

Our reference: RP/jdp

26th March 2006

Mr Michael Byrne
Office of Utility Regulation
Suites B1 & B2
Hirzel Court
St Peter Port
Guernsey GY1 2NL

Dear Michael,

Response to Wholesale Broadband Pricing Investigation OUR 06/05

In respect of OUR document No: 06/05 relating to the draft decision for wholesale broadband pricing, Itex would make the following general comments:

1. The various DCF approaches are not unreasonable ones to take. As the report indicates there are a number of variations that can be considered and any analysis is only as good as the assumptions included. Clearly we don't have full visibility of these numbers but the description would suggest that they have been considered in detail.
2. The WACC of 12% which is not necessarily a reflection of outside market conditions and what might be deemed a reasonable return in the event of competition though we would suggest that 12% not be viewed as unreasonable.
3. With respect to wholesale charges (Section 6) we would agree that approach 2 is the most appropriate

The notable area not covered in the review and one we would ask the OUR to consider is the pricing for the interconnect products (Broadband SP Connect) between Cable & Wireless and the OLO. The impact of C&W's unilateral decision to announce double broadband was to effectively double the price of these connections for which the contention ratio is controlled by C&W. To date there has been no reduction in the price of the interconnect.

The draft decision by the DG, while a welcome one does not create a compelling reason for smaller ISP's to continue in the ADSL market. As previous correspondence and supporting evidence suggests the current structure for ADSL operators is such that it is not a viable business, even before operating costs are accounted for.

Yours sincerely,

Richard Parker
Managing Director
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