



Regulator announces Price Cap on Guernsey Telecoms

The Director General of Utility Regulation, Regina Finn, has today announced a decision to cap the prices that Guernsey Telecoms (“GT”) charges its customers for services it provides over its fixed telecommunications network. “There is agreement that price control is needed because of GT’s dominant position in the market”, said the Regulator, “and I believe the measures we are introducing are necessary to protect consumers’ interests”.

The price cap is a form of “incentive regulation”, designed to encourage GT to achieve efficiencies and cost savings and pass the benefits of those efficiencies on to its customers in the form of lower prices for services. Services are grouped together in four “baskets” and the prices in each basket are capped until the end of 2004 in the following ways:

- **Leased line Basket:** no upward change in the price of this basket or in the price for any individual service within the basket;
- **Shortcall Basket:** changes in the price of this basket shall not exceed RPI – 3%, i.e. they must reduce by inflation less 3% in each year of the price control.
- **Main Basket:** changes in prices of this basket shall not exceed RPI - 5%, i.e. prices must reduce overall by inflation minus 5% in each year.
- **Exchange Line Rental Basket:** Changes in the price of this basket shall not exceed RPI + 7%, i.e. prices may not increase by more than inflation plus 7%.

Combined, the overall effect of the cap is to require a downward movement in the total bill of telecoms customers by 2% on average each year in real terms, if usage patterns and other factors remain the same. Different customers will experience different degrees of change, depending on the services they buy most.

The Regulator said “This price cap represent a fair outcome for GT, its shareholders and its customers. We will be monitoring the impact of the cap and will review it before the end of 2004. Experience elsewhere has shown that as markets mature these caps have become stricter, forcing greater reductions, but for the present, GT customers will see the benefit of this cap in that their telephone bill will be under downward pressure overall”.

In developing the price cap, the Regulator paid particular attention to GT’s request to allow it to increase some of its prices – particularly the price of line rental which is a fixed part of every telephone users’ bill. The Regulator was concerned about vulnerable user groups, especially those on low incomes, who could be disproportionately affected by increases in this fixed element of their overall bill. The importance of affordable access to a telephone has been highlighted in the recently published Survey of Guernsey Living Standards¹ where 80% of respondents deemed this to be a necessity. As a result, while allowing some rebalancing of prices, the Regulator has imposed a separate basket for exchange line rental with an upper limit on changes in the price of this specific service.

Speaking of vulnerable users, the Regulator said, “There may well be more targeted and innovative ways of protecting low income telephone users as part of the universal service obligation and I will continue to give consideration to alternative mechanisms that may be proposed. But for now this measure ensures that the fixed element of telephone users’ bills is capped.”

The price controls do not impose any specific constraints on changes to prices for mobile telephony services but the Regulator said, “If I believe that GT is abusing its dominant position and customers are being disadvantaged, I will intervene in the market and any price changes could be reversed pending the conclusion of any investigation by my Office.”

**ENDS/
Embargo: 00:01, 15th March 2002**

¹ The Survey of Guernsey Living Standards, Report on Phase one: The Necessities of Life, States of Guernsey Advisory and Finance Committee; University of Bristol

Notes for Editors

Detail of the Price Cap

The price controls and the rationale for their introduction are set out in detail in the Office of Utility Regulation's "Report on the Consultation Paper and Decision Notice: Price Regulation of Fixed Telecommunication Services" which is published today and available from the OUR's website².

The contents of each of the four baskets are

Basket 1: Leased lines: (prices frozen)

- private circuit connection and takeover
- private circuit rental

Basket 2: ShortCall Basket: (RPI-3%)

- Shortcall line connection and takeover,
- Shortcall line rental
- Shortcall local calls

Basket 3: Main basket: (RPI-5%)

- Exchange line connection and takeover
- ISDN line rental, connection and takeover
- Local dialled calls
- Jersey dialled calls
- National dialled calls
- International dialled calls
- Local dialled calls to ISPs
- National dialled calls to ISPs
- Operator calls
- DQ calls (including call charges and facility charge)
- Payphone calls

Basket 4: Exchange Line Rental: (RPI+7%)

- Exchange line rental

Vulnerable Users

The Director General is required to take account of the needs of vulnerable users by virtue of the requirements of the Laws and the States Direction³ in ensuring the affordability of the universal service to all users. This price control prevents significant increases in the fixed elements of any users' telephone bill and requires a downward movement overall.

² OUR Document No OUR 02/xx available on www.regutil.gg

³ Billet d'Etat No VI of 2001; p347

Compliance with the Price Cap

GT's compliance with the price controls will be assessed by the OUR at the end of March – three months after each period of the cap. The OUR will issue compliance statements for each period after assessing GT's performance in accordance with more detailed compliance guidelines have been developed. The Director General believes that these compliance measures will be of assistance both to her office and to GT in ensuring that the targets set by the price cap are met, and will also allow any possible need for carry over to be identified and fully assessed in good time. Conversely, if GT's average charge is higher than the required level, it will be obliged to remedy the situation as the Director General may reasonably require. The Director General may also impose sanctions on GT for failing to comply with the price cap.