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Ms Nienke Hendriks
Office of Utility Regulation
Suites B1 & B2
Hirzel Court
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3 September 2009

Dear Nienke

Response to OUR's proposal on Time of Day charging

In a meeting held on the 18th August between the OUR and C&W Guernsey, to discuss the Fixed Interconnection Reference Offer, the OUR stated that it was "minded to recommend" the removal of the Time of Day (ToD) gradient from interconnection charges so that the same pence per minute (ppm) interconnection rate would apply regardless of the time period. The OUR did not present any detailed rationale for this proposal; rather, it seems that it had come about as it had been suggested – apparently independently - by two of the Other Licensed Operators (OLOs). C&W agreed to revert to the OUR with its views on this proposal.

Currently, C&W charges different interconnection rates depending on whether the traffic is carried during peak periods (Monday to Friday 8am to 6pm) or off-peak periods (evenings and weekends). As discussed during the meeting, the use of different rates according to different time periods (often referred to as peak-load pricing) is fairly standard practice in telecommunications – and indeed other network industries – as it encourages more efficient use of the network. Charging a higher ppm rate in periods when demand is likely to be higher and lower ppm rates in periods when demand is likely to be lower, encourages more efficient use of the network by sending the correct price signals to end users. Users that have fairly elastic demand at peak periods will be discouraged from using the network during those times if it means they will be charged a relatively higher price than during off-peak times. Whilst those users that have inelastic demand during peak periods will be prepared to pay a relatively higher price in order to make use of the network during peak times. Peak-load pricing therefore helps to even out the traffic distribution on the network, flattening out the overall traffic profile whilst minimising periods of congestion. This means that a network can be built out with a lower total capacity compared to the case where no attempts are made at traffic management.

The OUR asked whether C&W faced any capacity constraints at the moment that may make a move away from peak load pricing unworkable. Regardless of the extent to which there are currently any capacity constraints the relevant question is what would happen to demands for network capacity if an average ppm interconnection rate were to be adopted, with no differentiation of charges by time of day.

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The demand by OLOs for wholesale interconnection - and therefore network capacity - is derived from the demands of retail customers, who are the ultimate users of the network. A move to an average ppm interconnection rate would mean that the ppm interconnection rate at peak times would be reduced compared to the previous ToD ppm rate whilst the ppm interconnection rate at off-peak times would increase compared to the previous ToD ppm rate. Assuming that the OLOs would then alter their retail prices to reflect the change in interconnection rates and given current calling patterns, this is likely to benefit business customers, who would face lower prices, and penalise residential customers, who would face higher charges.

At the meeting, the OUR stated that because the demand from business users is inelastic, a move to the same average ppm rate - which would give the potential for peak retail rates to be reduced - would be unlikely to increase demand at these peak times. Business users would continue to use the network during the same time periods as before and make calls of the same average duration. The only difference would be that they would potentially face lower retail charges, or if retail prices remain unchanged, the OLO would receive a higher margin on those calls.

There was not much discussion at the meeting of the impact on residential users, who tend to make more calls during off-peak periods, but it seems clear that they would now face higher retail prices than before as the interconnection rate at off-peak times would have to rise. Furthermore, residential users would face the same (albeit higher) retail price at all times of day. They would therefore no longer have the incentive to make the majority of their calls during off-peak periods. So even if business users do not change their calling habits, it is likely that there would be a change in calling habits by residential users as they would become indifferent between making calls at different times as they would not be receiving differentiated pricing signals.

Ultimately, this is likely to result in network inefficiencies as it would re-introduce the potential for the network to become overloaded at peak times and under-utilised at off-peak times, as the pricing signals that encouraged efficient use of the network will have been removed.

In this context, it should be noted that in addition to its flat-rate unmetered local call offering for residential customers, C&W offers a timed local call service. Further, its Sure Home tariffs currently offer unlimited off-peak local calls to encourage use of the network during these times. C&W would have to review all these residential tariffs if the time of day profile were to be removed and it is highly likely that all residential customers would face higher prices as a result. C&W also does not know how the OUR would propose to deal with emergency calls[1] and DQ calls, the interconnection rates for which are also currently differentiated according to peak and off-peak periods.

It should also be emphasised that any calls that leave the C&W Guernsey network - for example a call from Guernsey to the UK - are subject to Time of Day interconnection rates as that is the interconnection model used by operators such as BT, who would terminate such calls. If C&W were mandated to offer the same, average ppm interconnection rates on all calls, including any that break out of the C&W Guernsey network, this would be likely to result in serious capacity constraint issues. This is because it would encourage the use of refile as operators such as, say, Wave could decide to send some of its UK bound traffic

[1] For clarity, C&W does not charge retail customers for making emergency calls but does charge OLOs that take this service from C&W. This is in line with practice elsewhere, such as the UK.

via C&W's Guernsey network in order to get a lower average ppm interconnection rate. In any event, any move to the same average ppm interconnection rate will require all interconnecting OLOs to provide new traffic forecasts to C&W to ensure that it can configure its network properly to deal with any changes in the traffic profile.

Without any detailed analysis of why the OUR has come to this new view on interconnection rates we are left to conclude that the OUR has been swayed by the views of OLOs who focus on providing services to business users. These business users may or may not benefit, depending on the extent to which any reduction in peak interconnection rates are passed on in retail prices. By contrast, the OUR does not seem to have fully considered the impact on residential users, who are likely to see an increase in the retail prices they face as the result of the removal of the time of day profile from interconnection rates. Neither does it seem to have taken account of other impacts, such as the increased use of refile, that could result from this change. It is most disappointing that the OUR does not seem to have fully considered the impacts on different customers, or if it has, that it has not shared this yet with C&W.

There is a danger that a move to average ppm interconnection rates without a full and detailed analysis will make it necessary to reverse this decision in the future. This could be difficult to do and has the potential to create even more confusion for customers as well as creating additional work for C&W and the OLOs.

C&W would therefore welcome sight of a more detailed analysis and justification from the OUR as to why the time of day charging on interconnection rates should be removed. This seems to be a complete reversal of the OUR's previous position on time of day charges, which suggested a move from two time periods to three, and so is sending mixed messages to both the industry and customers.

We look forward to receiving the OUR's response to the issues raised in this letter.

Yours sincerely

Chris Durnell
Regulatory Director, Monaco & Islands