



21 March 2006

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

Dear Sirs

Re: OUR 06/05 Investigation into Wholesale Broadband Pricing - Draft Decision

We refer to the above document, published on 21 February 2006, which sets out the Director General's (DG) analysis and findings following the conclusion of the investigation into C&WG's wholesale prices for broadband services.

We welcome the DG's recognition that a significant reduction in C&WG's wholesale prices is appropriate and we acknowledge the analysis that has led to the proposed decision to *"reduce C&WG's prices, backdated from September 2005, by 22% to ensure C&WG earns a return of 12% from the provision of wholesale broadband services."*

However, although we recognise that the preferred approach (Approach 2) offers the benefit that C&WG will be able to recover some of its fixed and common costs from ADSL services, we believe that this constitutes a 'middle way' approach when the critical point to address is whether C&WG's dominant position in the market today, and going forward, would be undermined by a more aggressive approach to price reductions now.

In Section 6.1.1, the DG makes the point that *"the more likely scenario is one where C&WG's position as a dominant provider of wholesale broadband services continues for the indefinite future."* We would agree that there is likely to be little requirement for C&WG to unbundle the local loop as it stands today, particularly as it upgrades the network for next generation services. In other words, the foreseeable

future is likely to see competition arising primarily from the use of wholesale services rather than through alternative infrastructure provision, at least in fixed networks.

A total replication of C&WG's network is unlikely for economic reasons and, although wireless broadband might emerge over the next decade, the demands on the fixed network to cater for increasingly higher bandwidth services will not diminish. In other words, we would see future demands in Guernsey reflecting what is already happening in other parts of the world. Therefore, C&WG will continue to benefit from these anticipated growths in demand and C&WG should benefit from supplying evolving wholesale broadband services to competitors.

The DG seems to have reached this conclusion as the point is made, in section 6.1.2, that there is a *"reasonable likelihood of broadband services continuing beyond 2015/16 and that it is reasonable to assume C&WG will remain indefinitely as the wholesale provider of broadband*



services to the significant majority of customers in Guernsey” and that “C&WG would therefore benefit from a sustained level of cash flows.”

We have no doubt that C&WG will continue to invest in its next generation network facilities irrespective of the final decision made (i.e. even if Approach 1 were adopted) and it would be our view that an alternative approach, subject to review, could be to adopt a position closer to Approach 1 now rather than take the more balanced position of Approach 2.

In summary, our view is based on the DG’s expectation that the provision of wholesale broadband services will be the only real basis of competitive supply, that price changes can be reviewed should circumstances change and that, from a competitors’ perspective, C&WG should be given a clear signal that it cannot continue to attempt to undermine competitive entry as it has been doing so far.

Yours faithfully
NEWTEL LIMITED

MALCOLM TAYLOR
REGULATORY ADVISOR