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Office of Utility Regulation,
Suites B1 and B2,
Hirzel Court,
St Peter Port,
Guernsey,
GY1 2NH.

14th August 2009

For the attention of Mr John Curran – Director General

Dear John,

**"C&WG Reference Offer and Interconnection Rates – Consultation Document" - Guernsey Airtel Limited Response**

With reference to the Consultation Document published in June 2009 by the OUR requesting expressions of comments on proposed changes to the C&WG Reference Offer and Interconnection Rates, Guernsey Airtel Limited (GAL) would like to comment as follows:-

Firstly, we would like to thank the OUR and its consultants for completing a comprehensive analysis of the changes being proposed by C&WG.

Clearly, since the OUR assessment has identified a number of anomalies with the C&WG proposals and the OUR has requested that C&WG submit amended RO and Interconnect proposals, then GAL can only comment on the content of the current consultation document. GAL will be pleased to review and comment on the revised C&WG RO and Interconnect proposals when these are made available.

For clarity, on page 8 of the report, under the heading "Impact on OLOs", mention is made that the proposed changes in RO rates will impact the two OLOs in different ways. We assume that the OLO who is described as only purchasing termination services is a reference to Guernsey Airtel Limited. In the circumstances, as an interested party, we believe it is appropriate the OUR request C&WG as part of their revised proposal to provide a detailed assessment of the impact to the OLOs of the proposed changes and that the corresponding impact assessment is provided to GAL for consideration.

GAL agrees that ensuring wholesale pricing is maintained at appropriate levels is a key driver to delivering sustainable and true competition within the Guernsey telecoms market and thus it is critical that the C&WG Reference Offer and Interconnect pricing are regularly reviewed, benchmarked and amended to ensure competitors in Guernsey are able to compete effectively.

Broadly GAL concurs with the findings outlined by the OUR, but GAL would like to comment specifically on: a) the proposed increase to On Island Termination Rates ; and b) the continuation of time of day gradient charging.

**Proposed Changes to Termination Charges are potentially anti-competitive and not justified**

The C&WG proposals to change wholesale RO pricing does not seem to follow a consistent or justifiable logic.

Whilst ,GAL accept there are certain low volumes products which for operational reasons the method of delivery has changed resulting in potential price increases, the remaining high volume wholesale products should show price reductions across the board since the C&WG voice network has a) reached a point of maturity; b) has had no investment for upgrades (page 18 OUR document); and c) there are no capacity issues, since fixed service volumes are reducing (page 22 OUR document). Against a background of reducing traffic volumes then it is reasonable to expect that voice origination and termination costs may increase slightly, but in the C&WG proposals this is not the case, since voice origination charges reduce by between 19% and 25%, whereas voice termination charges are planned to rise by between 17% and 22%. GAL challenges the proposed increase in voice termination charges since GAL believes this is unjustified and potentially anti-competitive for the following reasons :-

- Post the launch of Mobile Number Portability in Guernsey, voice termination traffic volumes via the CW&G/ OLO interconnects are likely to increase as mobile customers ported to the OLOs from C&WG call C&WG fixed line numbers using the C&WG RO voice termination product. Consequently, increasing voice termination rates will penalize the OLOs financially and constrain the growth of further product and price competition in the Guernsey mobile marketplace.
- The utilization of C&WG's network infrastructure for both the voice termination and voice origination products should be very similar, since the call flows are closely related. For instance, utilization of switches, concentrators, transmission and access infrastructure should be similar whether a voice call is made or received. Indeed terminated calls are likely to use less concentrator resource whose costs have increased and more switch resource whose costs have in fact reduced (page 20 OUR report).
- Recently C&WG agreed to reduce mobile termination rates by 39% from 6.75ppm to 4.11ppm. Whilst mobile traffic volumes are increasing, C&WG's mobile network is in a similar position to it's fixed network in that it is operationally stable and has recently received little additional investment. Consequently, if C&WG can reduce mobile termination pricing by 39%, how can it justify a corresponding 22% increase in fixed termination charges ?
- C&WG have not invested in NGN (page 18 OUR report) to enhance fixed line services and thus capital costs should be fully recovered and the only operational costs such as maintenance and support ; should be minimal since the C&WG voice platform is stable.
- In the period since the current RO rates were set, ie June 2006, the Guernsey RPI has increased only by 8.9% (Guernsey RPI index changed from 128.1(June 2006) to 139.6 (August 2009)).

In the OUR document (page 24) C&WG suggest that GAL is only connected to the Central C&WG exchange, where actually GAL is connected to the Castel exchange. The single connection approach to the C&WG Castel exchange was specified and implemented by C&WG.

The C&WG comments (page 24) relating to the different OLO interconnection approaches seem to be contradictory and GAL believe that C&WG should be asked to provide a more detailed analysis and justification to support their statements in this regard. C&WG suggest that the GAL interconnect uses more of the C&WG network since it is connected to a single exchange rather than the C&WG mobile traffic that connects to two exchanges. However, C&WG then state that another OLO's business customers who are connected to the C&WG central exchange use less of the network thereby reducing routing factors for origination services. Logically speaking interconnecting to a single exchange should use less core network resources and be more cost effective, since the GAL interconnect influences the operational costs of mainly one C&WG switch which then routes traffic to the second switch only when terminating numbers are not connected to the interconnection switch. Whereas for the dual switch connection of the C&WG mobile traffic incurs the full operational costs of both switches, but will require a similar level of traffic transfer between the switches dependent on where the terminating numbers reside.

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**Time of Day Gradient is Outdated and Unnecessary**

As stated on page 24 of the OUR document, the time of day gradient approach is designed to level out traffic demands and encourage smoother network usage across the day by reducing during busy time demand and encourage traffic during quieter times. However, as stated on page 22 of the OUR document, fixed traffic volumes are reducing and thus we must conclude that network capacity and utilization are no longer issues for C&WG.

The use of time of day gradients for wholesale product pricing introduces significant unnecessary complication for both consumers and OLOs alike. Gradient based Wholesale termination and origination products where product pricing varies significantly across different timezones, requires OLOs to offer similarly differentiated retail products, thereby complicating retail product tariffs, constraining the scope for inclusive cross network products and complicating consumer billing. Additionally, for the OLOs, time of gradient based wholesale products require additional interconnect billing system complexity and costly interconnect accounting overheads and resources.

Since network utilization and capacity are no longer issues for C&WG fixed traffic and with the recent adoption of a single mobile termination rate by the OUR and the Guernsey mobile operators, GAL would strongly argue that time of gradient for fixed voice wholesale products is now outdated and no longer necessary. GAL proposes that the OUR should direct that a single charge be levied for each wholesale fixed product irrespective of the time of day or weekday versus weekend.

With regard to the specific question raised by the OUR on page 38 of the consultation document, GAL would like to comment as follows :-

*Question 1: The DG has proposed certain changes to the manner in which RO charges are calculated. Do you agree with his proposals for a revised approach to calculating the RO and interconnection rates? If not, please state which aspects you do not agree with and an alternative approach.*

> GAL agrees broadly with the OUR's proposals to change the calculation of Reference Offer charges, but has expressed its concerns regarding the validity of the proposed price change to voice termination rates. Additionally, GAL has outlined its justification for eliminating time of gradient charge differentiation. GAL welcomes the proposed changes to interconnection charges, but reserves the right for making further comments in this regard once C&WG submit their revised proposals as requested by the OUR.

*Question 2: As part of the cost assessment, we have focused on On-island origination, On-island termination & On-island transit charges. We would however welcome your views on the reasonableness of any other charges.*

> GAL would only comment that where other charges are still delivered in Guernsey by C&WG, price increases where that are justified and necessary should be in line with the corresponding changing Guernsey RPI, ie 8.9%. GAL believe that whilst the cost of providing the "Time" product in the UK will be more expensive than on island, a price rise of 4557% is somewhat excessive and that C&WG should be encouraged to identify a more cost effective method of delivery.

*Question 3: We have identified a number of changes which in our view should be made to the actual rates. Do you agree with these proposed revisions? If not, please state why not.*

GAL supports the changes identified by the OUR.

*Question 4: Do you consider it more appropriate for the wholesale charging structure to be aligned with the retail charging structure (e.g. increasing the periods from 2 to 3) or the other way round and why?*

GAL strongly believes that time of gradients are outdated and no longer appropriate. Time of date gradient charging unnecessarily complicates retail products from a consumer perspective and requires additional interconnect accounting resources and costs. GAL believes that all wholesale products should be charged at a single rate, irrespective of time of day or weekday/ weekend.

*Question 5: We have identified a number of issues which we believe should be addressed going forward which the DG believes will increase the transparency of how rates are calculated. Do you agree with the DG's recommendations? If not, please state why not.*

GAL concurs with the issues identified by the OUR and the corresponding recommendations.

*Question 6: Which charging approach do you consider most appropriate for interconnection link services: the current approach or an approach on a time and materials basis? Please explain why.*

GAL believes that since interconnection products are specialized for each installation/ occurrence, then their bespoke nature is more appropriate to a time and materials pricing approach. However, for transparency, GAL recommends that time and materials pricing should be based around standard charging for the key elements that make up the interconnection installation. In this way the OLOs are able to verify that the C&WG charges for each bespoke interconnect are reasonable.

*Question 7: Are there in your view any other issues which we have not discussed in this document but which should be considered before determining new RO and interconnection rates?*

GAL would like to thank the OUR and its consultants for a very comprehensive analysis and GAL has no further issues or questions to raise at this stage.

We trust our response and comments meet with your approval and we look forward to having the opportunity to further contribute in this important consultation.

Yours sincerely

James Wild
Head of Regulatory Affairs – Channel Islands
Guernsey Airtel Limited