



Business connectivity market review: Guernsey

Final Decision

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1. Introduction

1.1 Background

This paper is the Final Decision of the Guernsey Competition and Regulatory Authority's (GCRA) review of the market for business connectivity in Guernsey.

In April 2014, the GCRA¹ consulted on its review of the market for business connectivity in Guernsey². The GCRA considered all responses to the consultation, and published its Response to the Consultation and issued its Draft Decision in August 2014³.

The GCRA's market review involves the definition of relevant markets, the assessment of competition within the markets in question and, where competition is found to be deficient in any market, the designation of operators with Significant Market Power (SMP) and the imposition of appropriate remedies. The GCRA concluded that its review should follow the broad principles of market definition, competition assessment and the imposition of remedies as set out by the EU, adapted to the particular circumstances of the Channel Islands.

The GCRA has defined separate markets in Guernsey for the provision of leased lines at the wholesale and retail levels, with separate markets defined for retail and wholesale on-island and off-leased lines.

The GCRA undertook a competition assessment on the provision of leased lines at both wholesale and retail levels for on-island and off-island leased lines. The GCRA's assessment considered if either joint dominance or single firm dominance was a factor within the relevant markets.

In considering joint dominance, the GCRA examined whether or not Sure (Guernsey) Limited (Sure) and JT (Jersey) Limited (JT) might be considered to be jointly dominant within the retail market for leased lines in Guernsey. The GCRA concludes that there is no evidence to support the suggestion of collusive behaviour on the part of Sure and JT and took the view that any such co-ordinated activity would be unlikely to succeed in practice. The GCRA concludes, as a result, that joint dominance is not a relevant consideration in relation to the supply of retail leased lines in Guernsey. The GCRA then went on to examine whether or not any single firm might be considered dominant within the market.

¹ This market review considers the market for business connectivity in Guernsey. The JCRA is undertaking a parallel review in Jersey.

² Business Connectivity in Guernsey, Document No CICRA 14/16, 8 April 2014

³ Business Connectivity Market Review: Guernsey, Document No CICRA 14/41, 5 August 2014.

At the wholesale level, the GCRA concludes – based on Sure’s very high market share, which is not mitigated by other factors – that Sure is dominant in relation to the provision of wholesale on-island leased lines. Although Sure also continues to hold the largest market share within the wholesale market for off-island leased lines, the existence of multiple competing providers and the amount of capacity available leads to the conclusion that no operator is dominant in this market. As a result, the GCRA concludes that Sure should be designated with SMP in the market for wholesale on-island leased lines and that no operator should be designated with SMP in the market for wholesale off-island leased lines.

In the Consultation, the GCRA also opened a discussion about how best to ensure that retail and wholesale customers in Guernsey could access high quality off-island leased lines. The GCRA considered relevant options available to it, and concludes that its proposals for the regulation of the on-island market can most effectively address the need for access to cost-effective and high quality off-island connectivity. The GCRA will keep this issue under active review, in particular to ensure that there are no artificial barriers at the on-island level to access off-island services and *vice versa*.

At the retail level, the GCRA concludes that no operator should be designated with SMP in the market for retail on-island leased. This is because of the substantial market share movements that have occurred in the recent past between Sure and JT, with the latter now holding the largest market share, and taking account of likely competitive developments in this market over the medium-term.

In the retail market for off-island leased lines, the GCRA concludes that no operator should be designated with SMP. As is the case for on-island retail leased lines, recent entrant JT has supplanted Sure as the leader in terms of market share held in the provision of retail off-island circuits. Combined with the other factors that need to be taken into account when assessing the level of competition, the GCRA concludes that dominance is not a factor within this market.

The GCRA has considered carefully the issue of appropriate remedies arising from its finding of SMP in relation to provision of wholesale on-island leased lines. In this regard, the GCRA confirms its preliminary conclusion that a range of remedies, encompassing obligations on access, transparency, non-discrimination, accounting separation, cost accounting and price control should continue to be imposed on Sure in light of its position as an SMP operator in this market. While the remedies themselves do not constitute new obligations, the GCRA’s approach elaborated in more detail on how these obligations are to be implemented. This has been done to improve clarity of regulation in Guernsey. It is also consistent with the approach in Jersey.

In summary, the GCRA concludes that, in relation to the provision of leased lines in Guernsey, the appropriate markets exist at the retail and wholesale levels for on-island and off-island circuits. The GCRA determines that Sure holds SMP in the wholesale market for on-island leased lines and that in the retail on-island market and the retail and wholesale off-island markets no operator holds a position of SMP.

1.2 Structure of this document

Issues raised by respondents, and the GCRA's consideration of them, are discussed in Section 2 of this paper. Section 3 contains the Final Decision.

Annex 1 outlines the legal requirements and licensing framework underpinning the market review.

Annex 2 is a glossary.

2. Respondents' comments and GCRA analysis

2.1 Comments on the Draft Decision

The GCRA received four sets of comments on its Draft Decision, from:

- Digital Jersey (applies to Jersey only)
- JT (applies to Jersey and Guernsey)
- Longport (applies to Guernsey only)
- Sure (applies to Jersey and Guernsey).

As one of the respondents wished their comments to remain confidential, the issues raised are not attributed to any respondent.

The GCRA has summarised each issue raised, and then set out its analysis and conclusion.

2.2 Market data

Respondents' comment

Two respondents proposed that the GCRA should improve its monitoring of the market, particularly in its collection and publication of market data. One respondent linked this to the need to review developments in the market on a timely basis.

GCRA analysis and conclusion

The GCRA agrees that market intelligence needs to be improved, and that the collection and publication of market data helps to ensure an appropriate regulatory response to changes in the market. The GCRA has initiated a new process for collecting market data, and is considering whether to collect information on the status and development of the leased lines market as part of this exercise or separately. In either case, it intends to publish regular market status reports, either as part of an annual telecoms statistics report or under separate cover.

2.3 Wholesale/retail definition

Respondents' comment

One respondent commented that there should be consistency in the operators' definitions of wholesale and retail customers.

GCRA analysis and conclusion

The GCRA identified during the consultation process that, for legacy reasons, operators are not always consistent in defining wholesale and retail customers. This raises an issue in terms of non-discrimination, where an operator may unwittingly be in breach of its non-discrimination obligation by treating one customer differently to another customer of the same type. It is also an issue in terms of accurate monitoring of market data, where leased lines sales may not be correctly assigned to wholesale or retail.

The GCRA has decided that the following definitions should be adopted and applied by all operators:

Wholesale: the sale of leased lines to an Other Licensed Operator (OLO). For the avoidance of doubt, an OLO is an operator licensed by CICRA in Jersey/Guernsey to provide services on the island.

Retail: the sale of leased lines to other customers. This could include businesses, government, and telecom operators who are not Jersey/Guernsey OLOs and so do not hold Jersey/Guernsey telecom licences.

2.4 Pricing

Respondents' comment

One respondent expressed a view that, although it recognises that there is no regulatory impediment to the introduction of standardised pricing (i.e. the removal of same exchange/different exchange or less than 300m/greater than 300m differential pricing), it believes that the GCRA should intervene to direct this pricing change.

GCRA analysis and conclusion

The GCRA's regulatory approach has allowed operators to rebalance their tariffs, and operators have chosen not to do this. The GCRA notes that differentiated pricing is not caused by regulatory action, and that the respondent agrees that there is no regulatory impediment to its removal. There is therefore no rationale for regulatory action.

However, the GCRA does recognise that differentiated pricing may no longer be justified in terms of its reflection of an operator's costs of provision, and that this may lead to an adverse effect on retail and wholesale customers. The GCRA intends to address this issue in its forthcoming work on implementing a price control.

2.5 Implementation

Respondents' comment

One respondent expressed a view that a process and timetable should be set out for the publication and agreement of a reference offer.

GCRA analysis and conclusion

The GCRA acknowledges that the imposition of remedies following the market review is the start of a process which will implement the obligations designed to address any remaining competition problems in the leased lines market. The GCRA agrees that it is essential that the remedies are implemented in a timely manner, and signals its intention to ensure that this happens.

2.6 Off-island licensing

Respondents' comment

A respondent expressed its view that new operators need to be encouraged to enter the Guernsey market by the easing of licensing requirements.

GCRA analysis

The GCRA notes that the context in which this issue has been raised is that of an operator which has off-island capacity extending its offer to supply services on-island. There are two points to be considered here.

First, in the consultation process, the GCRA considered whether regulation acts to prevent market entry into the Guernsey market. The GCRA does not consider that there are regulatory barriers to an external operator deciding to enter the market, and considers that regulatory structures are in place which would facilitate new market entry, should an external operator decide to invest.

Second, the GCRA considered in the consultation whether the regulatory status of off-island owners of capacity needed to be reviewed. The GCRA believes that there is good reason to maintain licensing in this area.

The removal of licensing would seriously restrict the GCRA's ability to gather information or to regulate the area should the need arise in future. Introducing specific class licences also introduces risks and at this stage there is no evidence that licensing is acting as a barrier to entry into the market. The GCRA would consider carefully any concrete evidence from prospective entrants that they were prevented

from entering the market by licensing requirements, and that this constituted a significant barrier to market entry.

The GCRA reiterates its view as expressed in the consultation that the finding of no SMP in the wholesale off-island market is contingent on the *ex ante* regulation of the wholesale on-island market, and that this includes the need to ensure that there are no impediments in the on-island market which obstruct operators' ability to access off-island capacity. Impediments could include technical characteristics of on-island leased line products, and could include anti-competitive on-island pricing structures. The GCRA considers that the implementation of the measures it is putting in place in the wholesale on-island market will effectively address the requirement that on-island operators must be able to access off-island capacity, and should this not be the case, the GCRA will review this situation.

2.7 Next steps

Following the publication of the Final Decision, the GCRA will work with SMP operators to agree an implementation plan, which is a set of actions and a timetable which will ensure that they are compliant with their obligations. The GCRA will also inform SMP operators at this time how it intends to monitor implementation.

The GCRA has discussed through the consultation process its intention to review the price control remedy. The GCRA will initiate its review following the publication of this Decision.

3. Final Decision

3.1 Statutory powers

The GCRA's statutory powers are set out in Annex 1 of this Final Decision.

The provisions of the consultation document, and the Response to Consultation shall, where appropriate, be construed with this Final Decision. The analysis set out through the consultation process explains the reasoning behind the proposals, and indicates the effects the proposals are expected to have and gives reasons for making the proposal.

3.2 Market definition

The markets which have been defined are:

- Retail market for on-island leased lines
- Retail market for off-island leased lines
- Wholesale market for on-island leased lines
- Wholesale market for off-island leased lines.

3.3 Decisions on SMP designation

The GCRA carried out a competition assessment on the above markets, and concludes that no operator is dominant in the retail markets for on-island leased lines and off-island leased lines, and no operator is dominant in the wholesale market for off-island leased lines. The GCRA concludes that Sure has SMP in the wholesale market for on-island leased lines. The GCRA notes that the finding of no SMP in the retail market and in the wholesale market for off-island leased lines is contingent on an appropriately regulated market for wholesale on-island leased lines.

Arising from its decisions on SMP designation outlined above, existing regulatory obligations which are based on findings of SMP, including price controls, in the markets where no operator has been found to be dominant are hereby rescinded. Regulatory obligations will instead be focused solely on the market where Sure has

been designated with SMP, i.e. the wholesale market for on-island leased lines. These obligations are set out below.

3.4 SMP obligations in the wholesale market for on-island leased lines

According to Condition 23 of Sure's fixed telecommunications licence, where the GCRA has decided, in accordance with Section 5 of the Telecommunications Law, that a licensee has a dominant position in a relevant market, it may be determined that the provisions of Part IV of the licence (Conditions Applicable to Dominant Operators) apply.

Access

Condition 26 of Sure's licence states that:

"The Licensee shall offer to lease out circuits for any lawful purpose:

- (a) on publicly advertised conditions and on non-discriminatory terms. This is without prejudice to discounts that are in accordance with Condition 31;*
- (b) within a reasonable and published period of time from any request;*
- (c) so as to meet the quality standards required under the Conditions; and*
- (d) at prices that do not exceed levels determined from time to time by the GCRA".*

The GCRA determines that Sure shall continue to be obliged to make access to wholesale on-island leased lines available to OLOs in response to a reasonable request for access.

Access shall be provided on the following terms:

- Sure is obliged to comply with the access obligation in a manner which is fair, reasonable and timely. The GCRA notes that this applies to the whole process, including the way in which Sure deals with an access request, through to any implementation of an access product;
- Sure should negotiate in good faith with OLOs requesting access;
- Sure should not, without appropriate justification and consultation, withdraw access to facilities already granted.

Non-discrimination

The GCRA determines that Sure will continue to be subject to an obligation not to discriminate between OLOs, and between OLOs and Sure's own retail operation.

The obligation not to discriminate between OLOs is imposed under Condition 29 of Sure's licence, which applies to all telecommunications services:

"The Licensee shall not show undue preference to, or exercise unfair discrimination against, any User or Other Licensed Operator regarding the provision of any Licensed Telecommunications Services or Access. The Licensee will be deemed to be in breach of this Condition if it favours any business carried on by the Licensee or an Associated Company or Other Licensed Operator so as to place Other Licensed Operators competing with that business at an unfair disadvantage in relation to any licensed activity".

This obligation not to discriminate between OLOs and Sure's own retail operation is imposed under Condition 26.2 of Sure's licence:

"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."

Transparency

The GCRA determines that Sure shall continue to be subject to transparency obligations. The GCRA notes that transparency obligations are generally necessary to demonstrate compliance with other obligations, and has elaborated on the obligations with this objective in mind.

The GCRA determines specific obligations should be imposed as follows:

- Sure shall be obliged to publish and maintain a Reference Offer for wholesale on-island leased lines, including appropriate technical specifications, and including a mechanism explaining how changes to the Reference Offer will be made and notified.
- Sure shall be required to publish a standard SLA which will govern Sure's relationship with the OLO. It is increasingly seen as good practice to publish Key Performance Indicators (KPIs), and this should be done as part of the SLA.

- Sure shall be required to publish prices and non-price terms and conditions for wholesale on-island leased lines. Publication of any changes should be made, and the GCRA informed, at least 30 days before changes come into effect.
- OLOs and the Regulator should be notified 3 months in advance of the launch of a new wholesale product. This period may be reduced if all parties agree.

Accounting separation

The GCRA determines that Sure will continue to be obliged to prepare and maintain separated accounting information.

Condition 27 of Sure's licence states that:

"Within six months of the Licence Commencement Date, the Licensee shall prepare and maintain accounting records in a form that enables the activities specified in any direction given by the GCRA to be separately identifiable, and which the GCRA considers to be sufficient to show and explain the transactions of each of those activities. The GCRA may direct the Licensee as to the basis and timing of such reports as the GCRA may require."

Cost accounting and price controls

The GCRA determines that Sure shall continue to be obliged to maintain its current cost accounting obligations, with a view to demonstrating its compliance with other obligations.

Condition 28.2 establishes how this should be done:

"To enable the GCRA to evaluate where any unfair cross-subsidisation or unfair subsidisation is taking place, the Licensee shall record at full cost in its accounting records any material transfer of assets, funds, rights or liabilities between a part and any other part of its business, and between it and any Associated Company, and shall comply with any directions issued by the GCRA for this purpose."

The GCRA has determined that a price control continues to be necessary in the wholesale market for on-island leased lines.

Condition 31.2 of Sure's licence states that:

"The GCRA may determine the maximum level of charges the Licensee may apply for Licensed Telecommunications Services within a Relevant Market in which the Licensee has been found to be dominant."

The GCRA intends to review the structure and level of the price control immediately following the final decision.



ANNEX 1: Legal background and licensing framework

Legal background

Section 5(1) of The Telecommunications (Bailiwick of Guernsey) Law, 2001 (*the Telecoms Law*) provides that the GCRA may include in licences such conditions as they consider appropriate, having regard to objectives set out in Section 2 of the Regulation Law, and the enforcement of the Regulation Law and the Telecoms Law.

The Regulation of Utilities (Bailiwick of Guernsey) Law 2001 (the Regulation Law) sets out the general duties which the States and the Guernsey Competition and Regulatory Authority (GCRA) must take into account in exercising their functions.⁴ These include the requirement to protect consumers and other users in respect of the prices charged for, and the quality, service levels, permanence and variety of, utility services; to ensure that utility services are provided in a way which will best contribute to economic and social development; and to introduce, maintain and promote effective and sustainable competition⁵.

The Telecoms Law⁶ specifically provides that the GCRA may include in any licence conditions that are:

- intended to prevent and control anti-competitive behaviour⁷; and
- regulate the price premiums and discounts that may be charged or (as the case may be) allowed by a licensee which has a dominant position in a relevant market⁸.

The GCRA is obliged⁹ to publish notice:

- of a proposed decision as to whether a person has a dominant position in a relevant market and of the conditions, if any, proposed to be included in the licence granted or to be granted to that person in relation to the control of that dominant position;

⁴ Section 2 of the RoU Law.

⁵ These broad objectives were maintained in the transfer of functions and responsibilities to GCRA, as set out in the Guernsey Competition and Regulatory Authority Ordinance, 2012.

⁶ The definition of dominance and abuse of dominance is not explicit in the Telecoms Law. However, the Competition (Guernsey) Ordinance 2012 sets out the States' approach to defining abuse of dominance and anti-competitive practice

⁷ Section 5(1)(c) of the Telecoms Law.

⁸ Section 5(1)(f) of the Telecoms Law.

⁹ Section 5 (2) of the Telecoms Law.

- of a proposed decision to regulate the prices, premiums and discounts that may be charged or (as the case may be) allowed by a licensee which has a dominant position in a relevant market; and
- of a proposed decision to include quality of service conditions in any licence.

Licensing Framework

Licences are issued to fixed telecommunications providers under Part I, section 1 of the Telecoms Law. All fixed and mobile telecommunications licences include a Part which addresses conditions applicable to dominant operators¹⁰. If the GCRA has found that a licensee has a dominant position in a relevant market, the provisions of this Part of the licence may apply.

The provisions which are applicable to dominant operators include (but are not limited to) measures addressing the availability and associated terms of Other Licensed Operator (OLO) access to networks and services¹¹; the requirement not to show undue preference or to exercise unfair discrimination¹²; the requirement not to unfairly cross subsidise¹³, supported by accounting processes to demonstrate compliance; regulation of prices, and transparency around pricing¹⁴.

In addition, the fixed telecommunications licences include conditions specific to the provision of leased circuits¹⁵, which apply where a licensee has been found to be in a dominant position. The conditions applicable to the supply of leased circuits refer to the retail and wholesale markets, and require that a dominant provider offers circuits on publicly advertised and non-discriminatory terms, and in compliance with quality standards and at prices determined by the GCRA.

The fixed telecommunications licences also include a Part which directly obliges the licensee not to engage in any practice which has the object or likely effect of preventing, restricting or distorting competition in the establishment, operation and maintenance of telecommunications networks and services¹⁶.

¹⁰ Part IV of the fixed telecommunications licences.

¹¹ Condition 24, Fixed telecommunications licences.

¹² Condition 29, Fixed telecommunications licences.

¹³ Condition 28, Fixed telecommunications licences.

¹⁴ Condition 31, Fixed telecommunications licences.

¹⁵ Condition 26, Fixed telecommunications licences.

¹⁶ Part V: Fair competition, Fixed telecommunications licences.

ANNEX 2: Glossary

4G: Fourth-generation mobile telecommunications technology, which enables the delivery of high-speed broadband services over mobile networks. The '4G' standard encompasses the Long Term Evolution (LTE) technology, which is the main 4G technology being deployed worldwide.

Alternative Interface (AI): new types of technologies used for delivering leased lines services, for example *Ethernet* (see below), which contrast with legacy *T1* technologies (see below).

Asymmetric Digital Subscriber Line (ADSL): a broadband technology that enables high-speed data transmission over legacy copper local access telephony networks, using a high data rate in one direction and a lower data rate in the other.

Bandwidth: The physical characteristic of a telecoms system that indicates the speed at which information can be transferred, which in digital systems is measured in bits per second (bps).

Cloud computing: the use of a network of remote servers connected via the internet that store, manage and process data that would otherwise be handled on a local server or computer.

Dark fibre: unused or 'unlit' optical fibre, i.e. fibre which has been deployed within a communication network but which is not connected to active electronic equipment used to facilitate data transmission.

Direct internet access (DIA): a dedicated connection to the internet provided directly from the customer's site over a permanent link (also known as *IP feed* – see below).

Ethernet: a technology used for data transmission. Originally deployed for use in a *LAN* (see below) environment, the technology has also increasingly been used to support *WAN* (see below) connectivity, with Ethernet being used in this instance as a leased line technology.

Ex ante: the application of regulation before an abuse of power has necessarily occurred. The reasoning behind its application is that finding that an operator has SMP means that the operator is likely to have the incentive and motivation to behave in a way which exploits its market power to the detriment of competitors and ultimately to consumers. *Ex ante* regulation can be contrasted with *ex post* regulation, which investigates an incident which has already happened.

Ex post: the use of regulation following a complaint or abuse of market position by an operator. In contrast to *ex ante* regulation (see above).

Half circuit: portion of an international circuit where the provision between origination and termination is shared by two or more operators. The half circuit point is a notional pricing point.

Internet Protocol: the communications protocol used for transmitting a data packet between a source and a destination on data networks, including the internet (also known as *Direct internet access* – see above).

Internet Protocol (IP) feed: a dedicated connection to the internet provided directly from the customer's site over a permanent link.

Leased line: A permanently connected communications link between two premises dedicated to a customer's exclusive use (see also *Private circuit* below).

Local Area Network (LAN): a network that connects a number of devices that are relatively close together, for example within the same office or building, which enables intercommunication amongst users and access to private voice, email, internet and intranet services and applications.

Modified Greenfield approach: a regulatory approach that works on the assumption that there is no *ex ante* (see above) regulation in the market in question, but takes account of the fact that upstream *ex ante* regulation is in place.

Multi-protocol label switching (MPLS): a mechanism for directing data within and across networks from one network node to the next, with data packets being given a specific forwarding label at the point at which they enter the network, thus enabling more efficient routing.

Plesiochronous Digital Hierarchy (PDH): a technical data transmission standard that enables transmission of data that generally runs at a similar rate to have a slight variation in actual data speed compared to the nominal rate. In recent years, PDH transmission has largely been replaced within telecoms networks by *SDH*, (see below).

Private circuit: an alternative term for a *Leased line* (see above).

Retail Price Index (RPI): a measure of inflation, published monthly by the Office for National Statistics in the UK.

Small but Significant Non-transitory Increase in Price (SSNIP): a theoretical price increase that forms part of the 'hypothetical monopolist' test used in market definition analysis. The price increase in question is usually considered to be in the range of 5 to 10 per cent.

Synchronous Digital Hierarchy (SDH): a technical data transmission standard for the transmission, which has largely replaced traditional PDH (see above) transmission. SDH is an international standard that enables high-bandwidth synchronous data transmission.

Time Division Multiplex (TDM): a method of putting multiple data streams in a single signal by separating the signal into many segments, each having a very short duration. Each individual data stream is then reassembled at the receiving end based on the timing.

Traditional Interface (TI): legacy technologies used for delivering leased lines services, of which the main one would be *TDM* (see above).

Virtual Private Network (VPN): a private network where connectivity is extended by making use of the internet over which a virtual point-to-point connection is established, with various protocols being used to ensure data security over the public element of the network.

Wave Division Multiplex (WDM): a transmission technology that enables multiple wavelengths of light to share the same fibre optic pair.

Wide Area Network (WAN): a network connecting devices located in geographically dispersed locations, either in the same national area or across national boundaries.