchanged, thus the DG does not consider that there is any prima facia reason to change the form of regulation in use. An added benefit of continuing to use incentive regulation is that there is now some experience of this type of regulation in the market which should reduce the effort and time necessary to implement a new control based on the same principles.

Incentive regulation is designed to provide the appropriate incentives to the regulated firm to behave as described in section 4.1 above. However, it has been acknowledged that incentive regulation does not guarantee or enforce any specific investment targets, but rather relies on the regulated firm to make economically rational investment decisions. Where the regulated firm has an incentive or makes a policy decision not to invest in the business, incentive regulation does not force such investment.

Indeed, because of this lack of enforcement there are circumstances when, investment that had been planned over the period of the price control, and had been taken into account by the regulator when setting price levels, does not happen. This is to the detriment of consumers and the benefit of shareholders. This concern in relation to capital investment over a price control period is explored in more detail in Consultation Document OUR 04/11 which considers the mechanism for calculating allowed revenues, including an allowance for capital expenditure.

4.3. Scope of the Control

In Document OUR 02/11 the DG decided that the price control would apply to a range of services available on the fixed telecommunications network of C&WG, ranging from leased lines to exchange lines and calls made from fixed lines. At that time the DG explicitly excluded calls to mobiles from fixed lines. The DG also decided that the consultation would not address retail pricing for mobile services for reasons explained in Document OUR 02/11[9]. However, the DG did specifically note that, if price changes in these services were observed that gave rise to concern, she would consider intervening in the market to control these.

Since March 2002 when the control was introduced, there have been a limited number of new services and products launched by C&WG including broadband internet access using ADSL technology and frame relay services.

In the context of price development over the period of the price control, this paper is consulting on whether or not;

- any previously excluded services should be included in the control;

[8] See Annex II of Consultation Document OUR 01/22 for a summary of these
[9] See section 7.2 of Document OUR 02/11

- any new services should be included in the control; and
- any currently included services should be removed from the control.

This is addressed in more detail in section 6.3 later in this document.

4.4. Composition of the Control

The existing price control comprises four “baskets” of services which are set out in full in Annex 1. Each basket has a different upper limit on prices. The baskets were devised based on the information available to the OUR on the respective costs and prices for those services, the business plan of the company for the period of the price control, and the need to meet the various objectives described in section 4.1 above and revisited in this section.

4.4.1. Protecting Vulnerable Users

The price control sought to protect vulnerable users. Vulnerable users are particularly exposed to that part of their telephone bill which is fixed and is not dependent on calling profiles. Therefore the control places an upper limit on the fixed element of telephone bills – exchange line rental. The level of this limit was also informed by submissions in relation to cross subsidisation and rebalancing which are discussed further below.

4.4.2. Affordability and the USO

The setting of the control was also informed by the need to meet States policy that a set of defined basic telephony services should be available at an affordable price to all telecommunications users in the Bailiwick (the universal service obligation or “USO”). This means that these services must be provided to all parts of the Bailiwick at the same price, even if the cost of providing those services to a particular location is higher than other locations. This policy, which is a very common one, in effect permits certain types of cross subsidy to ensure uniformity of pricing.

4.4.3. Eliminating unfair cross subsidies/facilitating competition

In line with the principles of incentive regulation, the control placed a limit on prices for “baskets” of services rather than individual services so as to provide some commercial freedom to C&WG to adjust prices, while at the same time permitting the company to align some prices closer to costs. This approach was designed, *inter alia*, to facilitate the development of competition which could be hindered by historical unfair cross subsidies.

4.4.4. Rebalancing

In particular, C&WG argued that it was providing exchange line rental at a retail price that was below the cost of providing the service and considered that this retail charge should be increased. In reviewing the information provided the DG considered that there was a case for permitting some increases in line rental. However, the process of rebalancing involves corresponding reductions in other prices at the same time.

Taking this fact into account and having regard to the need to protect vulnerable users, an upper limit was placed on any line rental increases. At the same time a downward price cap was placed on a basket that was comprised mainly of call services requiring reductions in those prices.

4.4.5. Conclusion

In the context of price changes that have taken place during the period of the control so far, this paper consults on whether those changes provide for a fair distribution of price increases and decreases across various user groups, considers the need to protect vulnerable users and the achievement of the universal service obligation. The work described in Consultation Document OUR 04/11 will inform any decision as to whether prices have moved closer to efficient costs and whether there is any need for further rebalancing of tariffs to be taken into account in a new price control.

C&WG, as the regulated firm, is in possession of the information necessary to demonstrate whether call charges have been subsidising connection and rental fees as has been alleged in the past and it should assess the extent to which this is allegedly happening, assuming the access costs that an efficient operator would face. C&WG must provide a clear, transparent objective justification to support any case it wishes to make and the DG will assess any such case on its merits in the context of the total overall objectives of the price control.

4.5. Level of the Control

OUR Documents OUR 01/22 and OUR 02/11 set out the process that OUR used in order to arrive at a fair level of price control. This section revisits the process to provide respondents with a context for their responses to this consultation.

In the first place, price controls are forward looking i.e. they control price levels over a number of years into the future from a specified starting point. It is therefore necessary to take a "snapshot" of the regulated business, its costs and revenues and its current efficiency levels at an appropriate point in time.

For a variety of reasons, the snapshot will be unlikely to correspond to the statutory accounts of the regulated business, although those accounts can prove a useful starting point in the provision of information. Reasons for this are, briefly;

- The snapshot will be of the part of the business to be price controlled only which is unlikely to correspond to the entire business;
- Even if the entire business is to be price controlled, various adjustments may be necessary to deal with the fact that statutory accounts are backward looking and the price control is forward looking.

Regardless of this, it is the responsibility of the regulated firm to provide the required information. In particular, the degree to which aspects of the business can be excluded from any price control will be influenced by the degree to which the company can provide disaggregated information.

It is then necessary to prepare a forward looking business plan which forecasts a range of key inputs over the lifespan of the control, including trends in underlying costs (including the investment programme), potential efficiency gains, the effect of competition on the relevant market, the regulated firm's position within the market and the impact on vulnerable users amongst other things. Two key inputs that are being consulted on separately in document OUR 04/11 are the appropriate treatment of the starting asset base and the level of return that should be allowed on the assets (the "cost of capital").

A rigorous economic and financial modelling exercise is then necessary to calculate the "allowed revenues" for the regulated or price controlled business over the lifetime of the control. The level of allowed revenue in turn determines the level of the price control (the "X" factor in the control). The objective is to set the control at a level such that if the regulated firm operates efficiently, it can expect to cover its costs, including the costs of its capital employed, over the period of the control.

The level of the control, in conjunction with the composition of the baskets, will determine the upper limits on prices that may be charged over the lifetime of the control and the degree of flexibility that the regulated firm has in setting those prices.

The OUR will adopt this approach in setting the level of the price control, and C&WG has already been requested to prepare an appropriate business plan for the regulated business to facilitate this.

4.6. Duration and Carry Over

The first price control was originally set for the period from 1 April 2002 to 31 December 2004 but was later extended to 31 March 2005 to align it with C&WG's financial year end and facilitate reporting and information requirements. The three year duration of the control was decided in the context of the fact that C&WG (GT as it then was) was going through a transition from a States owned company to a privately owned company and had imperfect information available to inform the process. In addition, the liberalisation of the telecommunications market was scheduled to take place over the duration of the control and the timing of the review would coincide with an opportunity to review the actual development of competition and its impact on the market. The duration was also consistent with price control periods internationally.

The DG also provided that, following an assessment of compliance at the end of each calendar year, a case by case decision would be made on whether or not the company would be allowed to "carry over" any overachievement into subsequent years. In effect this would mean that if C&WG overachieved in one year (i.e. reduced prices by more than the amount required), that could be carried over in the next year, thus relaxing the requirement in that next year.

To date the OUR has not received what it considers a satisfactory compliance return to enable a decision to be made on whether full and accurate compliance has been achieved and therefore no decision on carry over has been possible.

4.7. Information Requirements

C&WG, in examining any price control, will want to examine the impact of various scenarios on its business. The company, as the provider of services, has access to the best information to do this. In addition, C&WG is expected to have greater certainty in business planning and forecasting as it is no longer facing a change in ownership as it was at the time of setting the first price control.

4.7.1. Business Plan Submission

This information will be provided to the OUR in the context of the business plan submission described in section 4.5 and is fundamentally important to the setting of any revised control, including decisions as to the duration of the control, carry over and the level of the control. It will also be instrumental in determining the scope and composition of the control because individual services within the relevant markets will only be eligible to be removed from the control in circumstances where the company has sufficiently disaggregated information to demonstrate that this is appropriate. Such decisions would also be contingent on whether the DG considered the company to be dominant in the market for those services, and whether or not a price control is appropriate for those services.

Detailed discussions and correspondence have already been undertaken with C&WG on its submission.

4.7.2. Customer Impact Assessment

A further important information requirement is an assessment of the impact of various price control scenarios on customers' bills. When the first price cap was set, the OUR required C&WG to carry out an analysis of actual bills to provide this information and the company failed to do so, providing instead hypothetical bills.

The OUR will not accept that approach in this price control review and requires an impact assessment of the lower quartile bill, the second and the third quartile bill for residential customers as well as a series of business user bill impacts as part of the price control submission.

C&WG has been informed of this as part of the information requirements of the OUR.

4.8. Conclusion

This section has described the reasons for price control and briefly revisited the control that currently exists, as well as providing background information on the process that the OUR will use to set the level of the control and the information that the OUR will require in order to conclude this process.

This provides some background information to respondents to assist in formulating their responses to the questions later in this document.

5. Pricing Changes during the Price Control Period

5.1. Overview

This section considers the developments in prices for telecommunications services in Guernsey since the introduction of the price control. It should be noted that this does not follow the basket structure in the price control, nor does it purport to be a definitive opinion on compliance or otherwise with the price control. Furthermore, it is acknowledged that a simple change in a price does not necessarily demonstrate customer impact, as different customers will use different services to different extents. Nor does such a piece of information demonstrate the impact on the firm supplying the service (C&WG) as it does not take into account the interrelationship between factors such as the impact that a price change might have on the demand for the service and on the decision of competitors to enter the market and perhaps take market share.

Therefore this review should not be considered as a commentary on compliance with the overall price control, which is a matter for more extensive and separate analysis.

C&WG provides a large number of different products ranging from line rental and connection to voice and data calls. Calls may in turn be local, to the UK (national) or international. Throughout the price control period to date, C&WG has made four sets of price changes, although not all prices were changed in each case. Some prices have remained static, some have increased and some have reduced within the constraints of the baskets. A brief summary of the key products and the level of price changes are set out in the following sections.

5.2. Price Decreases

C&WG has concentrated its price reductions on international call charges and charges for calls to the UK and Jersey.

International call charges have been reduced by between 2% and 87%, with the average reduction being 33%. Some key destinations for Guernsey users saw significant reductions, including Portugal, where prices fell by 69%.

Perhaps of even greater impact was the reduction in calls to the UK. Guernsey customers saw a drop of 46% in the price for calling the UK at peak times, with the per minute rate now at 3.7p. The cheap rate reduced by 38% and Sunday calls by 25% to 2.5p per minute.

Calls to Jersey at peak times were also reduced and priced at the same level as calls to the UK – a fall of 30%. However, the cheap rate initially fell by 12% but rose again by 26%, showing a net increase of 12% and demonstrating a level of volatility in pricing that is of concern. Similarly Sunday rates to Jersey initially dropped 12% only to rise 9% later in the price control period.

5.3. Unchanged Prices

Prices for some services remained unchanged for the duration of the price control. When the rate of inflation over this period is taken into account, this represents a price reduction in real terms. Inflation in the period between 1 May 2002 when the price control began, and 1 July 2004 is estimated to be 10%.

The price control required that the prices of leased lines remain at the levels they were at in March 2002. This includes rentals and connections for those services. Leased lines are seen as key products for larger users and for new entrants who use these circuits to compete in the local telecommunications market. Therefore the pricing of leased lines has a direct effect on the development of the market.

Among the other prices that were maintained as static by C&WG were calls to local ISPs and calls to a small number of international destinations.

5.4. Price Increases

Price increases introduced by C&WG were focused almost exclusively on local services.

Exchange line rental for standard phone lines was increased to the maximum possible under the price control, with four price changes made since the introduction of the control. Line rental increased from £12 per quarter to £16.29 per quarter – an absolute increase of 36%. In Herm, where line rental had previously been £18 per quarter, the charges were aligned with Guernsey, representing a 10% reduction in line rental. C&WG has also introduced price increases of between 18% and 25% for rental charges for its range of ISDN services including ISDN 2, Fractional ISDN and ISDN 30 services.

Given the absence of alternative infrastructure, it is clear that these increases have been introduced in a segment of the market where customers have no choice and therefore cannot avoid the increases. Furthermore, given the ubiquity of fixed services, the increases affect almost all customers, irrespective of their calling pattern.

C&WG also increased the local un-timed call charge by 20% in July 2003. ISDN 2 local calls went up by 28% and shortcalls increased by 13%. At the same time DQ call charges increased by between 67% and 100%. Calls to UK ISPs increased by between 17% and 50% and calls to the UK on 0870 numbers increased by between 56% and 82%.

5.5. Other Pricing Issues

There have been a number of other pricing developments during the price control period to date which are briefly described in this section.

5.5.1. Broadband Pricing

As noted earlier, C&WG introduced some new products in the market during the price control period. One of the most significant of these was broadband services. The company announced a range of services in September 2002 and published prices for those services. The OUR was concerned at the high level of the prices and conducted an investigation[10]. At the conclusion of that investigation, C&WG reduced its prices for broadband services significantly. Reductions were in the order of 33% to residential customers.

5.5.2. July 2003 Investigation into Price Changes

In addition, when a range of price changes were announced to come into effect in July 2003, the OUR carried out an interim investigation of probable compliance with the price control which indicated that C&WG was likely not to be in compliance given the prices published. As a consequence, the company introduced greater reductions in certain call charges, including calls to the UK but maintained all of its increases in local calls and rentals.

5.5.3. Calls to Mobiles

C&WG has made some other price changes, particularly in relation to mobile calls. Most significantly the company increased the charge for calling a C&WG mobile from a fixed line at peak times, from 9p per minute to 12 p per minute in July 2003. Off peak and Sunday calls continue to be charged at 9p per minute.

In June 2004, C&WG announced its intended prices for calling a Wave Telecom mobile phone in Guernsey which are higher than those for a C&WG mobile at 14.8p per minute at all times – making it 23% more expensive to call a Wave Telecom mobile at peak times and 64% more expensive at other times. The OUR is of the view that this represents a *prima facia* breach of C&WG's licence and has launched an immediate investigation.

At the same time C&WG published proposed prices for calling a Wave Telecom mobile from a public payphone which are 177% higher than the charge for calling a C&WG mobile at peak times, and 121% and 11% higher at off peak and Sunday times respectively. Once again, the OUR is of the view that this represents a *prima facia* breach of C&WG's licence and has launched an immediate investigation.

5.5.4. Telephone Assistance Scheme

In March 2004 following discussions with the Social Policy Working Group and the OUR, C&WG introduced a special pricing package for telephone users in receipt of supplementary welfare benefit. This scheme (the Telephone Assistance Scheme or TAS) provides qualifying users with a discount on their line rental of £12 per quarter.

At the same time as introducing this scheme, C&WG made available to all customers, the option of untimed local calls (at 6p per call) or timed local calls (at 1.7p per minute) and ceased the provision of shortcall line rental.

5.5.5. Exchange Line Connection and Takeover Charges

In response to a number of customer complaints received in 2004, the OUR has also commenced an investigation into the prices G&WG charges for Exchange Line connection and takeover charges.

---

[10] OUR 02/40; ADSL in Guernsey: Summary of Finding in Investigation into Cable & Wireless Guernsey's ADSL product

5.6. Conclusion

C&WG has reduced call charges for the types of calls where the company is likely to face competition – international and calls to the UK. This is not uncommon in newly liberalizing markets and clearly demonstrates the benefits to customers of actual or prospective competition. The OUR is however concerned to ensure that this does not result in squeezing the margins of new entrants such that it is not feasible or sustainable for them to enter the market in these areas.

At the same time C&WG has increased prices for local services where competition is unlikely to develop, i.e. fixed line rentals and local calls. Indeed international experience implies that competition in these services may never develop effectively. The concern that this raises for OUR is that the company could be charging excessive prices in an area where it has an effective monopoly (e.g. exchange line rental and connection and local calls), to enable it to provide lower prices where there may be competitive entry.

For the avoidance of doubt the above concerns do not comprise allegations and it is not suggested that this is the case at this stage, merely that the matter warrants further consideration.

The OUR is aware of C&WG's contention that its price changes are designed to align revenue with costs and address what it perceives to be a loss that it makes on the rental of exchange lines in particular. For the avoidance of doubt, it is a matter for C&WG to provide information to support any such contention and any submissions by the company for increases in any prices will only be considered in the context of C&WG's business plan submission and the information provided by the company.

The OUR notes that C&WG has demonstrated a tendency to set prices at a level that is the maximum permissible under the price control and has yet to provide an adequate formal compliance return in relation to the price control. Experience in other markets that have been liberalized indicates that incumbent operators faced with competitive entry have in fact tended to reduce prices to a level below that required by the formal price controls. This implies to OUR that the price control is providing the only effective protection for consumers against even higher prices and that the threat of competition in the Guernsey market alone is not strong enough to incentivise C&WG to provide better value to its customers.

Finally, on three separate occasions during the price control, C&WG has introduced prices that have warranted an investigation by OUR. On two of those occasions, the investigation has led to reductions in the proposed prices. The third investigation is not yet concluded.

6. Price Control: Matters for Consultation

6.1. The continued need for the Control

Section 4.1 above briefly describes the objectives of price control and the reasons that price control is needed. This issue was also addressed in some detail in the first consultation on introducing price control in the Guernsey telecommunications market.

The DG is of the view that the drivers behind the need for price control remain unchanged in the Guernsey market because the development of competition is still at a very early stage and the dominant incumbent retains a position of considerable power in the market (this is without prejudice to the outcome of the consultation on market dominance in Document OUR 04/09).

The DG is of the view that the need for price control in the telecoms market remains unchanged in Guernsey.

Q1: *Do respondents agree that there is a continued need for price control in the Guernsey telecommunications market? If not, please explain your reasons.*

6.2. The Type of Price Control Regulation

In principle, the reasons for adopting incentive regulation in Guernsey above various other methodologies have not changed and the DG does not consider that there is a *prima facia* reason for adopting a different mechanism at this stage.

However, the DG does have some concern as to the level of investment in the regulated business during the price control period, based on experience during this existing price control period. The mechanism for calculating a capital allowance for capital expenditure over the period of the price control is considered in detail in Consultation Document OUR 04/11.

The DG is of the view that, in addressing this issue as part of the price control, it is essential that there be a formal commitment to the investment programme over the price control period so as to ensure that the capital programme put forward by the operator is in fact put in place. This would ensure that the revenue raised by the business from prices charged to customers, is used to meet the capital expenditure programme.

Q2: *Do respondents agree that incentive regulation remains the most appropriate form of regulation in Guernsey? If not what alternative would you propose and why?*

Q3*:* *Do respondents agree with the proposal to require formal commitments to capital expenditure as part of the price control process? If not, why and what alternative do you propose to ensure that revenue received on the basis of planned expenditure is in fact invested in the business?*

6.3. *Services in the Price Control*

6.3.1. Services that are currently controlled

There are four baskets of services that are currently price controlled. These are listed in full in Annex 1 to this paper, and broadly comprise the following:

- The provision of leased lines to end customers, including connection and rental charges;
- The provision of exchange line rental;
- The provision of shortcall lines to customers including connection, takeover and rental and the provision of shortcall calls (local timed calls) to customers;
- The provision of all other calls from fixed lines excluding calls to mobiles (this basket includes local, UK and international calls as well as calls to ISPs and DQ), and all connection and rental of ISDN products, as well as connection and takeover of Exchange Lines.

All of the above services are provided by C&WG in the fixed telecommunications market. Notwithstanding the fact that a limited number of competitors have recently launched some services competing with C&WG, including leased lines and international and national call services using Carrier Selection, and without prejudice to the outcome of Consultation Document OUR 04/09 on market dominance, the DG does not currently have any indication that there is effective competition in the provision of any of these services that would indicate the removal of the services from a price control would be appropriate.

Q4. *Do respondents agree that all existing services in the price control should remain within a new price control? If not why and what alternative would you suggest? Please support your response with quantitative analysis and data.*

6.3.2. New Services

Since the original price control was introduced, C&WG has launched some new services in the fixed telecommunications market comprising:

- The provision of ADSL access (rental and connection) to customers;
- The provision of ADSL access to ISPs; and
- The provision of Frame Relay Services.

Given the lack of competition in the provision of telecommunications networks in Guernsey, C&WG is in a unique position with regard to the provision of these services. Without prejudice to the outcome of Consultation Document OUR 04/09 on market dominance, the DG does not currently have any indication that there is competition in the provision of any of these services that would indicate they should remain outside the price control.

Furthermore, the DG's proposal to bring broadband ADSL services within the price control is supported by the outcome of the OUR investigation into the initial prices proposed by C&WG for these services[11].

Therefore the DG proposes to include these services in any future price control.

---

[11] OUR 02/40; ADSL in Guernsey: Summary of Finding in Investigation into Cable & Wireless Guernsey's ADSL product

Q5: *Do respondents agree that broadband ADSL services and Frame Relay services should be included within a new price control? If not why and what alternative would you suggest? Please support your response with quantitative analysis and data.*

C&WG has also launched access to a wide range of new Directory Enquiry service providers in the UK using numbers in the "118XXX" format. These DQ providers set the price for their own services and C&WG charges for access to the service providers, i.e. call charges. The previously available C&WG DQ service (which is outsourced to BT) continues to be available on these new numbers also.

The C&WG DQ charges are included in the current price control because, amongst other things, the provision of DQ services is a universal service obligation. Options open to the DG at this stage are:

- Continue to include the USO DQ service in the price control only;
- Include all new DQ services in the price control; or
- Remove all DQ services from the price control, including the USO service.

The DG is not convinced that it would be helpful to include all new DQ services in the price control, not least because the third party charges charged by these operators are wholly outside C&WG's control. However, as C&WG is the only operator currently providing access to these service providers, it may be appropriate to include the call charge, or access aspect of the service in the price control.

However, notwithstanding the company's decision to outsource the service, the C&WG DQ service comprises part of the USO and it is within the control of C&WG to set prices for this service. Therefore the DG considers that this service should remain within the price control.

Q6: *Do respondents agree that the C&WG DQ service should be included in the price control? If not, please explain your reasons.*

Q7: *Do respondents consider that access to the alternative 118xxx DQ service providers should be included in the price control? Please explain your answer.*

Finally, C&WG has recently announced proposed new charges for calls from the fixed network to a Wave Telecom mobile and for calls from a payphone to a Wave Telecom Mobile. These are discussed in section 6.3.3 below along with other calls to mobile phones.

6.3.3. Services Previously outside the Control

When the first price control was set the DG decided not to include;

- Calls from a fixed line to mobile phones; or
- Mobile services, including rental, connection and calls from mobile phones.

In arriving at this decision, the DG noted that it has been general practice to treat the mobile markets as separate on the basis that it is newer and therefore some of the legacy issues that price control is designed to address may not exist. Furthermore, at the time of setting the price control, there was a process in train to license a second mobile network and service provider in the Bailiwick and in line with international experience, it is hoped that effective competition in networks and services can develop rapidly. Permitting freedom of pricing is considered to be conducive to fostering such competition.

However the DG noted that were there to be significant price developments in this sector that she considered not to be in consumers' interests she would intervene.

Since then, as noted in section 5.5, charges for calling a C&WG mobile phone from a fixed land line have increased in peak hours. Furthermore, C&WG has announced higher charges for calling a Wave Telecom mobile phone from a fixed line. The OUR is currently investigating this as a matter of urgency. At the same time, C&WG has also announced significantly higher charges for calling a Wave Telecom mobile from a public payphone, compared to calling a C&WG mobile. This is also a matter under investigation.

The DG considers that, given that C&WG is currently the only operator in the Bailiwick with the underlying network to enable it to provide fixed exchange lines, the lack of competition in the provision of alternative providers of call services to local mobiles and the pricing developments demonstrated by C&WG proposals for charges to Wave Telecom mobiles, it is appropriate to include calls from fixed lines (including payphones) to Guernsey mobiles in any new price cap.

This proposal is without prejudice to the outcome of the current investigation into C&WG's proposed prices for these services.

Q8: *Do respondents believe that calls from fixed lines (including payphones) to Guernsey mobiles should be included in the price control? Please explain your answer.*

With regard to the provision of mobile services generally, the DG notes the imminent launch of competitive mobile services by Wave Telecom. Notwithstanding this, the finding that C&WG is dominant in the mobile telecommunications market remains (subject to the outcome of the consultation in Document OUR 04/09), and these services are candidates for price control.

The DG is therefore reconsidering whether mobile services should be included in any future price control and invites comments on this from interested parties. Respondents may wish to reconsider the original discussion of this issue in Document OUR 02/11 in formulating their responses.

Q9: *Do respondents believe that mobile services should be included in the price control? Please explain your answer.*

6.4. Composition of the Control

As explained in section 4.4, the price control can be structured in such a way as to meet key objectives and provide specific types of incentives. The current composition of the control is as set out in Annex 1 to this document and this section considers whether some of the characteristics of that control should be adjusted to meet the key objectives already discussed in this paper.

6.4.1. Protecting Vulnerable Users

The price control sought to protect vulnerable users by restricting upward movement in exchange line rental charges as described in section 4.4.1. However, some upward movement was permitted on the basis of submissions by C&WG as to the need to recover the costs of providing line rentals.

Since the original price control, C&WG has introduced a scheme aimed specifically at some vulnerable users – those in receipt of supplementary welfare benefit. This scheme (TAS) provides such users with a discount of £12 per quarter on line rental on proof that they are in receipt of benefit. The OUR welcomes this measure.

However, the OUR is conscious that this captures only a segment of vulnerable users and continues to have regard to the need to protect all vulnerable users from disproportionate rises in unavoidable parts of their telephone bill. As a consequence, the OUR considers that it may still be appropriate to maintain a specific cap on exchange line rental charges either as a separate basket or a specific sub cap.

The OUR is open to receive submissions or proposals on alternative or complimentary measures to protect vulnerable users and how to incorporate such protection into the structure of the price control.

Q10: *Do respondents agree that it continues to be appropriate to have a specific limit on exchange line rental charges in the interests of protecting vulnerable users? If not please explain why.*

6.4.2. Affordability and the USO

It is States of Guernsey policy that a specified set of telecommunications services, including fixed line telephone connection, be made available at a uniform price throughout the Bailiwick as described in section 4.4.2. The DG will continue to ensure that this principle is maintained in any new price cap notwithstanding any differences in the costs of providing these services in different locations within the Bailiwick.

6.4.3. Eliminating unfair cross subsidies and rebalancing

The first price control placed a limit on prices for "baskets" of services rather than individual services so as to provide some commercial freedom to C&WG to adjust prices while at the same time permitting the company to align some prices closer to costs. This approach also facilitated the rebalancing of line rental charges in particular which C&WG has increased to the maximum price allowed under the cap. Correspondingly, call charges, particularly international and national call charges have been reduced as described in detail in section 5 of this paper.

The pattern of price changes gives rise to some concern when considered in conjunction with the actual development of competition in the market, and this section considers these concerns and how they might impact on the composition of the price control. The concerns, which are summarised above in section 5.6, are:

- Do price reductions in international and national call charges result in squeezing the margins of new entrants such that it is not feasible or sustainable for them to enter the market in these areas?

- Do increases in local services where competition is unlikely to develop, i.e. fixed line rentals, connections and local calls represent excessive prices in these areas that may be used to subsidise services where competition is more likely to develop?

At present the composition of the baskets mean that the principle basket that has a requirement to reduce prices by RPI – 5% each year, includes local calls as well as international and national calls and all ISDN rentals and connections. Exchange line rental is in a separate basket with an upper price limit of RPI +7% in each year.

The DG is now considering whether it would be appropriate to set more specific and targeted controls on charges for "local services" where it may not appear likely that there will be competitive entry in the near future (subject to the outcome of Consultation Document OUR 04/09). Local services in this context could include all or some of the following:

- local exchange line rentals, connections and takeover
- local ISDN line rentals connections and takeover
- local calls (timed and un-timed)
- local calls to ISPs
- broadband ADSL.

This could ensure that, in totality, the revenue from local fixed services do not unfairly subsidise those services where there is more prospect of competitive entry. At the same time, the combination of all local services in one basket would permit C&WG to address the total cost of the local network, about which it has previously expressed concern.

This could be implemented by means of a specific local basket with or without a number of sub-caps, or as a series of sub-caps within a wider basket.

Q11: *Do respondents consider it would be appropriate to cap "local services" specifically in this way? Please explain your answer.*

6.4.4. Leased Lines Basket

The existing price control addressed leased line services specifically because of the importance of such services to the business community of the Bailiwick in particular. Because of lack of transparent information as to the revenue and costs attributable to the various types of leased lines, it was not possible to determine a detailed level of change that might be indicated in the prices for such services. Therefore the DG imposed a price freeze and no increases were permitted. However, C&WG has been free to adjust prices down should it choose to.

International experience has demonstrated that the leased lines market may be one of the first to become competitive because new entrants target leased line customers who generally have a high average spend. As a result these customers are usually in a position to leverage their buying power and place downward pressure on the prices of the services they purchase.

It is notable that, in the period immediately after liberalisation of most EU markets in 1998, the tariffs for leased lines of all types fell rapidly. In the first year prices for a local 2Mbit leased line fell on average by about 10%. International leased lines also fell by around this amount and these have continued on a steep downward trend with the result that three years after the introduction of competition such services are now almost 50% cheaper[12].

The DG notes that there has been no movement in leased line prices in the price control period, other than the real decline caused by the price freeze. Thus the prices have remained at the highest level permitted by the price control, indicating that perhaps customers and competitors are not yet in a position to exert the type of pressure on prices that has been seen elsewhere.

In these circumstances the DG considers that it is essential that the leased line basket is retained. She will consider the level of an appropriate cap in the context of the information provided as part of the price control process.

Q12: *Do respondents consider that the leased line basket should be retained? If not please explain why.*

6.4.5. Conclusion

In conclusion, the DG is considering making a number of adjustments to the composition of the baskets to meet the regulatory objectives. Such adjustments could include the targeting of a specific control or controls on "local services". However, the DG will consider other adjustments as necessary to meet regulatory objectives and any comments on alternative basket structures and the reasons for such alternatives would be welcome.

Q13: *Please set out any proposals you have for basket structures and composition and explain why you consider those proposals are appropriate.*

6.5. Duration and Carry Over

In considering the duration of any new price control, the DG is conscious that there is a need to balance the requirement for certainty in the market (for the price controlled company, new entrants and consumers) with regard to prices over a reasonable time horizon, with the need to be able to take account of developments in a market that is technologically and commercially subject to rapid change.

The first control was set for three years having regard to these factors, as well as the fact that the information available to inform the first price control was somewhat uncertain. Factors contributing to that uncertainty were the imminent change of ownership of the company, the fact that the company had little experience in

[12] Report on Telecoms Price Developments from 1998 to 2002; Prepared in August 2002 by Teligen Ltd.

providing the type of forecasting information required and the fact that the market would be liberalizing during the period of the control and there was uncertainty as to the impact that competition might have.

The company has now been in the ownership of C&WG for over two years and it is expected that its informational capabilities will have improved and it will have more certainty for business planning forecasting purposes. However, the development of competition in the Guernsey telecommunications market is still in the very early stages and the pace of developments in the telecommunications sector generally has not abated.

The DG is of the view therefore that the revised price control should, once again, be set for a three year period. This will provide adequate time for business planning purposes, certainty for new entrants as to pricing, but will permit a review within a reasonable time horizon to take account of changes in the market.

Q14: *Do respondents agree that the price control should run for three years? If not please suggest an alternative and explain your reasons.*

As noted earlier, the OUR has not yet received a satisfactory compliance return that enables a decision to be made on whether full and accurate compliance with the price control has been achieved. The concern arising from compliance submissions to date is primarily that there is an absence of accuracy to enable the calculation of the ***level*** of any potential carry over and C&WG has been unwilling to take responsibility for the level of accuracy of the formal compliance return. In these circumstances the DG is not in a position to make any final decisions on carry over.

Given the need to continue to improve data capabilities, the DG does not propose to change the policy of examining carry over applications on a case by case basis. It would be inappropriate to provide automatic carry over at a time when the level of any overachievement may be uncertain.

Q15: *Do respondents agree that carry over should be subject to a case by case examination? If not please suggest an alternative and explain your reasons.*

7. Conclusions and Next Steps

Section 6 of this document sets out a number of specific questions where the DG invites comments. However, respondents are also invited to provide comments on any aspect of the structure and scope of the price control. Data supporting any suggestions would be particularly relevant, including any cost analysis, customer impact information, benchmarking or such other information as respondents consider may be of use.

Interested parties are also invited to respond to related Consultation Documents OUR 04/09 and OUR 04/11 which are available from the OUR website.

The final level and composition of any price control will be decided upon taking account of the responses to all three consultations, as well as the detailed information (including customer impact assessments) provided by C&WG in response to the OUR's information requests, and such other information as the OUR considers appropriate.

The OUR intends to consider all the relevant information and arrive at a new price control which will be published late in Q4 of 2004 or early in Q1 2005. It is currently intended that the control will come into effect from 1 April 2005.

/END

ANNEX 1: Price Control Baskets

The price control in place contains four "baskets" of services that are subject to a cap. These are currently as follows:

Basket 1: Leased lines: No change
- private circuit connection and takeover
- private circuit rental

There shall be no upward change in the price of this basket or in the price for any individual service within the basket

Basket 2: ShortCall Basket: RPI - 3%
- Shortcall line connection and takeover,
- Shortcall line rental
- Shortcall local calls

Changes in the price of this basket shall not exceed RPI – 3%.

Basket 3: Main basket: RPI-5%
- Exchange line connection and takeover
- ISDN line rental, connection and takeover
- Local dialled calls
- Jersey dialled calls
- National dialled calls
- International dialled calls
- Local dialled calls to ISPs
- National dialled calls to ISPs
- Operator calls
- DQ calls (including call charges and facility charge)
- Payphone calls

Changes in prices of this basket shall not exceed RPI - 5%.

Basket 4: Exchange Line Rental: RPI+7%
- Exchange line rental

Changes in the price of this basket shall not exceed RPI + 7%

ANNEX 2: Questions in this Consultation Paper

Q1: *Do respondents agree that there is a continued need for price control in the Guernsey telecommunications market? If not, please explain your reasons.*

Q2: *Do respondents agree that incentive regulation remains the most appropriate form of regulation in Guernsey? If not what alternative would you propose and why?*

***Q3**: Do respondents agree with the proposal to require formal commitments to capital expenditure as part of the price control process? If not, why and what alternative do you propose to ensure that revenue received on the basis of planned expenditure is in fact invested in the business?*

***Q4**. Do respondents agree that all existing services in the price control should remain within a new price control? If not why and what alternative would you suggest? Please support your response with quantitative analysis and data.*

Q5: *Do respondents agree that broadband ADSL services and Frame Relay services should be included within a new price control? If not why and what alternative would you suggest? Please support your response with quantitative analysis and data.*

Q6: *Do respondents agree that the C&WG DQ service should be included in the price control? If not, please explain your reasons.*

Q7: *Do respondents consider that access to the alternative 118xxx DQ service providers should be included in the price control? Please explain your answer.*

Q8: *Do respondents believe that calls from fixed lines (including payphones) to Guernsey mobiles should be included in the price control? Please explain your answer.*

Q9: *Do respondents believe that mobile services should be included in the price control? Please explain your answer.*

Q10: *Do respondents agree that it continues to be appropriate to have a specific limit on exchange line rental charges in the interests of protecting vulnerable users? If not please explain why.*

Q11: *Do respondents consider it would be appropriate to cap "local services" specifically in this way? Please explain your answer.*

Q12: *Do respondents consider that the leased line basket should be retained? If not please explain why.*

Q13: *Please set out any proposals you have for basket structures and composition and explain why you consider those proposals are appropriate.*

Q14: *Do respondents agree that the price control should run for three years? If not please suggest an alternative and explain your reasons.*

Q15: *Do respondents agree that carry over should be subject to a case by case examination? If not please suggest an alternative and explain your reasons.*

