



Invitation to Tender Retail Price Cap Review

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PART I: INTRODUCTION & BACKGROUND

1. CICRA is the Channel Islands Competition and Regulatory Authorities and comprises the GCRA in Guernsey and the JCRA in Jersey. It has responsibility for overseeing competition law in both jurisdictions and is the economic regulator for telecommunications and postal services in both jurisdictions. In addition, it is the economic regulator for electricity in Guernsey and provides advice and support on relevant matters to the governments of both islands.
2. In the second half of 2014, CICRA intends to conduct a review of the current retail price caps of the incumbent in Guernsey, Sure (Guernsey), and in Jersey, JT (Jersey), that includes call charges, line rental, connections & installation charges, for the two fixed telecommunications markets in the Channel Islands. CICRA also wishes to review the time taken for new connections and fault repairs by JT in Jersey and Sure in Guernsey, with an assessment of the cost implications for improving the current targets and possible incentives on operators to meet those. The findings of this price review will inform CICRA on the appropriate price to be set for Wholesale Line Rental, which is intended to be made available in both islands from 1 June 2015.
3. Historically the retail price cap has been set for a period of 3 years though for the last two price reviews CICRA has allowed the retail price cap to roll over. The last price cap effectively being based on an analysis of operator performance and business cases prior to 2008.
4. Going forward, CICRA recognises that technology and customer expectations are changing and the choice of services and technologies for customers are constantly expanding. Customer expectations in terms of services, quality and costs are changing too.
5. The networks and technologies used by the incumbent operators have also significantly changed over the period of the last price caps and greater changes will be seen in the period of the next price control.
6. Incumbents Sure (in Guernsey) and JT (in Jersey) appear to continue to enjoy powerful market positions in the provision of fixed line services in Guernsey and Jersey respectively. Experience elsewhere has led to a general perception that services in the Channel Islands are more expensive and could be more customer-focussed than elsewhere in Europe.
7. Further information on the telecoms markets in Jersey and Guernsey can be found on the CICRA website – www.cicra.gg.

PART II: SCOPE AND OBJECTIVES OF THE PROJECT

Objectives

8. The primary purpose of this project is to provide a top-down review of the incumbent operators in Jersey and Guernsey in order to inform CICRA on the appropriate level at which to set retail price caps for a specific set of services that are fair for consumers.
9. CICRA also wishes to be informed whether the current targets for new connections and fault repairs should be revised given improvements made possible by technology in this area.
10. The scope of work will be limited to the fixed telecommunications activities of JT in Jersey and Sure in Guernsey in relation to retail telecommunications services for call charges, line rental, connections & installation charges. The review should include informed recommendations in relation to the length of time taken to provide new connections as well as fault repairs, with an assessment of the cost implications of improving the time these currently take and aligning them between the two incumbent operators in Jersey and Guernsey, if appropriate. The cost forecasts should draw on the regulatory accounts produced by the incumbent operators. The review should take into account :
 - The Fixed Access Network business;
 - The Fixed Core Network business; and
 - The Fixed Retail business.
11. The intention will be to use this review in order to set out a retail price cap framework for the two fixed line markets, if that is regarded as the appropriate way forward, that is fit for purpose for today's customers given significant advances in technology and particularly the growth in the use of internet based services and the prospects for competition. The consultant will also need to provide an evidence base that is sufficiently robust to address potential criticisms that the recommended price caps need to be appropriate to the two jurisdictions to which they apply given different network infrastructure, investment paths, business costs in the islands and other material factors.
12. Part of this process will be to benchmark prices in the Channel Islands against other jurisdictions, and to be able to indicate to customers and service providers what constitutes a fair and reasonable level of pricing and target times. We will be seeking support from consultants in order to carry out this benchmarking work, followed by a retail price cap determination.
13. The successful tenderer will be expected to support CICRA through this process, drawing upon their practical experience and technical knowledge of telecoms markets. In the first instance, the successful tenderer will be expected to outline in detail how the principles of a top-down price setting process will be implemented in order to set the appropriate pricing for the

Channel Islands and how those proposals would be sufficiently robust to address the weaknesses of benchmarking two small island jurisdictions against other economies.

14. The successful tenderer will need to be available to provide support in the event that decisions made by CICRA are appealed or challenged and to be able to demonstrate that the consultant's reports and findings are soundly based.
15. The work should use the most recently available information, including regulatory accounts as the base year. The incumbent operators' regulatory accounts report the actual level of costs incurred by the operator in the delivery of services while price controls are typically set with respect to an estimate of the efficient level of cost. The efficient level of costs may be lower than the operator's actual level of costs due to operational inefficiencies or inefficient investment in the past.
16. The successful bidder will be expected to
 - a) define the methodology to be applied in carrying out a top-down review of the relevant prices,
 - b) provide a recommendation as to the appropriate way forward given the overarching aim of ensuring relevant retail prices are fair, taking account of wider developments in the Jersey and Guernsey markets,
 - c) contingent on the above, produce an information request to the operators for additional information and supporting documentation to be provided for the relevant costs categories to carry out a review of the operators' price controls.
 - d) Following on from the receipt of the information provided by the operators the successful bidder will, depending on the outcome of b) above, be expected to produce a report on its findings and recommendations for the forecast levels of operating costs and other relevant costs for inclusion in CICRA's price cap model. Operating costs include:
 - (i) *Overhead expenditure* – costs that cannot be directly linked to products (i.e. staff costs and network maintenance);
 - (ii) *Intra-company payments* – charges paid and received by the incumbent retail businesses to and from other businesses within the group (i.e. wholesale business); and
 - (iii) *Direct operating costs* – costs that are directly related to products (i.e. interconnection costs).
17. The successful bidder should, for a given level of price control estimate the level of price changes that is consistent with the price control (assuming that

is the appropriate mechanism). Combining the changes in prices with the input demand forecast gives the forecast revenue.

18. The successful bidder is required to carry out an exercise to benchmark the incumbent operators' costs against a number of comparator operators in order to determine whether any adjustment to the operator's reported costs was appropriate. The successful bidder should propose at least 4 (four) comparator operators selected owing to their direct comparison to the Channel Islands as well as the availability of the separated accounts and other information for those operators.
19. The successful bidder will be expected to deliver, at least the following recommendations to CICRA:
 - (i) Duration of price control;
 - (ii) Coverage of price control;
 - (iii) The level of X to be applied to any price cap, and
 - (iv) New connection and fault repair targets with efficient costings for a range of targets that might be set by CICRA, together with a balanced penalty framework against those targets.

Scope of the Project

20. At this stage, in realising the project objectives CICRA believes that the successful tenderer will need, as a minimum, to:
 - Advise CICRA on the range and scope of services relevant to the retail telecoms calls, line rental, fixed installation and connection charges basket, and the appropriate/likely range of efficient costs;
 - Advise on the top-down review approach including the justification of the approach in the setting of price controls;
 - Advise on benchmarking of costs and/or conduct of the work as required;
 - Advise on the costs associated with a range of regulatory targets for new connections and fault repair;
 - Advise on a balanced incentive framework against those targets;
 - Meet with the price controlled incumbents;
 - Provide support in conducting further price determinations or other regulatory actions arising from the retail price cap review;

- Support the work carried out in this project through any appeal against regulatory decisions made as part of the business connectivity market review.
 - To take into account material differences between the two jurisdictions, setting out what those are and how those might be appropriately reflected in setting a control.
21. CICRA will provide office accommodation and facilities for the purposes of carrying out the work while based in either Guernsey or Jersey to the extent feasible given its own limitations in terms of office space.

PART III: Timetable and Deliverables

16. In undertaking this process, the successful tenderer should make its recommendations explicit throughout all the work it provides, as well as providing justification for its views in a clear and transparent manner that CICRA considers satisfactory.
17. An electronic copy of all draft and finalised working papers and reports (in Microsoft Word), as well as two hard copies of all finalised working papers and reports will need to be provided. The consultant should also provide in Microsoft Excel all numerical and graphical work associated with all draft and finalised working papers and reports.
18. The work will be conducted in English and all deliverables will be submitted in English.
19. The CICRA work programme contemplates a final decision in the second half of 2014 and the review timing would need to be aligned with this. The recommendation from this review will need to be submitted to the CICRA Board at the latest by 5 September in order for sign off at the 12 September Board Meeting. In its response to this ITB the bidder should state that it can commit to this timing. It is CICRA's intention to notify the successful bidder on 18 July.

Qualifications

20. The consultants should be able to demonstrate a sufficient understanding of the variety and nature of the issues and demonstrate a track record of comparable research.
21. Team members should have specific relevant experience of this type of project.

Confidentiality

22. The successful applicant must agree to a confidentiality agreement covering the firm and the individuals assigned to the project.

PART IV: INFORMATION REQUIRED FROM THE TENDER

23. The following information is required from the applicant for the tender:
- a. Demonstration of a clear understanding of the work to be performed including the application of a top-down methodology for the setting of prices
 - b. A detailed description of the methodology that the applicant intends to adopt. This should include the envisaged project timetable containing any additional milestones for deliverables that the applicant considers appropriate.
 - c. Information regarding the expertise and experience of the specific people who will carry out the work including full CVs of the staff proposed for the project. This will also identify the role undertaken by members of the proposed project team.
 - d. Description of previous relevant project experience of the organisation.
 - e. Management arrangements for ensuring the successful completion of the project.
 - f. A clear statement that the firm has no existing conflict of interest in relation to the proposed assignment and will not place itself in such a position while retained by CICRA. Tenderers are required to disclose any matter which may give rise to a potential conflict of interest.
 - g. A commitment that in the event a member of the project team withdraws part way through the project, the successful tenderer shall ensure that CICRA does not incur any additional costs in ensuring the new team member is brought up to speed. CICRA would expect the consultant to have the necessary means to transfer knowledge amongst its staff.
 - h. Daily rates of each team member in pounds Sterling (daily rates to be based on 8 hours per day) together with the anticipated number of working days for each team member.
 - i. The total cost of the services tendered for including a breakdown of the person days or effort required (note that VAT is not applicable within the Channel Islands).
24. The applicant is free to supplement the required information, and to provide illustrations or add background details where they are necessary to provide a clear understanding of the proposals or are likely to add materially to CICRA's understanding of the applicant's intentions in providing the service. However, the submission from applicants should be no longer than 15 A4 pages, with supplementary information contained in relevant annexes. The applicant may be invited to clarify submitted information.

25. CICRA requires a fixed cost quotation for the work and rates must be fixed for the duration of the project. Travel and related expenses must be included in the quotation along with any other charges.
26. It is the practice of CICRA to link payment to deliverables associated with the project. However the tenderer is invited to define payment terms relating payments to the provision of deliverables by the consultant. For the avoidance of doubt CICRA will not authorise payments to be made simply on the basis of the signing of the contract between the Office and the successful applicant.
27. Any exchange rate risk will be borne by the applicant.
28. CICRA is not bound to accept any tender received or the lowest tender. Selection will be based on compliance with this request for proposal documentation and, inter alia, the following matters:
 - a) Understanding of the issues;
 - b) Approach and methodology proposed and its appropriateness for the project;
 - c) The calibre and relevant previous experience of the team;
 - d) Price; and
 - e) Value for money.
29. CICRA's standard terms and conditions for tenders are available as a separate document but should be read in conjunction with this tender request.
30. Completed tenders should be addressed to:

Lisa White
CICRA
Suites B1 and B2
Hirzel Court
St Peter Port
GY1 2NH
lisa.white@cicra.gg

Date for submission of tenders:

31. Tenders must be received by 5:00pm on **7 July 2014** at the CICRA office in Guernsey.
32. Electronic submission of tenders is encouraged, and should be made in accordance with the deadline.

Terms of Tender

Deliverables

All deliverables shall be in English.

A DRAFT report shall be submitted to CICRA after completion of the work. CICRA shall provide comments to the tenderer, where appropriate, after receiving the draft report, enabling the tenderer to complete the FINAL REPORT.

The final report shall be provided to CICRA in both hard copy and electronic formats.

Qualifications

The tenderer shall provide to CICRA with the tender document relevant previous experience of this class of audit work.

The tenderer shall provide the experience of the members of team that shall be employed on this project including the CVs of the team members.

Confidentiality

The tenderer shall be required to sign a confidentiality agreement with CICRA not to disclose to a third party any data received with or obtained from the review.

Terms

The tender shall provide the following information:

1. Tenderers are required to submit a fixed price contract (note Value Added Tax is not applicable to work carried out on the Islands of Jersey or Guernsey). All costs shall be expressed in Pounds Sterling;
2. The projected timeline of the programme of work including commitment to meet the CICRA Board meeting schedule;
3. A clear statement that the tenderer has no conflict of interest with any other relevant party on the Island of Jersey, and/or that it shall not place itself in such a position during the completion of the programme. The tenderer shall disclose to CICRA any matter which in its view may breach such a conflict of interest;
4. The terms of payment for the completed work;
5. An acknowledgment that the tenderer understands that final report produced for CICRA shall become the intellectual property of CICRA.