COMMENTS ON

THE REVIEW OF C&W GUERNSEY'S

WHOLESALE LEASED LINE PRICES

9TH MARCH 2007

1 EXECUTIVE SUMMARY

1.1 The OUR, along with its advisors Frontier Economics, conducted a detailed review during Quarter 4 2006 on how leased lines are provided and in particular the pricing approach adopted by C&WG. The OUR has issued a consultation on leased lines in which the main issues it considers was whether to change the pricing model of wholesale on-island leased lines from retail minus to cost plus and wholesale off-island leased lines to a larger retail minus amount than currently in place.

1.2 Wave Telecom supports the OUR's review of leased lines, however, it has concerns that in the short term, a move to a different pricing model (such as from retail-minus to cost-plus) will disrupt the market. The reason for this view is that such a change would inevitably result in a significant revision to the entire portfolio in terms of pricing, product definition, service level agreements and terms and conditions which will tilt the competitive playing field further to the advantage of the incumbent during the transition period. Because of the number of variables involved, we believe that the pricing changes could be an interminably long process.

1.3 Wave is concerned that the transition process would be excessively lengthy and would prove a distraction from addressing some urgent pricing, provisioning and product issues, which in themselves favour C&WG. Moreover, the likely outcome could be a dispute. In the UK, for example, in 2001 Oftel issued a direction to BT to move its current wholesale leased line portfolio (which at the time was based on its retail offer) to a cost-plus framework. BT's new product offer, issued six months later, triggered a dispute that took almost two years to resolve, tied up substantial Oftel manpower and required a final direction that ran to almost 800 pages.

1.4 The intervening period was one of substantial commercial uncertainty during which operators were forced to adopt a substandard product portfolio until the matter was resolved by regulation. We argue below, that the OUR should not risk a repeat of this scenario.

1.5 Instead, we argue that in the meantime the OUR could concentrate on a few "quick win" issues, which will deliver short-term competitive improvements. In so doing, it will be able to address a large number of issues in the interim time before a move to a different pricing model. These "quick-win" issues are limited in number and in scope, can be implemented relatively quickly and easily, and are explained in detail below.

1.6 Wave Telecom also has some serious concerns over the other service elements that constitute the provision of leased lines, which it would like to be included in the review of the non-price aspects of C&WG's product offerings which is scheduled to take place in Q3 2007. However, Wave believe that a review of these aspects should take place earlier than is currently scheduled to ensure that some quick win changes can be implemented sooner rather than later. [Commercially sensitive: redacted in public version]

1.7 [Commercially sensitive: redacted in public version]

1.8 [Commercially sensitive: redacted in public version]

1.9 Product Issues

1.9.1 Currently, C&WG does not allow wholesale on-island leased lines to be delivered over Customer Sited Interconnect (CSI) links that competitors have purchased for voice. As a result, competitors are forced to purchase a costlier and less technically efficient product.

1.9.2 We recommend that the OUR requires C&WG to introduce a wholesale leased line variant that uses the same CSI infrastructure to achieve a lower price.

1.9.3 Wave recommends that the OUR directs C&WG to provide similar on-island and off-island products in its wholesale portfolio as it includes in its retail portfolio. An example of the current inequitable product status is where C&WG provide a 45Mbit/s off-island leased line in both its off-island retail and wholesale portfolios but no on-island equivalent. It is essential that OLO's have access to equivalent wholesale on-island products as C&WG retail have in its off-island portfolio to allow them to compete in the off-island leased line market as they require an on-island tail to complete the end-to-end circuit. Wave Telecom has requested that C&WG introduce a 45Mbit/s wholesale on-island leased line product however, so far, we have not received a satisfactory response and Wave believe that there are no valid technical nor commercial reasons to deny such a product.

2 INTRODUCTION

2.1 The OUR has issued Consultation Document OUR 07/01 entitled 'Reviewing C&W Guernsey's Wholesale Leased Line Prices' and initially asked for responses by 5.00 pm on Friday 2nd March 2007, however this was extended for a further week until 9th March 2007.

2.2 Our comments are not restricted to the issue of the most appropriate pricing model (i.e. cost-plus vs. retail-minus) for wholesale leased lines but rather, we focus on pragmatic solutions to address the competition failings in the wholesale leased lines market in as efficient and timely a manner as possible. Although pricing is a very important aspect of leased lines, Wave believes that solely changing the pricing model as contemplated by the OUR is likely to prove a distraction from addressing some of the other fundamental problems with the leased lines product such as the pricing structure, service level agreements and the non availability of certain types of product. It is these latter issues which we believe are important for the efficient operation of the wholesale leased lines market in Guernsey.

2.3 Experience from international markets demonstrates that a regulated change in pricing model inevitably results in the entire portfolio of leased lines products being reviewed. This creates significant commercial uncertainty and delays in addressing known problems because a change in the pricing model always requires each individual component of the portfolio to be evaluated in the context of the whole.

2.4 Therefore, we are likely to see a long lead-time between a policy decision to change the pricing model and it being satisfactorily translated into a product offering. The OUR will be aware that leased lines are complex services and as such, substantial work – and time – is needed to translate a high-level policy decision into a fully priced product offer. Furthermore, international experience has shown that, as a result of the product's complexity, it can be extremely difficult in practice to audit a leased line price list to confirm whether it does – or does not – comply with a high-level pricing standard.

2.5 Fully aware of this, an incumbent operator – when faced with a seemingly harsh policy decision – will often design the pricing menu in such a way as to ensure superficial compliance (for example by charging low circuit rental charges), but in reality it either:

- Makes up the difference by increasing prices for ancillary services. These are often buried deep in a price list that stretches for tens of pages, covering hundreds of items; or

- (Related to the above) includes so-called "deal killers" that are designed to reduce the product's attractiveness.

2.6 This behaviour has been witnessed in most major European countries. Specifically, in the UK, Oftel was called upon to resolve a dispute between BT and its rivals over the fine detail of the Partial Private Circuit product offer. Oftel's decision took nearly two years and its final determination ran to nearly 800 pages.

2.7 Many European countries have seen the creative use of "deal-killers", which have accompanied the introduction of cost orientation by the regulator. In Germany, for example, deal killers involved a lack of satisfactory SLAs, extremely poor provisioning performance and technical problems, which in combination have prevented operators from using the wholesale product (known as "CSV"). Instead, carriers use the retail product "SFV", rendering the regulator's action irrelevant. In France, the introduction of cost orientation was accompanied by the imposition of migration requirements that were so onerous that alternative operators decided not to use the product. Migration requirements in The Netherlands were similarly onerous. In the UK, deal killers included the use of exorbitant equipment charges, (which more than cancelled out the very low rental charges), artificially preventing the mixing of voice and leased lines over the same infrastructure, poor SLAs and the refusal to provide a high-availability wholesale product (which had long been available as a retail product).

2.8 A policy decision of a fundamental nature – such as moving from retail-minus to cost-plus – would effectively require C&WG to redesign its entire pricing model. This carries with it the risk that, just like BT in the UK, C&WG sees it as an opportunity to introduce subtle changes to the pricing model that reduces its attractiveness and/or increases its effective price. As explained above, experience in EU countries has shown that a newly designed product offer can incorporate flaws that are so numerous and insidious in nature that the task of resolving them can become intractable for the regulator, whilst operators are left for several years with non-functioning, semi-functioning or over-priced products.

2.9 While pricing is a key issues we argue that in the meantime the OUR could concentrate on a few "quick win" issues, which will deliver short-term competitive improvements with a change to the pricing regime following on from it. [Commercially sensitive: redacted in public version]

3 PRICING STRUCTURE

3.1 Part IV of C&WG's Fixed Telecoms Licence includes a number of conditions that are applicable to licensees that have a dominant position in a relevant market. Condition 26 of C&WG's fixed telecoms licence states the following:-

"26.2 The Licensee shall offer to lease out circuits to other licensed operators on terms that are no less favourable than those on which the Licensee makes equivalent leased circuits available to its Associated Companies or its own business divisions."

This non-discrimination condition is intended to prevent various forms of "squeeze". A squeeze is said to occur where an efficient[1] access seeker is unable to offer a retail service that is sufficiently competitive with the access provider's retail offering because the margin between the two is insufficient. In theory, a squeeze can involve several dimensions, including price and quality (amongst others). In this section we are concerned with the price dimension. [Commercially sensitive: redacted in public version]

3.2 As regards price squeeze, it is well understood that a non-discrimination condition (such as Condition 26), though necessary, is not sufficient to prevent price squeeze. For example, an access provider can impose a price squeeze whilst adhering to a non-discrimination condition by rebalancing its tariffs so as to earn

[1] The definition of "efficient" in this context is a matter of some controversy and different definitions have been used by regulators depending on their objectives. For example, some regulators have defined "efficient" to mean "as efficient as the access provider". Regulators use this definition in situations in which they prefer cost efficiency to maximum competitive entry. In other cases, regulators have defined "efficient" as meaning "the retail costs incurred by a reasonably efficient new entrant". Regulators use this definition in situations in which they prefer ease of competitive entry to low cost.

supernormal profit in the wholesale division. Therefore, a non-discrimination condition needs to be supplemented with action to prevent price-squeeze.

3.3 In the presence of an apparent price squeeze, it is impossible for an access seeker such as Wave Telecom to know whether the reason for this is that the non-discrimination condition has been breached, or whether the access provider is earning insufficient margins at the retail level. Therefore, in our comments, we do not attempt to distinguish between the two. Instead, we refer to the presence of apparent price squeezes, resulting from C&WG's wholesale and retail pricing structure, where we believe they exist and make recommendations to resolve the problem.

3.4 [Commercially sensitive: redacted in public version]

3.4.1 In the C&WG wholesale leased line portfolio, shift charges apply to on-island circuits. However, they do not apply to off-island circuits. For example:

- they are not applied to Guernsey end shifts in either the 2 Mbit/s or 45 Mbit/s Guernsey to London circuits on the Longline Aggregate; or
- the circuits provided between Jersey and Guernsey on the CIEG.

However, C&WG apply shift charges to on-island:

- Fibre Link;
- Kiloline;
- Megaline; and Nx64 leased lines.

3.4.2 [Commercially sensitive: redacted in public version]

3.4.3 The fact that charges are only applied to on-island shifts has the effect of raising C&WG's rivals' costs in the provision of off-island circuits because its competitors' off-island circuits usually require an on-island component supplied by C&WG.

3.4.4 Our recommendation is that the OUR requires C&WG to abolish wholesale shift charges for on-island circuits immediately. This would represent a major improvement to the leased lines pricing framework in Guernsey that could be implemented very quickly and easily without the inevitable delays and commercial uncertainty that would result from changing the entire pricing model. The current pricing framework provides C&WG with ample returns, as detailed at 4.2 of the "Reviewing C&W Guernsey's Wholesale Leased Line Prices Consultation Paper:-

"Based on data from C&WG's 2005-06 regulatory accounts, Frontier Economics estimate that C&WG earned a rate of return on its retail leased lines of 66% in 2005-06"

If this is the case, anti-competitive and discriminatory charges such as C&WG's on-island shift charges can easily be abolished without requiring it to rebalance prices elsewhere.

3.5 Term discounts

3.5.1 Currently, C&WG offers term discounts on off-island circuits to its retail customers. However, it does not offer term discounts on its wholesale off-island products nor does it offer term discounts on its retail or wholesale on-island products. This effectively places competitors in a price squeeze for two reasons. First, in most cases competitors must purchase on-island circuits in order to provide an off-island service. Second, in some cases, even competitors that operate their own infrastructure (Wave Telecom, for example) must purchase off-island circuits from C&WG when retail customers require it for the sake of providing diversity. In these situations, competitors suffer a price squeeze versus C&WG for off-island circuits. In this scenario as the current wholesale off-island portfolio does not include term discounts, OLOs are disadvantaged in terms of the pricing they can offer a customer as the margin between retail and wholesale pricing is non-existent on 3 year term contracts to London, for example. To address these two forms of price squeeze, one option would be to require C&WG to offer the same term discounts on wholesale circuits. This would involve requiring C&WG to offer the same discounts on wholesale on-island circuits (as these are essential components for competitors to provide off-island circuits). It would also involve requiring C&WG to offer the same discounts on wholesale off-island circuits because competitors purchase these to provide their customers with a resilient service.

3.5.2 In theory, an alternative option might be to prevent C&WG from offering discounts at the retail level. However, this option could be seen as overly intrusive as it amounts to a direct constraint on price competition at the retail level which, if the wholesale market is functioning effectively, should not be necessary.

Therefore, we recommend that the OUR:

- Requires C&WG to offer the same percentage term discounts on its wholesale on-island leased lines service as it does to its retail off-island service; and

- Requires C&WG to offer the same percentage term discounts on its wholesale off-island leased lines service as it does to its retail off-island service.

This pricing change could be implemented very quickly and easily without the likelihood of major delays and commercial uncertainty that would result from a thorough revision of the pricing model.

3.6 Component pricing structure

3.6.1 Currently, a wholesale on-island circuit is priced identically to a retail end-to-end circuit. The on-island wholesale leased line product is priced as if it involved two local tails. However, in many instances a second local tail is not required, as the circuit is being provided, in the Wave scenario, directly into the Wave Point of Presence ("POP"). To maximise efficiency, the Point of Connection ("POC") end of the leased line should be delivered using the same bearer circuit as is used for voice. This is the Customer Sited Interconnect (CSI) product purchased under the Reference Offer (RO).

3.6.2 If an OLO has invested in costly CSI infrastructure to interconnect with C&WG, they currently cannot utilise it fully to provide leased line services to its customers. If OLOs were able to use the CSI infrastructure, they could simply purchase an on-island tail circuit from C&WG to provide a full end-to-end circuit from the customer's Guernsey premises to an off-island destination. This should be a more cost effective option, however, this highlights a further problem, which is that the supposedly cost-oriented price of a CSI in the RO significantly exceeds efficiently incurred costs. The table below shows a comparison of C&WG wholesale prices for a Guernsey on-island 2 Mbit/s circuit and the charge to connect a 2 Mbit/s port on the CSI Link:-

Service	Connection Charge	Quarterly Rental Charge	Assumed Pricing Methodology
2 Mbit/s on-island Circuit (same exchange)	Nil	£460.00	Retail minus 9.1%
2 Mbit/s on-island Circuit (different exchange)	Nil	£828.00	Retail minus 9.1%
2 Mbit/s CSI Link Port	£2,044.59	£829.96	Cost Plus

3.6.3 Technically, the 2Mbit/s CSI Link Port (or equivalent) involves a subset of the infrastructure used for providing a 2Mbit/s end-to-end leased line. But whilst supposedly cost oriented, it is much more expensive, particularly when considering the connection charge. But ignoring the connection charge for one moment, the rental charge should be very much lower because it does not involve a local tail, which is the most expensive component of a leased line. An end-to-end leased line involves two.

3.6.4 Reopening the RO costing process to address this problem would be excessively time consuming. Therefore, we recommend that the OUR directs C&WG to:

- develop a reasonable charge for the CSI link; and
- deliver the POC end of the leased line using the same infrastructure.

3.6.5 The problem is how to verify whether any such price is reasonable without reopening the RO costing process. To see whether the proposed price is in the right ballpark, we can use a simple and approximate “rule of thumb”, sometimes employed by engineers and cost modellers. The rule is that increasing the bandwidth of a circuit by a factor of n roughly increases cost by a factor of the square root of n.

3.6.6 The existing price of a 2Mbit/s wholesale leased line where each end is delivered from a different exchange is £828 per quarter. Using our rule of thumb, and assuming that the main-link is a 2Mbit/s path provided over a 155Mbit/s SDH ring we can disaggregate the price into the proportions attributable to each component. A 155Mbit/s SDH ring has 63 times the capacity of a 2Mbit/s circuit. Our rule of thumb tells us that its cost should therefore be approximately equal to the square root of 63, or 7.94.times the cost of an individual 2Mbit/s circuit. In other words, the cost of a 2Mbit/s path over a 155Mbit/s circuit is about 0.12 that of a 2Mbit/s circuit (7.94/63). Therefore, the £828 quarterly rental can be disaggregated into £389 for each local end and £49 for the main link.

3.6.7 Using this methodology, we can derive a price for a 2Mbit/s wholesale leased line delivered to a different exchange and provided over a 155Mbit/s CSI link. The price attributable to the CSI link, which would replace one of the local ends, would be £49 per quarter. The total price of the wholesale leased line would be £488 per quarter.

3.6.8 As with all pricing issues discussed in this submission, it is important that this anomaly is addressed as soon as possible to ensure that competition is not irreparably damaged.

4 SERVICE LEVEL AGREEMENTS (SLAS)

4.1 Quality of supply is a very important dimension to the leased lines product. It is often ignored however because "quality" is less easily definable and controllable than pricing. In terms of leased lines, there are three principal components of quality of supply:

- Delivery lead times;
- Availability rate (given as a percentage); and
- Fault repair times (number of hours).

4.2 [Commercially sensitive: redacted in public version]

4.3 [Commercially sensitive: redacted in public version]

4.4 SLAs came to the fore in November 2001 when a consortium of pan-European operators wrote an open letter to Commissioners Liikanen and Monti highlighting the issue.[2] Around the same time, a representative of the consortium of pan-European operators was invited to speak at the ONP Committee to discuss the problem and recommendations for addressing it.[3]

4.5 [Commercially sensitive: redacted in public version]

4.6 The table below details some of the issues that regulators in other jurisdictions have encountered with regard to provisioning performance, together with measures they have adopted. We recommend that OUR considers these in its review of C&WG's wholesale SLA in Guernsey, in the event that any of these problems are found.

[2] A Commission memorandum on the letter can be found at the following URL: http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/leased_lines/response_to_concerns/memorandum.pdf
The Commissioners' reply can be found at the following URL: http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/leased_lines/response_to_concerns/joint_reply.pdf
[3] A copy of the presentation can be found at the following URL: http://forum.europa.eu.int/Public/irc/infso/onp/library?l=/presentations/llectalane1_ppt/_EN_1.0_&a=d

Issue	Regulatory solution adopted
Delivery performance breaches SLA commitments	Revision of the SLA to include severe penalties for underperformance
Lack of expedite facility (a retail customer can often place a special request to expedite an order that is required urgently). An incumbent will often strive to meet the request for a retail customer but not for a wholesale customer	SLA includes a prevision to expedite a small proportion (e.g. 10%) of orders. Lead times for these would be 50% of standard lead times
Discriminatory provisioning performance	KPI reporting requirements whereby the incumbent is required to report to the regulator its delivery lead times to its retail customers and its wholesale customers.
Incumbent activates the leased line but does not inform the wholesale customer	The leased line is not considered activated until the customer is informed
Incumbent claims never to have received a leased line order	Incumbent is required to send an order acknowledgement on return so the operator knows in reasonable time whether the order has been received
Entrant does not know when the predicted “Ready for Service” (RFS) date is until the last minute so they cannot update their retail customer on the status of their order	Final order confirmation (FOC) must be sent to the wholesale customer e.g. 5 days after receiving the order with a firm RFS date
Misuse of “Customer Not Ready” (CNR) codes. A CNR code means that a leased line was not delivered for some reason due to the fault of the wholesale customer or their retail customer. It was commonly used as a “catch-all” phrase to cover-up acts of “strategic incompetence”.	A CNR code must be accompanied by a detailed reason that can be verified.
SLA delivery lead times are too long	Delivery lead times are benchmarked against best practice to discover the shortest lead times that can reasonably be expected. SLA is adjusted to reflect the benchmarks.
To receive the promised lead-times, operators often had to fulfil onerous forecasting obligations, which in many cases were impossible to achieve. Failure to fulfil forecasting obligations would release the incumbent from its SLA commitments	In most cases regulators found forecasting requirements in principal to be reasonable. However, regulators have found specific obligations to be unreasonable and disproportionate, and required them to be changed to reflect the actual difficulties resulting from forecasting inaccurately.

4.7 [Commercially sensitive: redacted in public version]

4.8 C&WG's retail and wholesale SLAs

4.8.1 On the surface, C&WG's wholesale SLA appears reasonably satisfactory. For example, it includes a process definition, procedures for delivering final order confirmation (FOC), ready for service (RFS), a process for reporting an invalid order, a defined process for "non-standard" order and service performance reports. It also includes reasonable maximum delivery leadtimes[4] (20 days for 2Mbit/s digital circuits).

4.8.2 Comparing C&WG's wholesale SLA with its retail SLA also leads superficially to the conclusion that the difference between the two is reasonable. For example, the maximum (100%) lead-time for 2Mbit/s retail digital leased lines is 30 days. This compares with the maximum lead-time (95%) of 20 days in the wholesale SLA. [Commercially sensitive: redacted in public version]. Further, there is nothing in the SLA or the associated regulation to allow C&WG to be adequately monitored to ensure its provisioning performance does not become discriminatory.

4.8.3 A second problem with the SLA is that penalties for under performance are insufficient. For example the C&WG wholesale SLA requires it to pay £50 per late FOC. In the UK this was a matter of much debate. In the end, Oftel concluded that first, the level of compensation should be judged on the basis of the loss suffered by the alternative operator.

4.8.4 and second, that the compensation should be 7% of the monthly rental payable per day's delay in issuing the FOC.

4.8.5 Further, the C&WG penalty for provisioning delay is only 2% of monthly circuit rental per day of delay. In the UK, Oftel concluded that it should be 5%. Again, Oftel believed the level of compensation should be judged on the basis of the loss suffered by the alternative operator resulting from provisioning delay. Oftel further required BT to include in its SLA that the compensation should not prevent an operator suing for liquidated damages resulting from provisioning delays.

4.8.6 A third problem with the SLA is that it includes no process for expediting wholesale circuits. In many cases a retail customer requiring urgent installation will contact the incumbent requesting an expedite. The incumbent will normally use best endeavours to meet this request and the circuit will be delivered in a substantially shorter timeframe. However, experience has shown that incumbent operators are much less forthcoming when receiving similar requests from wholesale customers. Some regulators (eg Oftel) addressed this problem by introducing an order expedite process into the SLA whereby an expedited circuit can be provisioned in 50% of standard leadtimes. The process allows a wholesale customer to expedite a small percentage e.g. 10% of all monthly orders.

4.9 Recommendations

Our recommendations are that OUR issues a consultation on leased lines quality of supply. Prior to the consultation, the OUR should:

[4] The "maximum" delivery leadtimes quoted are actually for 95% of circuits. The remaining 5% is intended to cover instances in which new infrastructure build is required.

- Benchmark C&WG's provisioning performance against similarly sized incumbent operators such as Jersey Telecom, Kingston Communications, etc. The benchmarks conducted should as far as possible aim to distinguish between performance to retail and wholesale customers;

- Benchmark C&WG's SLA commitments regarding availability and fault repair (again distinguishing between retail and wholesale performance) against other European operators.

- Benchmark the penalty arrangements in C&WG's SLA against other European operators.

The consultation itself should:

- Recognise that C&WG's wholesale leased lines SLA is a good starting point in terms of the definition of the provisioning process and commitments offered for each stage in the process;

- Consult on whether the process definition and commitments offered at each stage in the process are appropriate or whether they can be improved;

- Focus on how to ensure that delivery lead-times are non-discriminatory. The consultation should consult on the introduction of mandatory KPI reporting whereby C&WG reports to OUR on a quarterly basis;

- Consider whether the existing circuit leadtimes are realistic and in the interest of customers especially with regard to the current leadtimes for circuits over 2 Mbit/s.

- Consider the introduction of an order expedite process whereby 10% of quarterly circuit orders can be requested in 50% of standard lead-times;

- Consider whether existing penalty or compensation arrangements provide appropriate incentives for C&WG to meet its SLA commitments, or whether they are so small that they are merely considered a "cost of doing business"; and

- Consider mechanisms for ensuring that provisioning performance is non-discriminatory. In particular, the consultation should consider introducing a mandatory KPI reporting process whereby C&WG is required to report to the OUR on a monthly basis its provisioning performance to its retail and wholesale customers. If there is a significant difference between the two (using standard statistical tests for revealing a significant difference), C&WG would be deemed guilty of breaching its non-discrimination obligation.

5 PRODUCT ISSUES

5.1 Wave requested the development of an on-island Guernsey 45Mbit/s private circuit in July 2006. Wave received a response on the 5th of September 2006 stating that C&WG were planning to review the wholesale portfolio, however, no further information has been forthcoming since that time. There is concern that products available in the on-island portfolio will not match the off-island portfolio and there will be little incentive for C&WG to create such products in a cost plus environment.

5.2 We recommend that the OUR directs C&WG to provide similar on-island and off-island products in its wholesale portfolio as it includes in its retail portfolio. An example of the current inequitable product status is where C&WG provide a 45Mbit/s off-island leased line in both its off-island retail and wholesale portfolios but no on-island equivalent. It is essential that OLO's have access to equivalent wholesale on-island products as C&WG retail have in its off-island portfolio to allow them to compete to provide off-island circuits.

6 ANSWERS TO QUESTIONS

In this section we address the OUR's specific questions. Our views on many of the issues raised are included above but we reiterate them here for ease of reference.

Q1: Do respondents agree that the Retail Minus approach to setting wholesale prices for on-island leased lines is inappropriate in the Guernsey context and not in the interests of consumers and the market in the long term? If you disagree with this view please substantiate and justify your reasoning.

Wave Telecom supports the OUR's review of leased lines, however, it has concerns that in the short term, a move to a different pricing model (such as from retail-minus to cost-plus) will disrupt the market. The reason for this view is that such a change would inevitably result in a significant revision to the entire portfolio in terms of pricing, product definition, service level agreements and terms and conditions which will tilt the competitive playing field further to the advantage of the incumbent during the transition period. Because of the number of variables involved, we believe that the pricing changes could be an interminably long process.

Instead, we argue that the OUR could concentrate on a few "quick win" issues, which will deliver short-term competitive improvements. In so doing, it will be able to address a large number of issues in the interim time before a move to a different pricing model. These "quick-win" issues are limited in number and in scope, can be implemented relatively rapidly and easily, and are explained in detail above.

Q2: Which if the two approaches, (i.e. a wholesale price cap – P0 adjustment or cost plus pricing) do respondents believe to be the appropriate approach to setting C&WG's wholesale on-island leased lines. Please provide your reasons for your view.

See answer to Q1 above.

Q3. Do you agree that should C&WG's on-island wholesale leased line prices be subject to either a wholesale price cap or a cost plus pricing regime then its retail on-island leased lines should be removed from any future retail price control for C&WG? If you disagree please provide your reasonings.

We agree that retail prices should be subject to only very minimal regulation. In general, regulation should conform to the over-riding principle that retail prices should only be regulated if wholesale measures to introduce competition are unavailable or cannot be introduced sufficiently quickly.

However, the OUR should be very careful to avoid the mistakes made by other European operators who, in deregulating retail markets have left themselves bereft of ex-ante measures to detect and prevent price squeeze. Therefore, at a minimum, C&WG should be required to continue to submit its retail prices to the OUR including all discounts/special offers.

Q4. Do you agree that C&WG's off-island wholesale leased line prices should continue to be subject to a "Retail Minus" price control? If you disagree please provide your reasoning.

We agree with this approach.

Q5. Do you agree that C&WG's off-island retail leased line prices should continue to be subject to a safety cap within a Retail price control in the event of a finding of dominance in that relevant market? If you disagree please provide your reasoning.

See answer to Q3.

Q6. Do you agree with the proposed 15.0% discount factor being applied to C&WG's HUGO retail prices to derive the annual wholesale rental charges shown in Table 5.3? If you disagree please provide your reasoning.

Wave wants transparency of pricing publication, delivery timescales and wholesale discounts and equivalent products for wholesale operators as C&WG provide its own retail division.

Q7. Do you agree with the DG's proposal to replace the –9.1% discount factor with the 15.0% discount factor within the Retail Minus approach for determining wholesale leased line prices? If you disagree please provide your reasoning.

As per our answer to Q1, Wave believe that the pricing issue should be addressed but are concerned that, other issues with regard to the format of the leased line product will be changed in the re-pricing process which could cause OLOs other significant problems.