

Cable and Wireless Guernsey Price Control

Response by Cable & Wireless Guernsey
to document OUR 10/15

22 December 2010

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Introduction

Cable and Wireless Guernsey Limited ("C&WG") is grateful for the opportunity to respond to the OUR's proposals for C&WG's Price Control, as set out in document OUR 10/15¹.

Considering the time remaining to the end of the existing Price Control period (March 2011) C&WG supports the DG's proposal to amend the standard consultation process and move straight to the final decision in January 2011. This would allow C&WG sufficient time to model the impact of the individual basket requirements and provide the relevant notice period to the OUR of the specific price changes that would come into effect from 1st April 2011.

Whilst C&WG would still question the continuing need for any retail price control in Guernsey it is pleased that the OUR recognises the considerable steps C&WG has already made to promote and develop the wholesale market, and which it will continue to make through its active participation in the pan Channel Islands project.

Therefore, C&WG is willing to participate in and agree to a one year extension of the existing regime to no later than 31 March 2012, subject to being able to agree with the OUR the adjustment to the exchange line rental price as discussed further below.

Inflation

C&WG welcomes the OUR's consideration of the resetting of inflation for the next year of the price control.

Usually the December quarter's RPI figure is used in the calculation of the price control and C&WG proposes that for consistency the December 2010 RPI be used in its model for the implementation of price changes from April 2011. We note that the provisional date for the release of this information by the States Policy and Research Unit is 21 January 2011². Should the OUR wish to publish its final decision prior to that we would be grateful if allowance could be made for C&WG to make use of the December 2010 RPI figure, when it becomes available.

Exchange line rental

C&WG welcomes the review of exchange line pricing by the OUR and is grateful for the acknowledgement of the issues that have been raised regarding the profitability of these services in recent years. Document OUR 10/15 presents C&WG's arguments as best as can be achieved, considering the confidential nature of the underlying costing information that was provided.

To assist other interested parties in their understanding of the issues we summarise the main points below:

¹ <http://www.regutil.gg/docs/OUR1015.pdf>

² <http://www.gov.gg/ccm/navigation/government/facts---figures>

- C&WG is required to report annually to the OUR the profitability of its Exchange Line Rental & Connection Business. This is undertaken within C&WG's Published Separated Regulatory Accounts ("The Accounts")³.
- Page 14 of The Accounts shows the return for the current year, along with comparable data for the prior year. All financial data is provided on a Current Cost Accounting (CCA) basis.
- CCA seeks to provide the correct signals to the market so that potential and existing competing operators can decide whether to invest in a network themselves or to rent access from the incumbent's existing network. To achieve this C&WG is required to re-price many of its high value assets to recognise their current purchase cost, rather than the historic cost at which they were actually purchased.
- The turbulent worldwide economic conditions in recent years have created significant fluctuations in the reported price of copper. These affect the CCA valuations, which C&WG has had to recognise in The Accounts.
- The Retail Exchange Line Rental & Connection Business "rents" the use of the physical copper cables from C&WG's Access Network Business (page 1 of The Accounts), based on the underlying costs in place during the period.
- In 2009/10 the CCA adjustments associated with the worldwide value of this copper theoretically reduced the costs within C&WG Access Network Business, whereas in 2008/09 (based on an almost identical copper network utilisation) the worldwide value of copper had theoretically increased these costs.
- C&WG itself was only affected by the worldwide changes in copper prices when purchasing new copper within the accounting period, so the above adjustments bore no relation to the actual costs incurred by the business. However, the wide swings in reported profitability prevented the correct market signals from being provided to operators, although this was through no fault of C&WG.
- After the 2008/09 Accounts had been submitted C&WG informed the OUR that it considered that the recognition of CCA for exchange line pricing should be considered inappropriate, because it did not reflect the reality of C&WG's copper costs.
- C&WG argued that Historic Cost Accounting (HCA) would be a better measure of profitability in the short to medium term and provided a cost justification to the OUR for a £1.00 rise in monthly exchange line rental to offset the HCA losses that it had incurred.
- After the 2009/10 Accounts had been submitted C&WG again reported losses on an HCA basis for Retail Exchange Lines and reiterated its justification for a £1.00 per month rise in exchange line pricing. The OUR supports C&WG's request, as discussed in OUR 10/15.
- The expected additional revenue (should the OUR allow the £1.00 per month increase) will still not fully offset the losses incurred by C&WG on

³ <http://www.surecw.com/guernsey/PDF/CWG%20Regulatory%20Accounts%202009-10.pdf>

exchange line rentals to date, but will go some way towards recognising the real costs incurred in the provision of these services.

The details of the financial implications remain confidential and have only been made available to the OUR.

In the latest discussions with the OUR C&WG made a commitment not to raise Telephone Assistance Scheme (TAS) or Shortcall exchange line tariffs from £3.99 per month, so that vulnerable users would not be impacted by the proposed £1.00 per month increase. C&WG can confirm that it does not intend to make any changes to existing £3.99 tariffs for the duration of the next Price Control period (i.e. 12 months from April 2011).

C&WG can also confirm that it has no issue with the future reporting of The Accounts on a CCA basis (including exchange line rental), but requests that the OUR continues to take account of any distortions in world copper prices when reviewing the results of the Exchange Line Rental & Connection Business.

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