JT's Response to

CICRA Wholesale Access to Fixed Telecoms Networks

Wholesale Line Rental Consultation

2nd May 2014

NON CONFIDENTIAL VERSION

1 Introduction

JT (Jersey) Limited and JT (Guernsey) Limited (collectively known as "JT") welcome the opportunity to respond to the Channel Islands Competition and Regulatory Authorities (CICRA) Consultation on Wholesale Access to Fixed Telecoms Networks – Wholesale Line Rental (WLR).

2 Executive Summary

As CICRA are aware, JT has never been a supporter of WLR and has been an advocate of developing wholesale access products that are fit for purpose and future proof. It was always our view throughout the Pan-CI Wholesale Access Products project (Pan-CI WAP) that it is not in the interests of Channel Island consumers to develop wholesale versions of legacy products but to develop wholesale access products that allow Communication Providers (CPs) to differentiate the services they offer to consumers. However, it is evident that JT's view is not supported by the other operators.

It is JT's opinion that the definition of WLR should be limited to standard PSTN telephone line rental and connection and should not include ISDN service. ISDN is a more complicated service with a variety of selectable features and takes more time to configure. The processes that will be required to provide a wholesale version of ISDN2 and ISDN30 will be more complex to develop. If sufficient demand is demonstrated, JT believe that ISDN services should be considered as a phase two development.

It is important to restate in this response that JT is withdrawing all copper provided products as part of the NGA fibre roll out and will be unable to provide ISDN2 services on its fibre network going forward. We are in the process of scoping the work required to developing a SIP based alternative to ISDN 2 and ISDN30 which will replace the current services.

The addition of wholesale calls into WLR increases the level of complexity of the product as it requires call detail records (CDRs) to be passed between the incumbent network and the CP including rating of these calls. JT accepts that there will be some requirement for calls, however, the volumes of wholesale calls that use incumbent networks are likely to be very small. It is therefore JT's opinion that the effort put into the addition of calls should be proportionate with the volumes that are expected to use the service.

JT does not support Pan-CI pricing in isolation for WLR. No other products that are offered in Jersey and Guernsey are priced the same in each jurisdiction, with the exception of interconnect charges for fixed and mobile calls. If CICRA wish to move towards Pan-CI pricing then that should be a defined strategy – CICRA cannot just pick and choose which products should have a Pan-CI price and which should not.

3 Responses to Questions

Q.1 CICRA seeks respondent's view on the level of interest that it currently assigns to WLR. Respondents should state whether they see WLR as a necessary product, a somewhat necessary product, no strong opinion, a somewhat unnecessary product or an unnecessary product.

Respondents should provide supporting information to justify their choice of level of interest. If a respondent's response differs from its previous response then the respondent is requested to provide a rationale to support the change.

In our previous responses to CICRA consultations on wholesale access products JT has been a supporter of creating wholesale access products that allow CPs to differentiate the services they offer to consumers. This view was supported by discussions with Newtel throughout the Pan-CI WAP project. JT held extensive discussions with Newtel outside of the Pan-CI-WAP process over a period of many months discussing a Naked Bitstream product (NB) and working through the construct of the product and the associated costs to create and manage. However, commercial discussions came to an end as Newtel did not have sufficient resources to move forward with NB. Given this change of course, it is JT's assumption that WLR may be a more attractive product for Newtel than NB going forward.

JT also offered Sure the opportunity of discussing an NB product. However, after several invitations to attend a workshop in the summer of 2012, they declined the invitation and stated that they were not interested in pursuing NB at that time on a Pan-CI basis. We have had no further discussions or requests from Sure to pursue an NB product.

Given that Newtel and Sure seem to have lost any enthusiasm they had previously for the development of a NB product, JT assumes that there is no appetite for NB and, as Sure declined to engage in discussions for the introduction of a Pan-CI NB product, JT has not pursued this further for Guernsey.

As CICRA are aware, JT has never been a supporter of WLR and we have been an advocate of developing wholesale access products that are fit for purpose and future proof. It was always our view throughout the Pan-CI WAP process that it is not in the interests of Channel Island consumers to develop wholesale versions of legacy products. However, it is evident that JT's view is not supported by the other operators and since it is important that wholesale access products are introduced on a Pan-CI basis JT cannot work in isolation. JT's own attempts to garner support from Sure to workshop an NB product failed and JT has come to accept that WLR is the product that has the most support, albeit mainly from Sure.

JT has had internal discussions with its consumer division that support its Guernsey retail business and their view is that the demand for WLR is small. Guernsey demand information is provided in the confidential appendix.

JT's view of current level of interest in WLR and its importance is:- no strong opinion verging on a somewhat unnecessary product.

Q.2 Respondents are asked to set out in as much detail as possible what they consider is the appropriate definition of the WLR product they propose.

This definition should include the respondent's requirements for 1) PSTN single line WLR, 2) PSTN multiple line WLR, 3) WLR on ISDN lines as well as the availability of a calls service. If a respondent's response differs from its previous response then the respondent is requested to provide a rationale to support the change.

It is JT's opinion that the definition of WLR should be limited to standard PSTN telephone line rental and connection and should not include ISDN service. ISDN is a more complicated service with a variety of selectable features and takes more time to configure. The processes that will be required to provide a wholesale version of ISDN2 and ISDN30 will be more complex to develop. If sufficient demand is demonstrated, JT believe that ISDN services should be considered as a phase two development.

ISDN30 services are already provided by other CPs in Jersey and Guernsey using a 2Mbit/s leased line and programming of end customer's CPE. The CP uses the Reference Interconnect Offer (RIO) service "Carrier Select" and the calls are routed over the CP's network. JT therefore believes there is no evidence that ISDN products are required in the market when technology already exists (and is being used) to provide ISDN services.

It is also important to restate in this response that JT is withdrawing all copper provided products as part of the NGA fibre roll out and will be unable to provide ISDN2 services on its fibre network going forward. We are in the process of scoping the work required to developing a SIP based alternative to ISDN 2 and ISDN30 which will replace the current services.

<u>Calls Service</u>

It is JT's understanding, from its discussions as part of the WLR working group, that the ability to carry calls is a minor requirement of those interested in a WLR product. CPs such as Sure and JT will carry calls on their own network utilising the Carrier Select Service and their current interconnect arrangements. Sure has previously stated that its requirement for calls is limited to a small amount of calls for devices such as Sky boxes to dial out but that it will route the vast majority of calls over its own network. Potential operators such as The Phone Co-op (currently not licenced to operate in Jersey or Guernsey) expressed interest in a wholesale calls arrangement in a working group meeting held on 17th September 2013 and JT has no knowledge of any other operators with a requirement for calls.

The addition of wholesale calls into WLR increases the level of complexity of the product as it requires call detail records (CDRs) to be passed between the incumbent network and the CP including rating of these calls. Additionally, CDRs need to be generated and transmitted on a regular basis to allow the CP the ability to detect any high usage on the line which could be caused by fraudulent activity.

JT accepts that there will be some requirement for calls, however, the volumes of wholesale calls that use incumbent networks are likely to be very small. It is therefore JT's opinion that the effort put into the addition of calls should be proportionate with the volumes that are expected to use the service. Consequently, we believe that retail minus is the most appropriate pricing approach, as the work involved with calculating cost plus for the large number of destinations would not be commensurate with the volumes. We suggest that an appropriate approach could be to band calls in categories which would allow for a much simpler call rate card:-

- Local Calls
- Channel Island Calls
- International
- UK geographic numbers
- UK wide numbers
- Corporate numbers and location independent services
- Personal numbering and mobile
- Special Services
- Premium rate services

JT's Definition of WLR

- Wholesale Line Rental (WLR) is a PSTN voice Communications Provider (CP) product, which enables CPs to offer their own branded telephony service directly to their End Users using the incumbent network;
- The incumbent's service provisioning and engineering teams provide, repair and maintain WLR lines;
- The incumbent provides a second line fault reporting service to the CP;
- The incumbent provides a consolidated bill to the CP for all of its services;
- The CP can define its own line feature set (dependant on the network features available from the incumbent) or can request a like for like feature set transfer (some features may be chargeable);
- The CP sets its own prices and bills its end-users (single bill);
- WLR contains *optional wholesale calling*
    - WLR includes an option for a CP to purchase wholesale call minutes; and
    - WLR allows CP to use Carrier Select to route calls over its own network;
- Pan-CI Retail products supported
    - PSTN Residential single and multi-lines
    - ISDN 2, ISDN 30 (to be developed as a phase 2 if demand is demonstrated. JT fibre migration will change ISDN 2 and ISDN 30 products.)
- a PSTN line (either fibre or copper) connecting the customer to the network of the incumbent operator is required to support the WLR product;
- Minimum term of 12 months applied to line rental.

Q.3 CICRA requests respondents to indicate the principles that should inform both the extent of technical and operational details the regulator should prescribe in WLR access product definition, as well as those aspects it should leave to negotiations between operators and incumbents.

It is JT's view that the incumbent operators should discuss and agree the technical and operational detail and that CICRA should only get involved if negotiations between them break down or take longer than scheduled in the project plan. If protracted discussions between operators are likely to impact the critical path of the WLR project delivery then CICRA should get involved.

Operators first need to have a clear definition of WLR that is understood by all parties. Once a clear definition is agreed it should then be relatively simple to go through the requirements from a technical and operational level as long as the incumbent operators and other interested CPs commit to the required time to develop the processes and procedures required.

Q.4 CICRA requests respondents to indicate their views on the approach taken by CICRA in the assessment of WLR as set out in its 2013 decision. If they consider that a revised cost benefit analysis should be carried out respondents are asked to identify the main elements of such a high level analysis that they regard as appropriate.

Where possible respondents should identify and provide evidence/rationale for any significant changes to the high level cost benefit analysis as set out in the 2013 decision.

Q.5 CICRA requests respondents to indicate whether a regulatory impact assessment is needed to support the regulatory decision to provide evidence / a rationale to support their review.

Response to Q4 and Q5

CICRA conducted a cost benefit analysis (CBA) as detailed in Annex B of its consultation document.

In the CBA, CICRA notes the potential benefits of WLR and we make comment on the analysis undertaken underneath each benefit identified.

- Ability of all market operators to bundle their services. CICRA's research showed that there was little evidence of bundling in the Channel Islands other than by JT.

This is not correct. Sure provide a bundle of fixed line calls, mobile and calls and TV services in Jersey. However, from the information provided on their website it appears that they do not offer such a bundle in Guernsey although there is nothing stopping them from doing so.

- Bundling of services allows a lower price point than the price of the separate component products.

CICRA has compared the pricing of JT Complete which provides a broadband, fixed line calls and mobile bundle at a lower price point than each of the component products on their own and makes the assumption that the addition of line rental to the bundle will provide consumers with additional pricing benefits.

No consideration has been given to the price point of WLR and whether the margin available will be sufficient to offer any further bundle discounts.

- Removes the compulsory relationship that the incumbent has with all customers regardless of which operator they take their calls or broadband service from.

No evidence has been provided to demonstrate that customers would like to take all their services from another provider and that they do not like receiving their fixed line from the incumbent.

- Benefits of WLR exceed costs to implement

CICRA has used costs provided by Sure, has disregarded the costs provided by JT, and is *"not convinced that JT can justify requiring twice the resource estimated by CWG"* (Sure). It has stated that Sure's cost estimates are "reliable". JT would like to understand on what basis it can make that statement as there is no detail in the CBA that substantiates that view? JT has provided cost estimates in the past and has recently reviewed these cost estimates, and can confirm that they have not changed dramatically. JT's recent cost estimates are detailed below

Responsibility	Days	Total (000s)
Regulatory oversight	35	**£ 6.14**
Development of Guernsey Line Rental products and process	20	**£ 4.27**
Design PCAT Config	15	**£ 3.20**
Design	23	**£ 6.93**
PCAT Configuration	15	**£ 3.40**
Advise on financials and journaling	24	**£ 5.06**
WLR agreement	5	**£ 0.88**
Process Design Service	10	**£ 3.04**
Process Design (Faults)	15	**£ 2.08**
Implement processes for WLR and training on process	12	**£ 1.66**
Fraud and Revenue Protection	10	**£ 2.11**
Project Management & Business Analyst	63	**£ 53.55**
Development of wholesale products and processes	5	**£ 0.82**
IT	TBC	
Mediation	TBC	
Total		**£93.14k**

CICRA has calculated, on the basis of Sure's annual cost to implement of between £30,000 to £40,000, for WLR to be introduced in each island, amounts to between £0.67 and £0.87 per Jersey household[1] and £1.00 to £1.40 per Guernsey household[2] per annum.

CICRA's calculation has assumed that each Channel Island household[3] would benefit from WLR and has divided Sure's cost to implement by the number of households in each island. JT asserts that this does not reflect the true cost per household. The costs to introduce WLR should be divided by the number of households that are likely to take a WLR product from an alternative supplier and not the total number of households available as only a portion of them are likely to move provider. JT estimates that it would be more realistic to assume that 20% of the Jersey and Guernsey fixed line base would move to an alternative supplier of landline services (being the proportion who take a broadband service from an alternative provider).

On the basis of the cost of £40,000 per annum and 20% of households moving fixed line supplier, the cost per household would be around £4.81 per annum in Jersey and around £8.82 per annum in Guernsey.

If the JT cost estimates are used then the cost per household would be £10.35 per annum in Jersey.

JT would have expected CICRA to have conducted a regulatory impact assessment and CBA using the following structure:-

- Consider the perceived benefits to be gained by introducing WLR in the Channel Islands;
- Consider the costs associated with the introduction;
- Consider the size of the jurisdictions;
- Consider whether there are other suitable and more cost-effective alternatives; and
- Consider whether the benefits outweigh the costs of implementation of WLR, having regard to the size of the jurisdictions and the availability of viable alternatives.

We now consider to what extent CICRA has carried out a regulatory impact assessment.

Consider the perceived benefits to be gained by introducing WLR

CIRCA has considered the perceived benefits of WLR and believes these to be: one bill, one supplier for all services, and the ability to offer a bundle of services.

CICRA has also assumed that consumers will benefit from lower prices with the bundling of fixed line services along with calls, broadband and other consumer services. They haven't fully considered if the ability to switch providers for line rental will allow consumers to get a better deal. There is already a choice of packages of products in the market in Jersey from both JT and Sure; however, bundling is less significant in Guernsey. As pricing of WLR is still an ongoing discussion, there is no certainty at this time that there will be sufficient

[1] Jersey Census Report 2011 – 41,595 occupied dwellings
[2] Guernsey Census Report 2001 – 22,664 occupied dwellings
[3] Every household does not have a connection to the fixed line telephone network

margin available for CPs to offer lower priced products than the current prevailing prices in each island.

Consider the costs associated with the introduction

CICRA has considered the costs put forward by Sure and has completely disregarded the costs provided by JT as being unconvincing, largely because Sure's number is lower. It has also based its analysis on the assumption that all fixed line customers will benefit from WLR and has divided Sure's costs of introducing WLR by the total number of households in the Channel Islands instead of the base of customers that are likely to move supplier, which JT calculates to be around 20% of the fixed line customer base. JT believes that CICRA's analysis in this regard has been too high level, has been biased to one operator's information and has not considered the real cost per fixed line user.

Consider the size of the jurisdiction

CICRA's evaluation on this element has been limited to the fact that WLR is currently made available in many countries of various population sizes and levels of GDP per capita. No further evaluation is evident in CICRA's CBA.

Consider whether there are other suitable and more cost-effective alternatives

To a small extent CICRA has considered Naked Bitstream (NB) as an alternative to WLR but it has discounted it on the basis that it believes NB to be a more complex product and the risk of delay is that much greater as a result. It also believes that the resources required to provide the wholesale product are more significant. CICRA does not reveal its source for the view that the complexity of NB is greater and would require more resource to implement.

Consider whether the benefits outweigh the costs of implementation of WLR, having regard to the size of the jurisdiction and the availability of viable alternatives.

JT do not believe the analysis carried out by CICRA on whether the benefits outweigh the costs is sufficient. CICRA has identified a number of benefits: one bill, one supplier for all services, and the ability to offer a bundle of services. JT does not dispute the one bill benefit; however JT sees that it is a very small benefit. The ability to have one supplier for all services could be seen by some customers as preferable as well as the ability to offer a bundle of services. It is JT's view that bundles are currently provided without the fixed line element and the addition of the fixed line to telecoms bundles will be a very small benefit and customers may not see any additional price savings.

CICRA's analysis of the cost of WLR per household is flawed in JT's opinion, as the cost of WLR should only be shared between the number of households that are likely to benefit from WLR. As previously stated, JT believes this number to be around 20% of households in each island and our analysis puts the cost per household at around £4.81 per annum in Jersey and around £8.82 per annum in Guernsey using Sure's cost estimates.

If the JT cost estimates in Jersey are combined with Sure's cost estimates for Guernsey then JT calculates a cost of £10.35 per annum per household over both islands.

Q.6 CICRA wishes to understand the timescale that is reasonable for introducing WLR sought by respondents. The incumbents in particular are requested to set out work processes they consider comprise the process of introducing WLR.

JT has set up an internal project team to look at the implementation of WLR and from the analysis conducted, JT anticipates that, based on the scope of WLR as detailed at question Q2, the work required to implement WLR for single lines will take about 6 months. This assumes that the scope is agreed by all parties without protracted discussion and all parties commit the required resources. From the analysis undertaken we believe there are 4 main work streams which will focus on the following activities:

- Scope and Service Preparation – confirm scope of WLR, confirm functionality required, prepare legal agreements, define credit check process

- Service Delivery – process development for ordering (including transfers, adds, moves and changes), provisioning, number selection, change of address and in life changes and SLAs

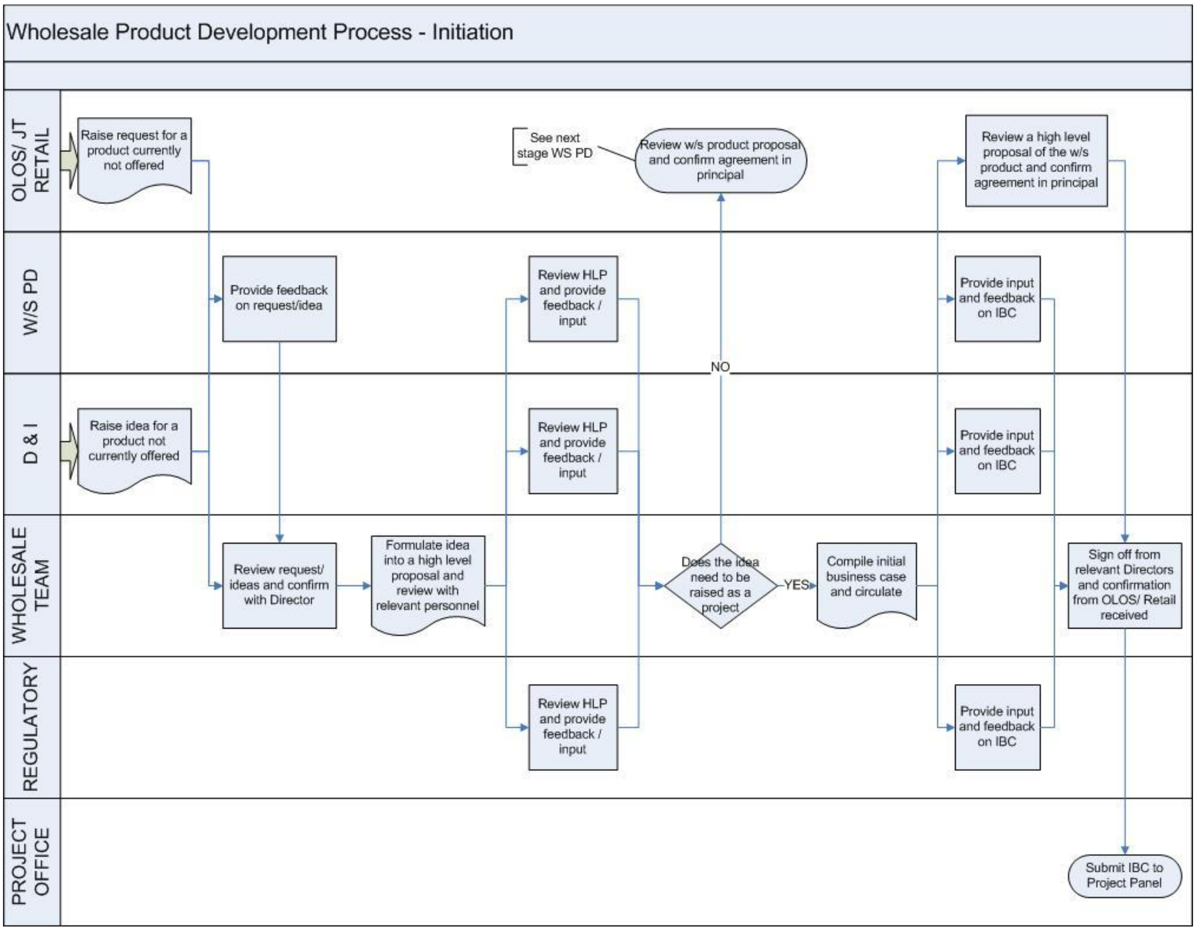
- Service Management – processes for faults, engineering visit, fraud process, nuisance call process, legal intercept process, directory database management and SLAs

- Billing- billing process, CDR format, process and frequency, bill query process and SLAs.

From the information available and assuming that the scope of WLR is limited to that set out in our answer to Q2, JT believes that the high level project timetable detailed at Appendix A would be appropriate.

Q7. CICRA wishes to understand what evidence incumbents draw upon to inform their view on the extent and nature of demand in this area. Evidence from incumbents from consultation or discussion with retail operators in particular is therefore sought. Where incumbents have chosen to respond to such demand they are asked to set out their process and timescale for delivery to meet that demand.

JT spent several months discussing an NB product with Newtel, creating a network design, costing and changing the construct of an NB product to meet Newtel's requirements. JT followed the process below; however at the end of the discussions Newtel decided not proceed to product development due to commercial reasons.



JT has not been approached by any other operators regarding their demand for WLR. All the information that JT has gathered regarding demand for WLR is from discussions with its internal Commercial Development Department on the development of WLR services for the Guernsey market and from discussions with Sure as part of the working group.

Q.7 CICRA seeks views on the pricing principles that should inform the setting of a WLR access price and the above approach proposed.

JT does not support Pan-CI pricing in isolation for WLR. No other products that are offered in Jersey and Guernsey are priced the same in each jurisdiction, with the exception of interconnect charges for fixed and mobile calls. If CICRA wish to move towards Pan-CI pricing then that should be a defined strategy – it cannot just pick and choose which products should have a Pan-CI price and which should not. CICRA cannot unilaterally choose which island's price it would like to apply without a regard for the costs, investments and circumstances in each jurisdiction. While precedent exists to use benchmarks for pricing regulated products, the benchmarking analysis should cover several jurisdictions with homogenous characteristics and it would not be adequate or appropriate to just look at two islands' prices and assume that the one with the lowest cost to provide was the more efficient.

As discussed in previous WLR responses, the incumbent operators, Sure in Guernsey and JT in Jersey, have developed their networks independently over a period of time and have developed products based on the needs of customers in their respective islands. They have chosen to deploy certain fixed line network features and these decisions may have been taken on cost versus benefits to consumers or some other commercial or strategic reasons. For example, consumers in Jersey have been able to benefit from the ability to take their fixed line telephone number with them when they move house, no matter where in the island they are moving. However, in Guernsey Sure did not purchase that feature and therefore Guernsey consumers may need to change their telephone number when they move house if they are moving to another exchange area in the island.

The investment profiles of the organisations differ because of their different ownership models, the pricing strategies they adopted in the past and the strategies of their boards. In Jersey, JT has decided to upgrade its access network and is deploying fibre which is a huge investment. The change to fibre will improve the quality of the access network and will bring down the number of faults, which will be reflected in labour cost savings in the medium to long term. However, the process of installing fibre into each and every household in Jersey is labour intensive and expensive. JT is making this investment on the basis that it will recover the costs of its investment over the life time of the investment. It is important that the correct regulatory signals are made to ensure that incumbents continue to invest in network upgrades which bring consumers new and innovative products. Forcing in prices which do not allow incumbents to recover their investment will jeopardise and limit any future investment.

JT will provide WLR on a mixture of copper and fibre services in the short term and believe that it is appropriate that the WLR pricing is set to allow recovery of efficiently incurred costs. In the medium to long term JT will be removing all copper from its network and JT therefore propose that it would be appropriate for wholesale line rental pricing in Jersey to be based on JT's fibre network costs only as its copper network will be written off. JT would support a cost plus approach on this basis.

JT does not understand how Sure, on page 5 of their WLR response to CICRA documents 12/52 and 12/53, can state that, "JT should not seek to recover the Jersey fibre network rollout costs from exchange line service." If JT is only providing exchange line services over fibre, which will be the case in the medium term, why should it not be allowed to recover that cost?

Jersey and Guernsey consumers are accustomed to a certain price for line rental and it is not common practice for Jersey consumers to look to Guernsey pricing and vice versa. It is JT's belief that Channel Island consumers have greater exposure to UK pricing and it is these charges that they use when comparing whether the price they pay for their service in their respective Channel Island provides value for money. It is our clear view that the same price for WLR in the island of Jersey and Guernsey is not something that consumers are concerned about.

CICRA has previously confirmed its acceptance that the Prime Talk tariff cannot continue to exist in its current form if WLR is implemented and confirmed that it would be supportive of working with JT to agree a way forward with the Council of Ministers.

JT will provide CICRA with confidential costing information on fibre line access under separate cover.

Appendix A – Wholesale Line Rental Workstream Schedule