

Our reference: RP/jmp

08 March 2007

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

COMMENTS ON THE REVIEW OF C&W GUERNSEY'S WHOLESALE LEASED LINE PRICES

Dear Sirs,

In respect of the OUR document number 07/01 relating to the review of C&W Guernsey's wholesale leased line prices, Itex offers the following answers and general comments:

- Q1. We agree that the Retail Minus approach to setting wholesale prices for on-island based leased lines is inappropriate in the Guernsey context.
- Q2. We are of the opinion that in order to reduce the current high margins being made by C&W on it's wholesale leased lines to a level deemed more reflective of it's cost base but at the same time without damaging the incentive for future investment by C&W, that a Wholesale price cap with associated P0 reduction is the appropriate approach. However, the cap level should be periodically reviewed and additional reductions (but never increases) applied in order to continually stimulate C&W to become more efficient in delivery of basic wholesale infrastructure services.
- Q3. We do not agree that, at this time, retail on-island leased lines should be removed from the retail price control for C&WG in the event that wholesale prices are subject to either a wholesale cap or cost plus regime. The reason for this is that there would be nothing to prevent C&W's retail arm from adopting a predatory pricing policy (potentially at or below the wholesale price), a position they could sustain longer than other operators due to their monopoly position and current comparative scale of operation within Guernsey.
- Q4. Yes
- Q5. We agree that C&W's off island retail price leased line prices should continue to be subject to a safety cap within a retail price control.

Q6. We agree that the proposed 15% discount factor should be the minimum applied to C&W's HUGO retail price. However, we believe that in order to maintain the 15% retail/wholesale differential for different term (ie 1, 2, 3 year) pricing, the 15% wholesale reduction should be based upon the retail price for the specific period term of the individual purchased circuit.

Q7. Agreed

In addition we would make the following comments and request for clarification:-

1. Ethernet Circuits

It is our opinion that Ethernet Circuits (e.g. Lan Links) are a leased line (as per the reviews own definition) and therefore should be considered within the scope of the review and this is applicable to both on and off island Ethernet Circuits. Can the OUR please confirm that C&W Ethernet Circuits are included within the remit of the OUR wholesale Leased Lines Review?

If so, the charging/margin for Ethernet circuits should similarly be reviewed in light of this. It is particularly noticeable that there seems to be a discrepancy in pricing between same specification 'on' island Ethernet circuits between Guernsey and Jersey (eg 10M half cct, 1 year term £18,718) and 'off island' Guernsey to London (equiv @ £12,888) and we believe that the wholesale pricing mechanism employed for these circuits should be reviewed accordingly.

2. Retrospective pricing

Should the review finally conclude that any reductions to the actual wholesale pricing charged by C&W to other operators is appropriate (e.g. 15% rather 9.1%), it is our view that these reductions should be applied retrospectively back to some agreed point in time and C&W refund the OLO accordingly. If this approach is not considered appropriate, we would recommend that any wholesale price changes are applied immediately to any existing circuits provided by the C&W to the OLO.

Yours sincerely,



Richard Parker
Managing Director
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