



# **Price control for wholesale on-island leased lines**

**T1602G**

---

## **Information Paper & Conclusion**

---

**17 March 2022**

**GUERNSEY COMPETITION AND REGULATORY AUTHORITY**

Suite 4, 1<sup>st</sup> Floor,

La Plaiderie Chambers, La Plaiderie, St Peter Port,

Guernsey, GY1 1WG

T : +44 (0) 1481 711120

E : [info@gcra.gg](mailto:info@gcra.gg)

## CONTENTS

<b>1. Introduction and background</b> .....	<b>2</b>
Background.....	2
Structure of the rest of this paper .....	2
<b>2. January 2022 Consultation summary</b> .....	<b>3</b>
Introduction.....	3
Benchmarking.....	3
Preliminary proposal .....	4
<b>3. January 2022 Consultation response key issues</b> .....	<b>5</b>
Introduction.....	5
Timing concerns.....	5
Excessive prices .....	5
Benchmarking approach.....	6
Structure of benchmarking control .....	6
Sure’s price reduction proposal.....	7
<b>4. GCRA assessment and conclusion</b> .....	<b>8</b>
Introduction.....	8
Assessment.....	8
Conclusion .....	9
Next steps.....	10
<b>Annex 1: Summary of January 2022 Consultation responses</b> .....	<b>11</b>

## LIST OF FIGURES

Figure 1: Leased line retail price comparison	3
Figure 2: Wholesale price comparison, 1 Gbps	4
Figure 3: Wholesale price comparison, 28 March 2022, 1 Gbps	9
Figure 4: Wholesale price comparison, ‘Different Exchange’ 100 Mbps	10

## LIST OF TABLES

Table 1: Sure wholesale price reduction proposal	8
--	---

---

# 1. Introduction and background

## Background

- 1.1 Leased lines are the essential building blocks to provide secure, dedicated data transmission connectivity between fixed locations. Retail leased lines are bought by businesses and public sector organisations, while wholesale leased lines are bought by telecoms operators, both to provide their retail offerings and to extend their own mobile networks.
- 1.2 The majority of retail leased lines in Guernsey are provided by JT (Guernsey) Limited (**JT**) and Sure (Guernsey) Limited (**Sure**). Sure is dominant in the wholesale market and a retail-minus wholesale price control was applied to Sure's on-island leased lines of any bandwidth in 2015.
- 1.3 The Guernsey Competition and Regulatory Authority (**GCRA**) considers that Very-high Bandwidth (**VHB**) (1 Gbps<sup>1</sup> and above) retail leased line prices in Guernsey are significantly higher than comparable jurisdictions and are excessive. Sure's wholesale prices exhibit a similar pattern.
- 1.4 In January 2022, the GCRA therefore initiated a non-statutory consultation on an alternative pricing approach for Sure's on-island wholesale leased lines (the **January 2022 Consultation**).<sup>2</sup> The alternative would replace the retail-minus mechanism for VHB products with a benchmarked price cap that would reduce wholesale prices substantially. Final consumers would be expected to benefit from a consequent fall in the retail price driven by retail competition.
  - 1.1. The GCRA received three responses to the consultation, from JT, Sure and Guernsey Airtel Limited (**Airtel**). The submissions are available on the GCRA website.<sup>3</sup> The GCRA would like to thank all respondents for their comments.
- 1.5 This paper, having considered the responses received, sets out the GCRA's conclusion on amending Sure's current wholesale leased line price control.

## Structure of the rest of this paper

- 1.6 The remainder of the paper is structured as follows:
  - Section 2 provides a summary of the January 2022 Consultation.
  - Section 3 presents the key issues raised in the consultation responses.
  - Section 4 sets out the GCRA's consideration of the responses and its conclusion.
  - [Annex 1](#) provides a tabulated summary of the consultation responses.

---

<sup>1</sup> Gigabits per second.

<sup>2</sup> GCRA (2022). *Price control for wholesale on-island leased lines Consultation Paper*, 14 January 2022: <https://www.gcra.gg/media/598407/t1602g-price-control-for-wholesale-on-island-leased-lines-consultation-paper.pdf>

<sup>3</sup> <https://www.gcra.gg/cases/2021/t1602g-price-control-for-wholesale-on-island-leased-lines/>

---

## 2. January 2022 Consultation summary

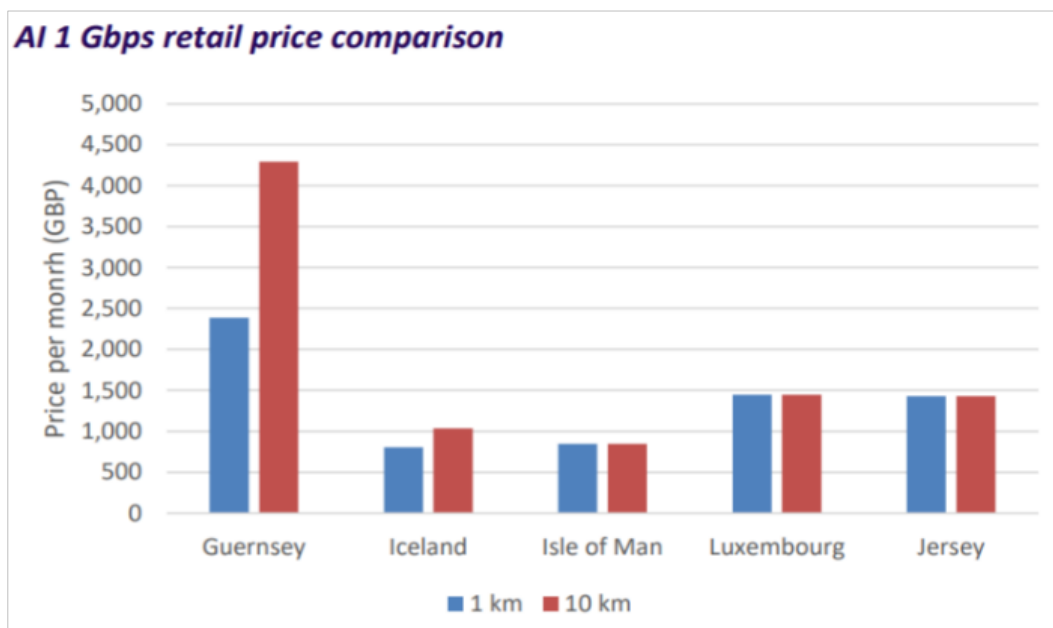
### Introduction

2.1 This section summarises the key elements of the GCRA’s January 2022 Consultation.

### Benchmarking

2.2 The GCRA presented retail leased lines benchmarking that showed that Guernsey VHB leased line prices are significantly higher than comparable jurisdictions. For example, the price of a 1 Gbps Same Exchange line in Guernsey is more than twice that in the Isle of Man.

Figure 1: Leased line retail price comparison<sup>4</sup>

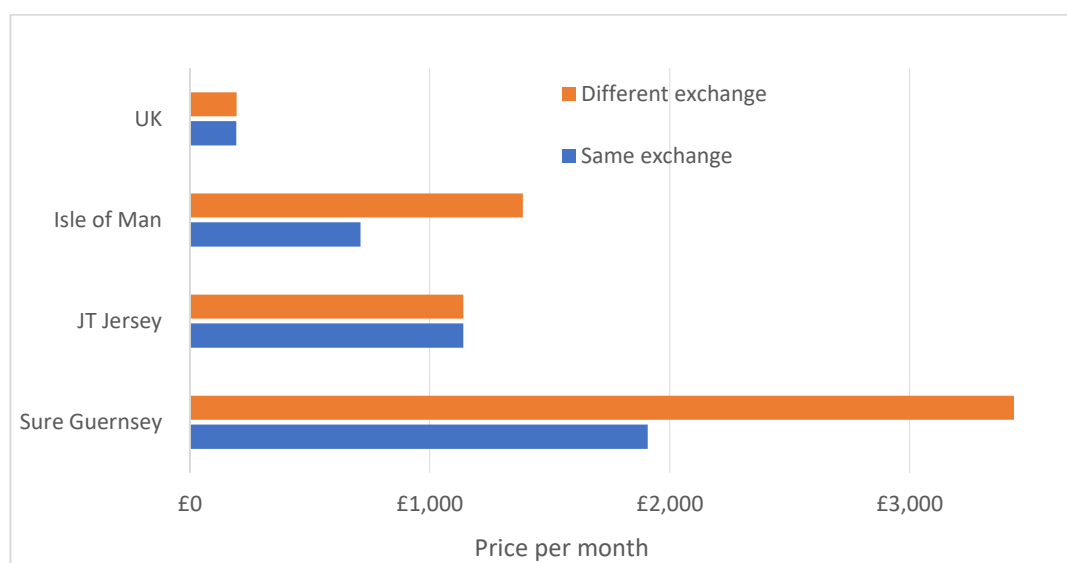


2.3 The GCRA also presented wholesale benchmarking that showed a similar story, with Sure’s VHB leased line prices significantly higher than comparable jurisdictions, and substantially greater than UK wholesale products. For example, for 1 Gbps leased lines, the Guernsey price of £1,909 per month for the Same Exchange is 1.7 times the Jersey price of £1,139 and nearly 10 times the £193 charged in the UK. The Guernsey Same Exchange price is also substantially higher than the Isle of and different exchange (Non-metro) price.

---

<sup>4</sup> JCRA (2020). *Business connectivity market review, Non-statutory Draft Decision (Consultation) Case T-012*, 26 October 2020: <https://www.jcra.je/media/598280/t-012-business-connectivity-market-review-draft-decision.pdf>: Annex 4.

**Figure 2: Wholesale price comparison, 1 Gbps**



### **Preliminary proposal**

2.4 On the basis of the benchmarking, the GCRA concluded that the retail-minus price control has been less effective in restraining excessive pricing for the VHB leased line products than for lower speed products. To address the problem, the GCRA consulted on the following:

- retaining the current retail-minus price control for lower-speed leased lines i.e. less than 1 Gbps;
- retaining the supporting remedies e.g. non-discrimination, cost accounting, accounting separation and transparency, which are contained in Sure's licence conditions; and
- replacing the retail-minus control on VHB (i.e., 1Gbps and greater) leased lines with a price cap, benchmarked against JT (Jersey) Limited's (**JT Jersey**) current wholesale prices.

2.5 The GCRA also consulted on its preliminary view on several key structural elements of the alternative benchmarking approach, namely that the control:

- should be applied on a VHB product-by-product basis rather than a set of products;
- should be implemented on a 2-year glidepath;
- should eliminate differential pricing;
- term should be aligned with the market review cycle; and
- should require Sure to make wholesale prices publicly available.

2.6 The consultation concluded with a statement that should the GCRA elect to proceed with amending Sure's price control, the next step will be the publication of a proposed decision, taking into consideration comments received on the consultation paper.

---

## 3. January 2022 Consultation response key issues

### Introduction

3.1 As noted in Section 1, the GCRA receive three responses to the January 2022 Consultation, which are summarised in tabular form in [Annex 1](#). This section presents the responses by key topic.

### Timing concerns

3.2 Sure and JT raised concerns about the interaction between the potential price control amendment and the GCRA's ongoing Business Connectivity Market Review (**BCMR**). In regard to timing, Sure stated:

The Authority is therefore proposing to introduce a new price control under a market review that is about to be superseded. Whilst we recognise that this is the Authority's prerogative, we do not agree that this is an appropriate or proportionate course of action.<sup>5</sup>

3.3 JT noted that it was unusual for a regulator to propose new remedies before it has completed a market review and submitted that *ad hoc* or unpredicted regulatory changes in the midst of a market review cycle should generally be avoided, but stated:

JT accepts there may be circumstances, which the GCRA say apply here, in which it is appropriate for a regulator to intervene outside of the market review cycle.

The GCRA should only make mid-cycle changes to the way in which regulatory prices are set in exceptional circumstances and should otherwise wait for the next review.<sup>6</sup>

### Excessive prices

3.4 JT was silent on whether Guernsey VHB leased lines prices are excessive. Sure did not accept that it has engaged in excessive pricing, stating that:

The Authority has simply demonstrated that certain elements of Sure's wholesale VHB leased line pricing is higher than some comparator jurisdictions.<sup>7</sup>

3.5 This contrasts with Airtel, which not only agreed that Guernsey VHB leased line prices are excessive, but submitted that <1 Gbps leased lines prices are also excessive.

In addition to response made via bullet points 4, 6, 8 & 9, GAL firmly believes that Leased line prices are not only extortionately excessive for 1Gbps and above, but they are exorbitantly high for <1Gbps leased lines too!<sup>8</sup>

---

<sup>5</sup> Sure (2022). Response to Price control for wholesale on-island leased lines Consultation Paper, 11 February 2022: page 3.

<sup>6</sup> JT (2022). Response to Price control for wholesale on-island leased lines Consultation Paper, 11 February 2022: page 4.

<sup>7</sup> Sure, 2022: page 12.

<sup>8</sup> Airtel (2022). Response to Price control for wholesale on-island leased lines Consultation Paper, 18 February 2022: page 3.

3.6 Airtel also argued that the price comparisons presented in the consultation are misleading as they do not compare Sure's different exchange wholesale prices.

### **Benchmarking approach**

3.7 Sure had no concerns in principle with a wholesale price benchmarking approach, but did not support the proposal to benchmark its monthly rental charges with those for JT Jersey. Sure submitted that it is neither appropriate nor proportionate for the GCRA to only address disparities between Guernsey's and Jersey's wholesale VHB leased line prices, and not do the same for lower bandwidth products within the same market.

3.8 Sure further submitted that the GCRA's approach to benchmarking did not account for non-recurring costs, principally connection charges paid by the customer when entering into an agreement with a new provider. Sure also contended that Jersey enjoys economies of scale and scope compared to Guernsey, stating:

Again, these differences imply that Sure's VHB leased lines ought to sit slightly higher than equivalent JT [monthly rental costs].<sup>9</sup>

3.9 JT submitted it had 'no strong objection to any aspect of the GCRA's proposal',<sup>10</sup> but sought additional clarity, when GCRA consults formally, on two things:

- how the implementation of the caps, including the glidepath, relates to the timetable of the BCMR review the GCRA is currently undertaking.
- how the GCRA would regulate Sure if there were to be any disparity between the wholesale products offered by JT in Jersey and those offered by Sure in Guernsey.

3.10 Airtel indicated that it supported a benchmarking approach, but against a 5G enabled jurisdiction such as the UK rather than JT Jersey:

We believe that benchmarking is the right approach, provided it is done with the jurisdiction that has 5G in place, e.g., the UK.<sup>11</sup>

### **Structure of benchmarking control**

#### Product by product

3.11 Sure submitted that it did not understand how the proposed product-by-product approach was expected to work in practice.

3.12 JT noted that a portfolio approach which allows the operator rather than the regulator to decide for itself how best to recover costs across its product portfolio should generally be preferred, but stated:

However, in this case JT agrees with the GCRA that the caps should apply to each of the five products rather than to the portfolio of very high bandwidth products. This is primarily for practical reasons. JT does not see

---

<sup>9</sup> Sure, 2022: page 6.

<sup>10</sup> JT, 2022: page 2.

<sup>11</sup> Airtel, 2022: page 1.

how it would be feasible for the GCRA to compute the portfolio cap for Guernsey by reference to the individual prices charged by JT in Jersey, or how it could easily assess Sure's compliance with it.<sup>12</sup>

3.13 Airtel agreed the proposed benchmarked cap should apply to each product rather than a portfolio approach, but requested more granularity:

While we agree with the GCRA approach of speed-based grouping price control, there needs to be more granularity as per the current demand. We propose availability of products in increments of 500Mbps.<sup>13</sup>

#### Glidepath

3.14 JT was in favour of the 2-year glidepath proposal:

JT recognises that these risks will be mitigated to some extent in this case if the GCRA implements the changes it proposes using a 2 year glidepath rather than an immediate cut in prices to the levels charged by JT in Jersey. JT considers there is a strong case for adopting a 2 year glidepath.<sup>14</sup>

3.15 Sure raised concerns about the alignment of the glidepath 'with any forward-looking remedies imposed as part of its ongoing BCMR', stating:

There is a risk that imposition of a new price control, followed by the prospect of another, distinct price control (if warranted), could [destabilise] the market.<sup>15</sup>

#### Differential pricing

3.16 All three respondents expressed support for the proposal for Sure to remove its differential 'Different' versus 'Same' exchange wholesale pricing. Airtel further submitted that differential pricing should also be removed from Sure's <1 Gbps leased lines.

#### Transparency

3.17 Sure indicated no objection to the proposed publication of Sure's wholesale leased line prices in the public domain. Airtel also submitted it had no objection, with the exception of any separate leased lines portfolio for telecoms operators remaining private.

### **Sure's price reduction proposal**

3.18 In conjunction with its submission on the January 2022 Consultation, Sure sent an official regulatory notification to the GCRA advising it would be voluntarily reducing its wholesale VHB leased lines prices from 28 March 2022.

3.19 The proposal, shown in Table 1, entails:<sup>16</sup>

- the removal of the pricing distinction between 'Same' and 'Different' exchange pricing for 1Gbps and 2 Gbps wholesale leased lines (i.e. all to be priced at the 'Single' exchange level); and

---

<sup>12</sup> JT, 2022: page 4.

<sup>13</sup> Airtel, 2022: page 3.

<sup>14</sup> JT, 2022: page 4.

<sup>15</sup> Sure, 2022: page 8.

<sup>16</sup> Sure, 2022: page 2.



- a reduction in the monthly rental charge of Sure’s 1 Gbps, 2Gbps, 4 Gbps, 8 Gbps and 10 Gbps wholesale leased line products.

*Table 1: Sure wholesale price reduction proposal*

Capacity (Gbps)	Exchange ‘Type’	Current Annual Price (£)	New Annual Price (£)	% change
1	Same, Fibre Channel	22,907	19,929	-13%
1	Different, Fibre Channel	41,232	19,929	-52%
2	Same, Fibre Channel	25,452	25,452	0%
2	Different, Fibre Channel	45,814	25,452	-44%
2	All, High Speed Ethernet	37,884	25,452	-33%
4	All	42,096	36,624	-13%
8	All	59,496	51,762	-13%
10	All	61,044	57,076	-6%

Source: Sure, 2022: page 11.

---

## 4. GCRA assessment and conclusion

### Introduction

4.1 This section sets out the GCRA’s consideration of the responses to the January 2022 Consultation followed by its conclusion on this matter.

### Assessment

4.2 The GCRA’s primary focus as a telecommunications regulator is to support and maintain well-functioning telecommunications markets in Guernsey. Key to this objective is ensuring that prices, especially those of dominant operators and service providers, are fair and reasonable. In the January 2022 Consultation, the GCRA demonstrated that VHB leased line prices, at both the retail and wholesale level, are excessive.

4.3 The starting point for the GCRA’s assessment is the outcome it was intending to achieve by consulting on an amendment to Sure’s VHB leased lines price control. In simple terms, that outcome was to reduce, preferably voluntarily, Sure’s wholesale prices to similar levels applied in comparable jurisdictions, with market forces driving similar reductions in retail pricing.

4.4 The GCRA’s preliminary view was that this could be achieved by two key changes to VHB wholesale product prices:

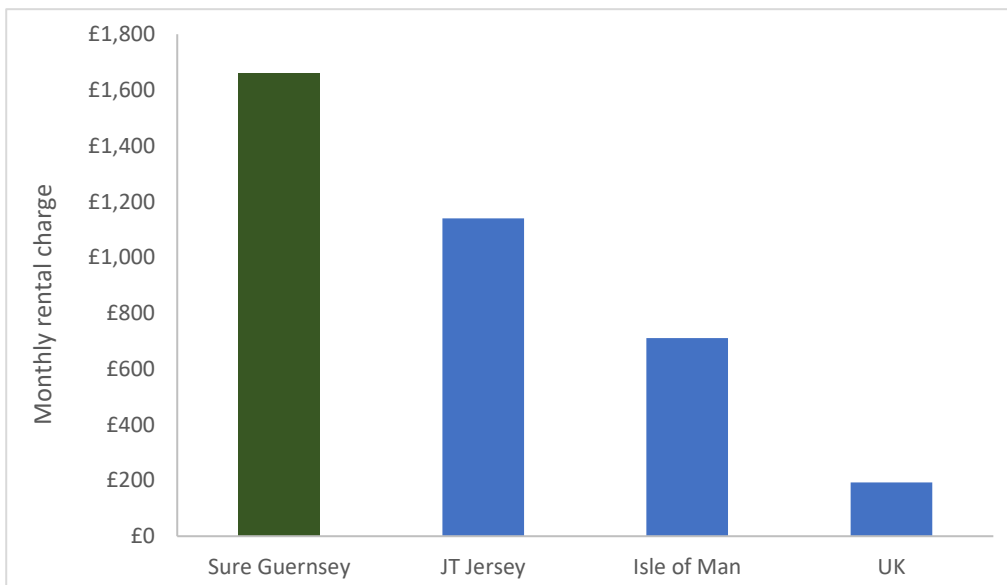
- removing the arbitrary price differentiation between ‘Different’ and ‘Same’ exchanges; and
- reducing monthly rental charges to match those applied by JT Jersey for the same bandwidth over a two-year glidepath, that is in two tranches.

- 4.5 In December 2021, the GCRA advised Sure of its concerns with excessive VHB leased lines wholesale prices and the GCRA’s plans to consult on an amendment to Sure’s 2015 wholesale price control. The purpose of the early advice was to provide Sure with an opportunity to voluntarily reassess those prices. The GCRA therefore welcomes Sure’s proposal, provided in response to the January 2022 Consultation, to voluntarily reduce its wholesale VHB leased lines prices from 28 March 2022.
- 4.6 In assessing Sure’s pricing proposal, the GCRA notes two things. The first is that Sure has removed the price differentiation between ‘Different’ and ‘Same’ exchanges. This is line with the GCRA’s preliminary view expressed in the January 2022 Consultation.
- 4.7 The second is that Sure’s reductions in wholesale monthly rental charges for 1, 4, 8 and 10 Gbps leased lines go a substantial way towards the first-year (of a two-year glidepath) price caps the GCRA consulted on in January 2022.

**Conclusion**

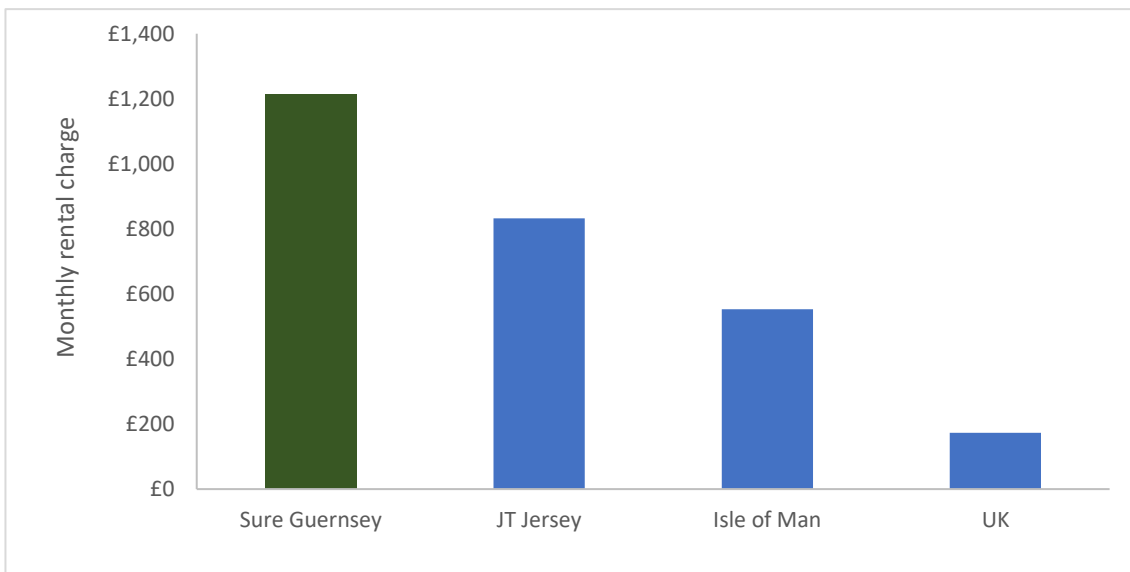
- 4.8 As such, in light of the GCRA’s assessment of Sure’s voluntary price reductions that will apply from 28 March 2022, the GCRA will not proceed with further consultation on this matter at this time.
- 4.9 For avoidance of doubt, the decision to close this consultation does not signal that GCRA believes Sure’s wholesale prices will be at an efficient level following the announced price reductions, nor will be the retail prices that flow from the wholesale price fall. The magnitude of the remaining difference in prices between Guernsey (and Jersey) and larger jurisdictions, such as the UK, are unlikely to be entirely explained by higher costs due to smaller economies of scale. Sure also cannot provide financial information to justify its pricing. This suggests that there is much room for further price reductions towards cost-reflective prices. As such, the GCRA’s view is that Sure’s price proposal is just the start of a move towards efficient prices for consumers that will continue with the BCMR process.

**Figure 3: Wholesale price comparison, 28 March 2022, 1 Gbps**



- 4.10 Moreover, as noted by Airtel in its response, Sure has retained differential pricing for its <1 Gbps leased lines. As such, the GCRA suggests that Sure consider voluntarily removing the price differentiation between ‘Different’ and ‘Same’ exchanges for <1 Gbps leased lines also.

**Figure 4: Wholesale price comparison, 'Different Exchange' 100 Mbps**



### **Next steps**

4.11 The GCRA will proceed with its ongoing BCMR market definition and market power assessment. The final part of the BCMR process is the remedies review. In those areas where competition is found to be deficient, the GCRA will, in a separate remedies consultation process that will follow the market definition and competitive analysis, put forward proposals for any regulatory action.

## Annex 1: Summary of January 2022 Consultation responses

Respondent	Date received	Main points raised
<b>JT (Guernsey) Limited</b>	11 Feb 2022	<ul style="list-style-type: none"> <li>• Had no strong objection to any aspect of the GCRA's proposal</li> <li>• Raised concerns about the timing of the preliminary proposal, in particular the glidepath, in relation to the BCMR market review cycle</li> <li>• Accepted may be circumstances in which it is appropriate for a regulator to intervene mid-review cycle but expressed concern about potential impacts on operator investment decisions</li> <li>• Agreed the proposed cap should apply to each of 5 products rather than portfolio approach and noted that provision should be made for any JT Jersey wholesale price changes</li> <li>• Had no objection to the proposal to remove Sure's differential pricing</li> </ul>
<b>Sure (Guernsey) Limited</b>	11 Feb 2022	<ul style="list-style-type: none"> <li>• Raised concerns about the timing of the preliminary proposal in relation to the BCMR market review cycle</li> <li>• Submitted that it is planning to restructure their entire price curve, but only after the BCMR</li> <li>• Did not support the proposal to benchmark its monthly rental charges with those for JT Jersey on the basis it does not consider non-recurring charges, economies of scale and scope and prices of lower bandwidth lines</li> <li>• Did not agree that it has engaged in excessive pricing</li> <li>• Announced that it would voluntarily reduce its VHB leased lines prices from 28 March 2022, as follows: <ul style="list-style-type: none"> <li>○ removal of the pricing distinction between 'Same' and 'Different' exchange pricing for 1Gbps and 2 Gbps with all VHB lines priced at the 'Same exchange' level;</li> <li>○ reduction in the monthly rental charge for 1 Gbps, 2Gbps, 4 Gbps, 8 Gbps and 10 Gbps wholesale leased line products</li> </ul> </li> <li>• Disagreed with the proposal to only benchmark its VHB prices and exclude &lt; 1 Gbps leased line prices</li> <li>• Did not object to the proposal to remove its differential pricing</li> <li>• Raised concerns about the implications of the glide path proposal on any BCMR remedies decision</li> <li>• Supported publication of its wholesale leased line prices</li> </ul>
<b>Guernsey Airtel Limited</b>	18 Feb 2022	<ul style="list-style-type: none"> <li>• Agreed that VHB leased line prices are excessive</li> <li>• Raised concerns that &lt;1 Gbps leased lines have not been considered in the consultation and submitted that price for these lines are also excessive</li> <li>• Supported a benchmarking approach, but against a 5G enabled jurisdiction such as the UK rather than JT Jersey</li> </ul>

Respondent	Date received	Main points raised
		<ul style="list-style-type: none"> <li>• Submitted that the wholesale price comparisons presented in the consultation are misleading as they do not include a comparison with Sure's 'Different Exchange' prices</li> <li>• Agreed the proposed benchmarked cap should apply to each product rather than portfolio approach, but requested more granularity i.e. increments of 500 Mbps</li> <li>• Supported the proposal to remove Sure's differential wholesale pricing, but submitted the removal should be extended to &lt; 1 Gbps lines</li> <li>• Advocated for a shorter market review cycle of 1 year, given the fast pace of wireless mobile technology development</li> <li>• Supported publication of Sure's wholesale leased line prices, subject to conditions</li> </ul>