Retail Price Control

2016

Final Decision

Determination issued to Sure (Guernsey) Limited

Document No: CICRA 16/19 **07 April 2016**

Guernsey Competition and Regulatory Authority,
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1. Executive summary

Retail fixed line services include calls, exchange lines and a range of related services associated with having a fixed line phone service. Guernsey consumers spend around £10m[1] per annum on these services provided by Sure (Guernsey) Limited (Sure). This document, issued by the Guernsey Competition and Regulatory Authority (GCRA), puts in place a price control on the retail fixed line services of Sure, as the dominant provider of those services in Guernsey. The control does not cover other retail services such as residential and business broadband or leased line services.

Regulatory oversight of prices by the dominant provider of retail fixed line services in Guernsey is based on the need to protect consumers' interests and is informed by the extent of choice through competition available to consumers. The telecoms industry in the Channel Islands has been working with the regulator on the development of new wholesale access products aimed at increasing choice and competition. Wholesale Line Rental (WLR) is a wholesale access product and was launched across both Jersey and Guernsey on 1 June 2015. It does however afford a less extensive form of competition than those access products commonly available in neighbouring jurisdictions. WLR is also a recent development in the Channel Islands, introduced several years later than other jurisdictions and the benefits to consumers of competition have therefore been delayed.

That being the case, in the view of the GCRA, it is premature to conclude that the introduction of this access product, and the associated introduction of competition to this market, implies a price control on Sure's retail fixed line services is no longer required. However, it has informed the approach taken by the GCRA in setting prices for these services.

The GCRA has determined that a 'price basket' control is the appropriate form of retail price control. This provides greater flexibility than alternative forms of control and therefore enables Sure to respond to a greater extent to competition than a control set on a product by product basis. The GCRA's determination is that the basket of charges levied by Sure for its retail fixed line services shall be capped at RPI - 0% for the three year period of this price control.

This determination will remain in place until replaced or removed following a review by the GCRA.

[1] *Sure Separated Accounts 2014*

2. Background

The last detailed price control review for Sure, in Guernsey, was set in 2008, initially covering a period up to 2011. Since then, Sure has been subject to short term controls essentially allowing for price increases in line with the retail price index (RPI). This was decided on the basis that while Sure still held a dominant position in the relevant market, the prospect of greater competition through the introduction of more extensive wholesale access products could have a significant bearing on the longer term regulatory approach to controls intended to protect consumers of fixed line access service. In the event a less extensive form of wholesale access product, WLR, was introduced in June 2015 in Guernsey.

Given the delay in achieving the increased benefits of further competition and the less extensive form of wholesale access competition introduced by June 2015, the Channel Islands Competition and Regulatory Authorities[2] (CICRA) decided in 2014 to undertake a formal price control review of JT in Jersey and Sure in Guernsey for their retail fixed line services. To support this process Frontier Economics was commissioned to carry out a review to inform any future price controls.

CICRA issued a pan-Channel Island consultation in March 2015 (CICRA 15/10). That document considered the appropriate forward looking price controls for Sure in Guernsey and JT in Jersey. The consultation was informed by the Frontier Economics report and a redacted version of the full report prepared by Frontier Economics was included in Annex A of the consultation. In recommending the duration, scope and form of the next price control Frontier Economics took into account the impact of WLR on competition.

Frontier Economics recommended regulating on the basis of a single price control basket including retail line rental, line connection and call charges. Given the evidence available it recommended aligning more closely the average level of retail prices for fixed line services across both jurisdictions. In particular, Frontier Economics recommended aligning JT's average prices with those of Sure (Guernsey), maintaining that this offered a reasonable reference using an RPI - X% framework which is well tested from previous price controls in the Channels Islands.

The GCRA issued a Draft Decision in November 2015[3]. Responses received to that Draft Decision have informed this Final Decision.

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[2] *The Jersey Competition Regulatory Authority (JCRA) and the Guernsey Competition and Regulatory Authority (GCRA) are together referred to as CICRA and unless otherwise stated, all references to CICRA in this Decision are to each of the JCRA and GCRA.*

[3] *Draft Decision, Determination issued to Sure (Guernsey) Limited, CICRA 15/54, November 2015*

Disclaimer

This document does not constitute legal, technical or commercial advice; the GCRA 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 GCRA to exercise regulatory powers generally.

3. Responses to the Draft Decision

Introduction

GCRA received a total of two responses to its Draft Decision on retail price control review, from:

- Sure, and
- JT[4].

The GCRA would like to thank each of the respondents for their input to this process. The non confidential sections of the responses are published on the CICRA website, www.cicra.gg.

Rationale for price control

These fixed line services in Guernsey are provided to more than 40,000 customers. Those customers generate over 84 million minutes of calls[5] and represent around £10m of annual revenue. Based on call minutes, Sure has a market share of approximately 86% despite the legal monopoly by Sure having ended on 1 October 2001. The challenges competitors face in winning customers from the former monopoly is a significant contributing factor to the prevailing high market share held by Sure for such a long period of time.

The EU regulatory framework in its recommendation of 17 December 2007 (2007/879/EC) states that regulatory controls on retail services should only be imposed when national regulatory authorities consider the relevant wholesale measures, or measures regarding carrier selection or carrier preselection, would fail to achieve the objective of ensuring effective competition and public interest[6].

In the Guernsey fixed line services market, alternative providers do not have the necessary infrastructure to compete with Sure. The market for these services has a limited form of retail competition where the wholesale products in place are essentially 'resell' services. Competitors pay a wholesale rate to Sure for the equivalent Sure retail services and resell them to customers. The scope for competitors to offer variety, innovation or sell at discounts to Sure is therefore restricted given the limited nature of the alternatives available to them. In these circumstances the challenge facing competitors to offer more attractive propositions in order to win customers from Sure are significant. It is also relevant

[4] *JT, in its response only directly replied to the Initial Notice issued by the JCRA in Jersey. However, relevant comments have been taken into account in relation to the Draft Decision*

[5] *Telecommunications Statistics Market Report, 2013, CICRA 15/39, September 2015,*

[6] *Paragraph 15*

that the prices of those key wholesale inputs on which competition relies are generally set by reference to Sure's own retail prices; efficient wholesale charges paid by its competitors for these products in this market therefore require efficient retail prices by Sure.

Given the above context, wholesale measures and the resulting competition that is enabled in Guernsey are not yet at a stage where they can be considered to achieve the objective of ensuring effective competition in the Guernsey market. GCRA as the regulatory body has a duty to protect consumers of telecommunication services in Guernsey and at the present time protection of consumers of fixed line services through competition alone would not be sufficient to ensure consumers are adequately protected from pricing that is excessive.

This is also consistent with Frontier Economics, in its report, which concluded that: "*competition for retail fixed line services appear to remain limited in … Guernsey. In particular: (i) there are limited alternative offerings to the incumbent's retail fixed access line services; and (ii) both operators have retained a dominant position in their respective market for retail fixed line services*."

The following relevant features at the time of its report were noted:

- both Sure and JT were the sole providers of PSTN access lines in Guernsey and Jersey respectively and there were few alternative fixed network operators present in both markets.
- barriers to entry to the market were high as there was no wholesale access service, with WLR due to be launched in June 2015[7].
- despite the increasing presence of mobile voice services and availability of over the top (OTT) Voice over Broadband (VoB) services, there was limited evidence to suggest that fixed line access customers in the Channel Islands are substituting away from fixed access line services to these alternative products.

Frontier Economics found that the introduction of WLR would not merit removal of price control regulation based on the following factors:

- operator preliminary forecasts (to 2018) of the expected WLR take-up indicated it may only have limited impact on the market[8], and
- in line with approaches adopted elsewhere, i.e., by Ofcom and ComReg, there was likely to be a need to retain some form of ex-ante regulation on retail fixed line services even after the launch of WLR.

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[7] *WLR was subsequently launched on 1 June 2015.*

[8] ***[REDACTED].***

Given the above, Frontier Economics concluded that Sure is likely to maintain a dominant position in the provision of retail fixed lines in the geographic market of Guernsey and there was a continued need for ex-ante price controls on its retail fixed access line services in Guernsey.

The GCRA's draft decision concluded that the introduction of WLR had not altered the competitive landscape to the extent that it altered a finding of dominance[9] for Sure in the provision of retail fixed line services in Guernsey or the need to price control such services.

Responses to the draft decision have not provided evidence which alters the GCRA view that Sure has a position of dominance in the provision of retail fixed line services in Guernsey.

Period of price control going forward

Frontier Economics recommended that the GCRA consider applying a control on Sure's retail prices of fixed line services each year over a price control period of three years.

The GCRA's draft decision proposed to set a price control for retail fixed line access services over three (3) years and that where competition is seen to be effective the need for the GCRA to intervene would reduce. If the market was considered to be working well for consumers the GCRA would contemplate removal of the price control in advance of the three year control period. Evidence to support reduced intervention in this area included the availability of more extensive wholesale access products that support a greater degree of competition beyond simple retail 'resell' offers. It would be expected that the benefits of competition would manifest in the extent of switching by consumers between providers, prices that are in line with relevant benchmark, significant improvement in current customer satisfaction levels as well as greater variety and innovation in service provision.

Responses

In its response to the Draft Decision Sure did not comment on the period of the price control. JT in its response proposed that only interim controls should be implemented and that the GCRA should look to "step back" from this form of regulation as soon as possible setting clear parameters to determine when and in what circumstances any price control would be reviewed.

GCRA Analysis

In order to provide certainty to the market the GCRA determines that the setting of a three year price control is appropriate.

[9] *The concepts of significant market power and dominance are interchangeable as concepts for purposes of this decision consistent with general principles of regulation.*

Scope of price control going forward

Frontier Economics recommended continuing to regulate a single basket consisting of fixed line services. It argued this would ensure that the most vulnerable customers (those who continue to use fixed line services rather than a bundle) are better protected by such an approach.

Given Sure has SMP in the provision of retail fixed line services and the risks of consumers bearing unjustifiable cross-subsidisation between fixed line services and broadband services, the draft decision concluded there was a need to set a price control for fixed line services that excluded broadband services from the basket. The draft price control proposed covered the following retail services:

- Exchange line;
- Fixed Line local geographic calls;
- Fixed Line non-geographic calls charged at local rate;
- Fixed Line Jersey and National calls;
- Fixed Line non-geographic calls charged at national rate;
- Fixed Line international call;
- Fixed Line calls to Channel Island mobiles;
- Fixed Line calls to Other mobiles;
- Public Payphones;
- Exchange line connection, and
- ISDN services.

Responses

Sure, in its response to the draft decision has reiterated its views to restructure the balance of its broadband and fixed line rental services. Sure points to the draft decision where CICRA stated that "the key tenet of the argument put forward by Sure is that they consider that their broadband pricing is too high". Sure stated that it was incorrect to assert that this is Sure's own view but rather that of local customers who drew comparison between prices in the CI and the UK.

Sure goes on to state that “given the potential benefits of tariff rebalancing as offered by UK providers, headline broadband prices are increasingly out of kilter with the expectations of local fixed line customers and without regulatory support in this area it is unlikely that Channel Islands fixed line providers will be able to make material”

GCRA Analysis

The GCRA understand that Guernsey consumers are likely to compare prices of telecoms services in other jurisdictions particularly the UK which shares common media with Guernsey. However, Sure does not put forward any evidence of consumers requesting or demanding changes in the structure of these prices in the manner it proposes.

We also consider the point made by Frontier Economics is relevant in that a single price control basket for fixed line services will ensure that the most vulnerable customers (those who continue to use standalone fixed line services) are better protected. Some of the arguments by the incumbents around combined fixed line and broadband services refer to flexibility available to operators in other jurisdictions which the incumbent operators should also be able to benefit from. It is the case that rebalancing between broadband and fixed line services is available in markets where competition is stronger. The flexibility available to such operators is in a context where the recovery of efficient cost is driven more by significant competitive pressures and there is less need for regulatory controls to ensure this outcome. The same reasoning cannot be applied to Sure in the Guernsey market for fixed line services.

Given Sure has dominance in the provision of retail fixed line services and the risks of consumers bearing unjustifiable cross-subsidisation between fixed line services and broadband services there is a need to set a price control for fixed line services that excludes broadband.

The price control will therefore cover the following retail services:

- Exchange line;
- Fixed Line local geographic calls;
- Fixed Line non-geographic calls charged at local rate;
- Fixed Line Jersey and National calls;
- Fixed Line non-geographic calls charged at national rate;
- Fixed Line international call;
- Fixed Line calls to Channel Island mobiles;

- Fixed Line calls to Other mobiles;
- Public Payphones;
- Exchange line connection, and
- ISDN services.

Level of price control going forward

Approach

The GCRA has considered the option of modelling Sure's costs in order to set prices at efficient levels, which would have involved a relatively extensive information gathering exercise and efficiency review. It has also considered whether a control could alternatively be set based on comparisons with a number of other jurisdictions.

In terms of the modelling approach, an assessment of the appropriate level of a price cap can be made on the basis of detailed financial forecasts, comparing expected future revenues and costs, and an appropriate level of efficiency gains. A price path (cap) can then be determined which allows the regulated entity the opportunity – if it acts efficiently – to earn a reasonable rate of return. However, as Frontier Economics noted in its report, "*Unfortunately, the operators were unable to provide us with such forecasts in response to our information request.*"

Alternatively, where suitable comparators are available and the comparisons are sufficiently reliable to inform any price changes that may be imposed, a benchmarking exercise may be employed. As Frontier Economics noted in its report, the approach it took in comparing prices against those in similar jurisdictions was a <u>first step</u> to assessing the appropriate level of retail prices in the Channel Islands.

Frontier Economics therefore informed this initial analysis through:

- Price benchmarking – how the current level of retail prices in the Channel Islands compared to other comparable jurisdictions;
- Cost benchmarking – assessing the potential scope for further cost reductions based on a high-level benchmarking of Sure's operating expenditures (OPEX) to those of other operators.

This analysis is set out in greater detail in the Frontier Economics report. For reasons set out in that report Frontier Economics had reservations about using the information on retail price benchmarking for providing more than a broad indication of price levels.

However, it did consider a strong comparator for Sure in Guernsey is JT in Jersey. In making this comparison, Frontier Economics observed substantial differences in retail prices for fixed line services across the two jurisdictions of Jersey and Guernsey where the average monthly cost to consumers for fixed line services (holding usage constant) was materially higher in Jersey than in Guernsey and cost of providing the service did not appear to explain the difference in average price levels.

A key explanation for the observed differences in retail prices appeared to be the underlying differences in retail price caps applied to Sure and JT over previous years by what were separate regulatory bodies prior to the formation of CICRA. In particular, Sure (Guernsey) had generally been subject to more stringent retail price controls than JT since 2008. This was particularly true in relation to local calls basket, for which there was a RPI - 11.75% regime in place for four consecutive years compared to JT, in whose case an RPI - 3% was applied between 2008 and 2011. These recent retail price controls appear to have contributed to lower retail prices in Guernsey compared to Jersey over time.

Frontier Economics therefore recommended a safeguard control on Sure, allowing for price increases in line with inflation, of RPI - 0% each year over a price control period of three years.

In summary, the recommended level of price control by Frontier Economics was:

Operator	Recommended price control
Sure	RPI – 0%

Responses

In its response to the Draft Decision Sure stated that the GCRA review of the pricing information contained two errors within the revised RPI calculations. These were:

1. JT increased its monthly rental to £13.50 with effect from 28 December 2015. The notification to the JCRA having been submitted by JT on 27 November 2015. As JT's notification was before the GCRA published its draft decision, Sure's position is that this price change should have been taken into account in the revised calculation within the draft decision, and
2. the GCRA has misquoted Sure (Guernsey) Limited's line rental charge as £12.49, when it is £11.99.

In addition Sure also noted that account should have been taken of free call offers it provides.

Sure's response essentially argues for a more stringent retail price control of JT in Jersey but placed less emphasis on aspects of the retail price control proposed for Sure in Guernsey. Sure did suggest that any RPI - 0% control should be set at a floor level of no less than zero. In the event of negative inflation Sure was of the view this would place cost pressures it could not accommodate.

Both operators have over the period of the review of this retail price control made changes to their existing prices. These were made under the constraints of their existing price control obligations and as such compliance against those controls will be assessed separately at a later stage.

GCRA Analysis

Sure have not argued against the specific level of the price control proposed in the draft decision, but did seek to make a case for allowing the GCRA to set a control that allows for cross subsidy between fixed line services such as voice calls and exchange line and the broadband service. Consideration of this aspect is set out in the previous section.

For the avoidance of doubt the control covers all fixed line services not only fixed exchange lines and Sure is able to bundle retail broadband and fixed line services as a retail offering to customers. However, a single price control that includes broadband and fixed line services introduces risks of consumer detriment from unfair cross-subsidy between these services as noted in the preceding analysis.

It is also important to emphasise that the Frontier Economics retail price benchmarking report does not conclude that Sure's prices are set at the efficient level. Based on the broad comparisons made with a number of other jurisdictions Sure's average prices do however compare reasonably with those comparators. It is also the case that when Frontier Economics drew comparisons with the average price by Sure with that of JT, Sure's was seen to be materially lower. The case to further reduce Sure's prices based on this evidence is therefore not sufficiently strong. It is this assessment that informed the GCRA's proposed price control of Sure in the draft decision.

The GCRA does however need to consider whether the changes in prices over the course of this review materially alter its position set out in the draft decision. It is noted that since Frontier Economics produced its report both the Jersey and Guernsey market have seen some changes in prices. Specifically, Sure raised its monthly line rental price from £9.99 to £11.99 and JT raised its monthly line rental price from £12.99 to £13.50. In addition, changes have been introduced for both Sure and JT's installation charges. Recently Sure (Guernsey) also notified the GCRA that is intends to increase its minimum call charges from 5p to 6p.

The changes to prices made over the course of this review do not in the GCRA's view alter the key rationale for the RPI - 0% control proposed for Sure in Guernsey. Its average prices continue to lie within a broad range of comparators, materially below that of its counterpart in Jersey where the market is similar in most relevant respects. Since there is no evidence from the approach taken to support a lowering of average retail prices, it seems more appropriate to proceed with a RPI - 0% control.

The GCRA has considered Sure's view on setting the control at no less than zero given the implications of negative inflation. The Sure approach presents challenges which the GCRA considers can be accommodated in the approach to compliance rather than set a control that assumes Sure would not be able to benefit from cost reductions in its cost base. This is discussed further in the monitoring and compliance section below.

Having considered the views put to it the GCRA will impose the following retail price control on Sure in Guernsey. Year 1: RPI – 0%, Year 2: RPI – 0% and Year 3: RPI – 0%.

Monitoring and enforcement

The assessment of Sure's compliance with this price control will be undertaken retrospectively on an annual basis. This annual assessment will require submission of timely information by Sure. The GCRA would seek to review the compliance statement within three months of receipt. In addition the GCRA would be able to use its relevant powers to inspect Sure's financial records to verify the accuracy of its submission in demonstrating its compliance with the price control regime.

In addition, when Sure wishes to introduce a price change, it will need to submit an assessment to the GCRA to demonstrate its compliance with the price control by completing the five steps described below. Whilst Sure will not need the GCRA's approval of individual price changes within the basket of services subject to price control, the assessment will assist the GCRA in assessing compliance at the end of the relevant period. The GCRA may intervene however if it considers that proposals are likely to be non-compliant. In complying with the price control, Sure is also required to comply with other relevant licence conditions.

Responses

Sure, in its response to the Draft Decision, commented that both the States of Jersey and the States of Guernsey update their Retail Price Index (RPI) measures on a quarterly basis and a specific quarter should be designated as the RPI reference for the control.

GCRA Analysis

The proposed price control compliance methodology will be implemented at the same time as the introduction of the new retail price control. The control period will commence on the effective date of the new price control.

In response to the point raised by Sure, the GCRA can confirm as a point of clarity that the December RPI figure will continue to be used as the annual RPI reference.

A consideration in the event of negative inflation is that an RPI control that is limited to zero or greater would potentially allow a dominant provider to benefit from some cost reductions and when RPI was subsequently positive could proceed to raise prices to the full extent of the RPI increase in subsequent periods. This would not appear to be a fair division of risk between the provider and consumers. Therefore in terms of compliance the GCRA considers it reasonable to approach this issue, should it arise, as follows:

- The control would not oblige a reduction in the Average Price Index (API) in any year to comply with a Price Control Index (PCI) where that PCI falls below 1.
- The control would allow for subsequent increases in average prices only to the extent that the PCI provided headroom to do so.

In the event of sustained deflation Sure would be able to avail itself of the ability to request a reopening of the price control in order to set a more comprehensive price control in such a context.

4. Conclusion

The price control will be set for retail fixed line access services over three (3) years and cover the following retail services:

- Exchange line;
- Fixed Line local geographic calls;
- Fixed Line non-geographic calls charged at local rate;
- Fixed Line Jersey and National calls;
- Fixed Line non-geographic calls charged at national rate;
- Fixed Line international call;
- Fixed Line calls to Channel Island mobiles;
- Fixed Line calls to Other mobiles;
- Public Payphones;
- Exchange line connection, and
- ISDN services.

The retail price control on Sure in Guernsey for these services will be set on the following basis: Year 1: RPI – 0%, Year 2: RPI – 0% and Year 3: RPI – 0%.

Annex 1: Legal Background and licensing framework

Legislative background and regulatory duties in the Channel Islands

In Guernsey, Section 5(1) of the Telecommunications (Bailiwick of Guernsey) Law, 2001 ("the Telecoms Law"), provides that the AUTHORITY may include in licences such conditions as he considers necessary to carry out his 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[10]; 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[11].

In accordance with these provisions in the Telecoms Law, both the "Fixed Telecommunications Licence Conditions"[12] and the "Mobile Telecommunications Conditions"[13] awarded to Sure (Guernsey) include the following text:

"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:

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 Authority to regulate the prices that a licensee charges for its telecommunications services in a way and for a time that he deems appropriate, where the licensee has a dominant position in the market.

[10] *Condition 5(1) (c) of the Telecommunications (Bailiwick of Guernsey) Law, 2001*
[11] *Condition 5(1) (f) of the Telecommunications (Bailiwick of Guernsey) Law, 2001*
[12] *Document OUR 01/18; Condition 31.2*
[13] *Document OUR 01/19; Condition 27.2*

Annex 2: Monitoring and Enforcement

The price control will be based on a weighted average basket price index. The GCRA's assessment of Sure's compliance with this price control will be undertaken retrospectively on an annual basis. This annual assessment will require submission of timely information by Sure. The GCRA would seek to review the compliance statement within three months of receipt. In addition the GCRA would be able to use its relevant powers to inspect financial records to verify the accuracy of submission in demonstrating compliance with the price control regime.

In addition, when Sure wishes to introduce a price change, it will need to submit an assessment to the GCRA to demonstrate its compliance with the price control by completing the five steps described below. Whilst Sure will not need the GCRA's approval of individual price changes, the assessment will assist the GCRA in assessing compliance at the end of the relevant period. The GCRA may intervene however if it considers that proposals are likely to be non-compliant. In complying with the price control, Sure is also required to comply with other relevant licence conditions.

Compliance Procedures

In order to demonstrate annual compliance[14] with the price controls for the services included in the price control Sure will need to undertake a number of tasks comprising:

1. Quantifying the price changes for each services;
2. Indexing the price changes;
3. Weighting the services on the basis of revenue earned in the 12 months prior to the relevant period;
4. Deriving the weighted average basket price index; and
5. Comparing this with the Price Control Index (PCI) incorporating RPI.

The list of relevant services in the price controlled basket are:

- Exchange line;
- Fixed Line local geographic calls;
- Fixed Line non-geographic calls charged at local rate;
- Fixed Line Jersey and National calls;
- Fixed Line non-geographic calls charged at national rate;

[14] *JT should also follow these steps when notifying GCRA of changes in the prices of price controlled products for the duration of the price control.*

- Fixed Line international call;
- Fixed Line calls to Channel Island mobiles;
- Fixed Line calls to Other mobiles;
- Public Payphones;
- Exchange line connection, and
- ISDN services.

Quantify the price change for each service

This information is derived by comparing the historical (i.e. nominal) prices for each service in the price control periods.

Simply, this is the differential between the old and the new price, represented by:

$$\delta P = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Where:

P_t = The weighted average price for the service during the relevant price control period;

P_{t-1} = The weighted average price for the service during the previous relevant period.

Note that P_t should be weighted to take into account the phasing of any price changes during the relevant period. For example, if the price change were introduced at the start of a relevant period then the new price could be used as P_t for the purposes of the calculation. If however the price change were introduced midway through the year, then the P_t would need to reflect 0.5 of P_{t-1} and 0.5 of the new price to reflect the average price for the service over the period[15].

Index the price change for each service

Once the price change has been quantified, the next step is to index the price changes. The indexed price (IP) for each service is derived from the following formula:

$$IP_i = 100 * (1 + \delta P)$$

[15] *In calculating average prices over a price control period, Sure should use of a weight of n/365 for a price that was offered for n days.*

Where:

IPi = Indexed priced for service i within a basket

Weight services based on revenue in the relevant period

Weights for each service in the basket are derived from each service's percentage share of total revenue in that basket over the previous year. Thus the sum of the weights of all the services within the basket equals 1.

Thus:

$$W_i = \frac{R_i}{R_B} \text{ subject to } 1 = \sum_i^n W_i \text{ and } R_B = \sum_i^n R_i$$

Where:

W_i = weight for a given service in the basket;

R_i = the amount of actual revenue for the previous relevant period that is derived from that individual service;

R_B = the amount of total revenue in the previous relevant period that is derived from a combination of all services in the basket.

Derive the weighted average basket price index (Actual Price Index)

The Actual Price Index (API) is calculated by combining the weights for each individual service with the indexed price changes and summing the products.

$$API = (IP_1 * W_1) + (IP_2 * W_2) + \cdots + (IP_n * W_n)$$

Compare with Price Control Index incorporating RPI

The final step involves:

- Calculating the PCI for the basket; and
- Comparing the PCI with the API to assess compliance.

The PCI is:

$$PCI = 100 * (1 + RPI - X)$$

Where:

RPI = the measure of inflation for the prior year of the relevant price control period. This is obtained from Statistics Unit of the States of Guernsey.

X = the efficiency factor applied to the basket in a given year.

The Compliance Decision

The basic price control rule is that the API over the relevant period must be equal to or less than the PCI.

$$i.e. API \leq PCI$$

If the API is greater than the PCI then Sure would have failed to comply with the price control regime.

However, if Sure's API for a basket at the end of the relevant period is lower than required by the PCI, it ***may*** be able to carryover the difference into the next charge control year subject to the GCRA's approval. Conversely, if Sure's API is higher than the PCI, it will be obliged to remedy the situation as the GCRA may reasonably require. The GCRA may also impose sanctions on Sure for failing to comply with the price control regime it has imposed. In the event of negative inflation the approach set out in the analysis section will apply. As an illustrative example, if the relevant RPI in a year were to be -2%, followed by 4%, while the PCI would reduce to 98 in the first year, Sure would not be required to reduce its API by 2% in that first year. But Sure could also not raise its average prices by 4% the following year. The ceiling for any rise would be capped by the 101.92 index for any average price the following year, essentially limiting such increases to 1.92% for that subsequent year.