Sure’s response to CICRA’s Call for Information re Mobile Termination Rates

Sure (Guernsey) Limited and Sure (Jersey) Limited (collectively referred to here as “Sure”) is submitting this single response to the two separate CICRA documents: “2018 Review of Mobile Termination Rates in Guernsey, Call for Information” (CICRA Document 18/51) and “2018 Review of Mobile Termination Rates in Jersey, Call for Information” (CICRA Document 18/52). These are collectively referred to below as the “Call for Information”. Both documents were published by CICRA on the 20th December 2018.

This is the **non-confidential** version of our response that CICRA is welcome to share with other parties through publication on its website**.** Items marked with [✂] formed part of a confidential response provided to CICRA and have been removed from this published version.

Question 1: Does the respondent agree that the SMP decision contained in the Final Decisions – Mobile Call Termination 2017 – Market definition and Dominance is still valid? If the respondent has alternative views or evidence the respondent is asked to explain those and provide all of its analysis and assessment relating to this matter to inform CICRA’s considerations and next steps.

Sure notes that the 2017 SMP decision contained in the 2017 Final Decisions (“2017 SMP Decision”) identified - for each of the Bailiwicks of Guernsey and Jersey - separate relevant product markets for mobile call termination (MCT) for each of the mobile network operators (MNOs). The 2017 SMP Decision also stated that within these markets, each MNO held significant market power (SMP) for the termination of traffic on its own network. That is, the 2017 SMP Decision stated:

> *A relevant market exists for termination services that are provided by [named mobile communications provider] (MNO) to another communications provider, for the termination of voice calls to [Guernsey/Jersey] mobile numbers in the area served by that MNO and for which that MNO is able to set the termination rate.*
>
> *Each MNO is dominant on the market for the provision of MCT on its own network. Each has 100% share of wholesale call termination on its own network and each is acting as a monopoly in the provision of that service.*

Sure is grateful to CICRA for subsequently clarifying that the above market definitions only apply once the originated call reaches the on-island switch of the MNO in question. As such, the conveyance of the call from the originating operator – and any costs associated with that conveyance – are not included within the scope and definition of MCT. That is, the MCT service, and the charges for the service, only relate to the conveyance of the call from the on-island switch to the termination point on the relevant MNO’s network. As we discuss further in response to Question 4 below, the MTR is not available to international operators, who instead agree commercial rates for the end-to-end conveyance of their calls from their customers to the Channel Islands’ MNOs through commercial negotiations.

On the basis of the above, Sure agrees that the market definitions, and assessment of SMP, within the 2017 SMP Decision, are still valid.

Question 2: Does the respondent agree with CICRA's provisional views that ex-post competition law would be insufficient to address the lack of effective competition in the markets defined and prevent the problems identified in this consultation? If the respondent does not agree with CICRA's provisional view the respondent should provide all of its analysis and assessment.

Before responding on the relative merits of ex post competition law versus ex ante regulation we would note that CICRA has not invited any comments in relation to its question in section 5.3 "Can harm be expected to arise from the SMP held by MNOs?" However, some of the types of harmful behaviour identified by CICRA do warrant further comment. It is not obvious that CICRA has analysed and assessed the evidence of whether such harm will actually arise within the Channel Islands without regulatory intervention, or indeed whether the benefits it expects from regulatory intervention will materialise. Indeed, this goes to the very heart of the question as to what exactly CICRA expects to achieve through a reduction in the Channel Islands' MTR and it is important that this should be carefully considered before deciding whether any regulatory intervention is appropriate.

In fact, it seems to Sure that currently CICRA is requesting respondents to provide their full analysis and assessment if they hold a contrary view to that of CICRA's, but CICRA has not provided the full analysis and assessment of its own position as it relates to the circumstances of the Channel Islands.

For example, we note the reference to the distributional impact of excessive MTRs at the retail level, which seems to assume that any reduction in the current Channel Islands' MTR would flow directly through to retail prices and result in significant reductions in those prices. There is no evidence provided by CICRA to support this view. The evidence available to Sure, however, suggests that the impact on retail prices will be insignificant. We illustrate this in response to Question 4 with reference to the volumes of calls terminated on Sure's mobile network (across both Bailiwicks) and show that even if the current MTR were to reduce to zero, and all that reduction were to be passed on by Channel Islands' MNOs to customers, the actual reduction to retail prices would be very small indeed.

As a related note, therefore, the extent of any potential harm that CICRA states could arise due to distortions of competition in retail markets whereby high MTRs may be used to fund lower retail prices, may be over-estimated by CICRA. (However, without seeing the evidence that CICRA has relied on for this statement, it is impossible to tell whether its estimates are reasonable or not.)

CICRA also needs to consider whether there are other wider distributional impacts of the current level of MTRs at the wholesale level, which could actually be beneficial to the Channel Islands' markets and competition within those markets. We discuss this further in response to Question 4.

To be clear, Sure has no difficulty with the MTR being a single, regulated rate that is available and transparent to anyone entitled to receive that MTR. We understand the potential concerns identified by CICRA through a lack of transparency or clarity over the MTR, but Sure does not believe that any of the Channel Islands' MNOs are suggesting that different MTRs should be charged by any of the MNOs. Or, for that matter, that they would charge a different MTR to some operators that are entitled to receive the MTR service compared to others that are also entitled to the service. This non-discriminatory outcome has existed since the inception of the Channel Islands' interconnection frameworks, so we do not see why this regulatory requirement should change.

To that extent, we do not understand the "financial risk" argument that CICRA suggests could result in some providers excluding calls to certain mobile numbers from their call allowances and bundles. We wonder whether this is in fact a reference to the view that Ofcom has expressed that a reduction in the Channel Islands' MTR would instantly resolve the issue of some UK operators excluding calls to

Channel Islands' numbers from their bundles. If it is, then we have already provided evidence to CICRA and Ofcom[1] that shows that this is highly unlikely to happen, and we discuss this further in Annex 1. In the very closely associated topic of termination of calls to Channel Islands' fixed number ranges, where our interconnect charges are extremely low, we have provided CICRA with clear evidence that most UK operators still charge a significant retail premium for such calls. Considering that the volume of calls to Channel Islands' fixed number ranges is significantly greater than those to Channel Islands' mobile number ranges we believe that CICRA and Ofcom should first prove that effective action can be taken to reduce UK retail charges for calls to fixed line numbers before it makes any assertion as to any regulatory influence that either regulatory body believes it can exert in the lowering of UK retail charges to Channel Islands' mobile numbers.

Notwithstanding the above, we agree with CICRA's provisional view that ex post competition law would be an insufficient approach to regulating MTRs, noting also that no other regulator has adopted that approach to MTRs.

Question 3: Does the respondent agree with CICRA's provisional views on ex ante remedies? If the respondent does not agree with CICRA's provisional views the respondent should provide all of its analysis and assessment.

CICRA has suggested four ex ante remedies and we comment on each in turn:

1. Network access obligation

Sure has no difficulty with a requirement to provide the MCT service to any operator that is entitled to receive that service. As noted in Question 1 above, the MCT service relates only to traffic that is conveyed from an MNO's on-island switch to the terminating point on the relevant MNO's network. As such, CICRA needs to make it clear that when it states that it is likely that a general access obligation will be needed to protect end-to-end connectivity, that it is not suggesting that the MCT service also encompasses the conveyance elements of the call prior to its receipt on an MNO's on-island switch.

2. Price transparency obligation

Similarly, Sure has no difficulty with a requirement for all MNOs to publish their MTRs and to notify changes in their MTRs. As is current practice, the rate would form part of the notification of interconnection rates to all relevant operators.

3. No undue discrimination obligation

[1] Sure wrote a confidential letter to CICRA on the 31st July 2018, following an all-operator meeting with CICRA and Ofcom on the 16th July. The confidential letter – which for convenience is attached as Annex 2 to this response - shows that Ofcom's expectations that the outcome of a reduction in the Channel Islands' MTR to UK levels would be a reduction in prices charged by UK operators and inclusion of Channel Islands' numbers in UK bundles, were unrealistic and not backed up by any evidence. To the contrary, Sure's letter included evidence that shows that UK operators will simply take higher margin. We also shared this letter with Ofcom on the 3rd September but apart from an acknowledgement of receipt, did not receive a response. It also seems that CICRA has not considered this evidence as part of the current Call for Information and we would therefore request that it now considers it.

Sure would also be comfortable with this obligation, which, as noted above, we already adhere to. We assume that CICRA would also want to ensure that the same MTR is applied in Guernsey and Jersey, so that there continues to be a common Channel Islands' MTR.

4. Charge control obligation

Sure is generally supportive of the setting of a maximum MTR for MNOs operating in the respective Bailiwicks. The key questions, however, are the methodology for setting that maximum MTR, and the level of that MTR. We consider this in our responses to Questions 4 and 5 below, as well as in Annex 1.

Question 4: Does the respondent agree with CICRA's provisional findings that the price caps for MTRs should broadly aim to cover the costs that an efficient MNO would incur in offering MCT, applying a long run incremental cost (LRIC) standard?

Sure acknowledges that it is international practice, in large jurisdictions at least, to apply MTRs that reflect the LRIC costs of providing MCT. It is, however, necessary for CICRA to consider the local market conditions before making a decision to move to a LRIC-based MTR and Sure notes that CICRA presents absolutely no data or analysis of the likely impact on the Channel Islands' markets of a significantly reduced MTR.

Typically, a regulator would seek to achieve one or both of the following objectives when setting regulated wholesale charges:

1. Reduction in end user pricing; and/or
2. Reduction in barriers to market entry and competition overall.

We discuss each of these below.

<u>Reduction in end user pricing</u>

Whilst Sure cannot know the traffic balance of the other two MNOs that operate in the Channel Islands, it could be assumed that the MTR is, to a significant extent, cancelled out as each MNO both receives and sends minutes to and from the other MNOs. The bottom line impact of the MTR, therefore, depends on the traffic balance of the individual MNO. Thus, payment of MTRs is simply a redistribution of monies between MNOs.

This means that each MNO would only be able to pass on to its retail customers its net saving (or cost) of an MTR reduction. If CICRA is assuming that a reduction in the MTR will be passed on, in its entirety, to retail customers, then that is a serious misunderstanding.

For Sure, the net payment of MTRs during 2018 was approximately £[✂] [2]. Across the two Bailiwicks, we terminated a total number of [✂] minutes, so therefore the maximum amount we would be able to pass on to our customers, should – in the extreme - the current MTR be reduced from 4.11ppm to zero[3], is only [✂]ppm. <u>[Redacted value is significantly less than 1ppm.]</u>

[2] [✂]

[3] As we assume that CICRA is not proposing to set the MTRs at zero, the actual amount we could pass on to consumers would be below this level.

It may be argued that there are other benefits that would result from a reduction in MTRs, for example from the pricing of local fixed to mobile calls or from the calls to Channel Islands' mobiles from outside the Channel Islands. We discuss those briefly below.

With regards to *calls from local fixed to mobile*, those charges are regulated by CICRA and have not been influenced in the past when the MTR has reduced[4]. Therefore, Sure does not believe that a reduction in MTRs would likely have the effect of reducing the retail price for Channel Islands' consumers to make fixed to mobile calls. Certainly, in the case of the incumbent operators of each island (JT in Jersey and Sure in Guernsey), both are bound by a regulated Price Control mechanism, which is operated on a basket basis. This makes it even less likely that any reduction in MTRs would benefit consumers making calls from local fixed to mobile numbers.

As for calls to Channel Islands' mobile numbers from outside the Channel Islands, the regulated MTR is not relevant as the rates payable by international operators are subject to commercial negotiation. There is no evidence or reason to believe that a reduction in the regulated Channel Islands' MTR would result in an equivalent reduction in commercial rates payable by international operators, or indeed, in any reduction at all.

Sure is aware that Ofcom is putting considerable pressure on CICRA to get the Channel Islands' MTR down to the same level as in the UK[5], but Sure has seen no evidence at all that this would likely lead to any benefits to Channel Islands consumers, or even to consumers in the UK making calls to the Channel Islands[6]. In the Isle of Man, where Sure also operates a mobile network, the regulator reduced the MTR to 1.25ppm in 2015 (which is well within the BEREC benchmark range of LRIC-based MTRs), but BT has not changed its wholesale rate to UK mobile operators for calls to the Isle of Man.

Even more importantly, as touched on above, the commercial rate that BT and Vodafone pay Sure for calls to Channel Islands' fixed line numbers is very low. For calls to Channel Islands' fixed numbers, the rate charged by Sure for transporting calls from the middle of the English Channel to the called customer in the Channel Islands varies between [✂]ppm (weekends), [✂]ppm (off-peak), and [✂]ppm (peak). ([✂]). That has not, however, resulted in UK operators (both fixed and mobile operators) setting reasonable retail rates for calls to Channel Islands' fixed line numbers. In fact, BT charges (ex. VAT) a call set-up of 23p, plus between 4ppm and 15ppm, to call Channel Islands fixed numbers. That is a mark-up of between [✂]% and [✂]%[7] [Redacted values refer to thousands of percent] of the price charged by Sure to carry those calls from the middle of the Channel to the fixed number called. And for Vodafone the situation is even starker, as Vodafone charges 55ppm (ex. VAT) for calls to a Channel Islands fixed number, resulting in a mark-up by Vodafone of between [✂]% and [✂]%[8]. [Redacted values also refer to thousands of percent, but significantly higher than those of BT].

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[4] We further note that JT's price for fixed to mobile calls is set at zero, so could not be reduced.

[5] See Annex 1, where we present the impact on the CI MNOs and their ability to invest in 5G, should the UK Operators/Ofcom be successful in making the CI on-island MTR (or near the on-island MTR) rate for traffic passed across the channel from the UK to the CI.

[6] We would refer again to the evidence previously provided to CICRA and Ofcom, as reproduced in Annex 2.

[7] All mark-up percentages based on an average call duration of 3 minutes.

[8] Please note that, as can be seen in the margin related table in Annex 2, other UK operators charge up to 83ppm (ex. VAT) for such calls.

Reduction in barriers to entry and overall competition

[✂] There must be at least one MNO in the Channel Islands with a net surplus from originating and terminating calls. That operator will need to find the lost revenues elsewhere, which is likely to manifest itself in less competitive retail pricing – thus the end customers will pay for the MTR reduction[9].

[✂]

Sure's proposed way forward

Our analysis above explains why we can see no rationale for the imposition of LRIC-based MTRs in the Channel Islands. We do not believe this would result in material benefits to consumers and it is likely to have a negative impact on competition.

Before imposing the significant MTR reductions that CICRA is currently proposing, Sure believes that it is imperative that CICRA undertakes a transparent cost-benefit study, that looks at the specific market conditions in the Channel Islands and what changes the likes of a LRIC-based MTR would cause.

If CICRA's analysis proves clearly that there are significant net benefits to the introduction of a significant reduction in the Channel Islands' MTR, then Sure is not opposed to that in principle. Our view is that it would not be responsible and in line with CICRA's duties – and especially those set out in Section 2 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 and Article 7 of the Telecommunications (Jersey) Law 2002[10] – to impose a significant reduction in the MTR until such time that it has satisfied itself and stakeholders that doing so is in the overall interests of the economies in the Channel Islands.

In the immediate future, if CICRA wanted to revise the Channel Islands' MTR before a cost benefit study can be completed, Sure would recommend using a broader benchmark, including LRIC-based and non-LRIC-based MTRs from countries across the world, including smaller jurisdictions.

Summary

In summary, it is difficult to see how a significant reduction in the Channel Islands' MTR would benefit end users in the Channel Islands[11]. There is potentially a cost to be paid for maintaining a dynamic three-operator mobile market in a small jurisdiction. If innovation at the retail level offers substantial benefits to end customers, then it is difficult to see how the very small reduction in retail pricing that could result from an MTR reduction would be able to outweigh those benefits.

Sure believes that CICRA needs to carefully consider the benefits and risks to the competitive dynamics in the Channel Islands' mobile market of imposing a significant reduction in the MTR, simply because that is the current international trend.

A formal and transparent cost-benefit study should be conducted. This need not be very large or costly, as we believe that CICRA already holds all or nearly all the data required for such a study.

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[9] This is often referred to as the 'waterbed effect'.

[10] Which both include duties to protect the interests of Guernsey and Jersey consumers respectively, to promote effective and sustainable competition, and to ensure that telecommunications activities are carried out in such a way as to best serve the economic interests of the respective Bailiwicks.

[11] Or indeed elsewhere.

Question 5: Does the respondent agree with CICRA's provisional view that the Ofcom MTR model is a suitable proxy to be used as a LRIC model to be applied in the Guernsey market, subject to verifying whether adjustments may be needed to reflect local circumstances?

As set out in our responses to other questions above, we do not believe that LRIC-based MTRs is likely to be the optimal way to set MTRs in the Channel Islands.

Should CICRA, however, proceed to impose a LRIC-based MTR, then Sure believes that it is critical for CICRA to take the utmost care to ensure that the resulting MTR is reasonable and proportionate.

Sure agrees with CICRA that it would not be proportionate to develop a bespoke LRIC model for the Channel Islands' market, but we also do not believe that it would be correct to borrow a LRIC model from another market (such as the UK) and simply make a few adjustments.

LRIC models are relatively subjective as they are theoretical models, rather than being a way of reflecting the actual costs incurred. This means that the assumptions and approaches taken in different LRIC models can have a significant impact on the outcome of those models. Because of that, and because Sure agrees with CICRA that it would not be proportionate to develop a bespoke model for the Channel Islands, Sure does not consider it appropriate that CICRA should rely on a (potentially slightly) modified UK LRIC model.

Sure also believes that the costs of engaging a consultant to collect data and amend the Ofcom LRIC model would not be commensurate with any benefits such an amended model would deliver, compared to CICRA simply using the BEREC MTRs[12] as the basis for a benchmarked MTR for the Channel Islands. We have demonstrated above that the maximum benefit to Sure customers, should the Channel Islands' MTR be reduced to zero, would be [✂]ppm and any costs incurred by CICRA in setting a new MTR should be commensurate with the benefits that change will deliver.

If a LRIC-based MTR were to be imposed in the Channel Islands, then Sure believes that a benchmarked MTR, including either the full 37 MTRs as set out in the BEREC 2018 MTR report, or including the 7 smallest countries in that BEREC sample, should be used. Either of these approaches would result in an MTR just below 1ppm.

Below are the 7 smallest countries included in the BEREC MTR report. Benchmarking those countries sets the MTR at 1.1 eurocent/minute:

Country	MTR (eurocent)
Cyprus (CY)	1.0
Estonia (EE)	0.9
Iceland (IS)	0.8
Liechtenstein (LI)	2.5
Luxembourg (LU)	0.9
Montenegro (ME)	1.1
Malta (MT)	0.4
Average small countries	**1.1**

[12] As set out in the 2018 BEREC MTR report and as quoted by CICRA in the Call for Information.

The average across all 37 countries in the BEREC report is 0.97 eurocent/minute.

As set out above, Sure does not agree with CICRA's proposal to use the modified Ofcom MTR model to set the MTR in the Channel Islands. We also do not agree with the possibility of using the UK MTR as the appropriate benchmark for the Channel Islands. We have analysed the 37 MTRs included in the BEREC report and found that the UK MTR is in the lowest 10% of those rates, see the analysis below[13]:

Percentile	Rate (eurocent)
10%	0.57
20%	0.66
30%	0.75
40%	0.84
50%	0.94
60%	0.97
70%	1.02
80%	1.09
90%	1.21
100%	2.54

It seems wholly inappropriate that CICRA should use either the model or the actual rate from the UK to set the Channel Islands' MTR, as it is clear that the UK approach to setting MTRs has resulted in one of the lowest rates across Europe. Had the UK rate been around the 50% percentile, then Sure would be less concerned, but that is clearly not the case.

<u>Implementation of a LRIC-based MTR in the Channel Islands</u>

Sure believes that CICRA omits a very important issue in the Call for Information, namely how the change to the MTR in the Channel Islands will be implemented.

It is our view that, regardless of what the new Channel Islands' MTR will be, it will be very important that it is introduced in a manner that allows the MNOs to adjust their businesses to absorb the impact of the change over time.

Many countries across the world, the EU and indeed the UK, have used glide-paths to reduce MTRs over time. From the BEREC report, it is clear that the vast majority of countries implement changes to MTRs through a glidepath. For example, the current UK MTR was achieved through a four-year glide-path from 2014 till 2018, and that reduction was much less severe than would be the reduction to the Channel Islands' MTR, should CICRA decide to impose a LRIC-based MTR.

As far as we can ascertain from the BEREC report, only three countries out of the 37 included in the report, did not apply a glide-path.

We have highlighted above that a radical reduction in the MTR in the Channel Islands could have a negative impact on the currently competitive and vibrant three-operator mobile market in the Channel Islands. CICRA needs to be extremely careful in how it implements any reductions on the

[13] The UK MTR is 0.5579 Eurocents/minute.

MTR, so as to not cause reduction in choice, innovation and retail pricing for mobile services in the Channel Islands.

Sure (Guernsey) Limited & Sure (Jersey) Limited

1st February 2019

Annex 1 – Ofcom's efforts to reduce the Channel Islands' MTR

1. Ofcom's proposals and motivation

CICRA proposes to introduce a new mobile termination rate (MTR) in the Channel Islands, using the Ofcom LRIC model and resulting in an MTR that is very close to the rate applied by Ofcom in the UK (the UK MTR).

Sure is aware of Ofcom putting significant pressure on CICRA to reduce the Channel Islands' MTR to the UK MTR level. Sure is also aware that Ofcom has threatened CICRA that it will not release any new number ranges to the Channel Islands and will not agree to allocate any 5G spectrum to the Channel Islands, unless the UK MTR is introduced in the Channel Islands.

Sure has shown clearly in its response to the Call for Information on MTRs why it believes that introducing the UK MTR in the Channel Islands would be to the detriment of consumers as it could result in reduced competition and would only result in very insignificant price reductions, assuming that any MTR reduction would indeed be passed on to consumers.

Sure is concerned that it is the undue pressure from Ofcom that is the driving force behind CICRA's MTR proposals. CICRA has presented no analysis of what the benefits of the proposed change would be, nor what the risks are of imposing it.

Evidence of how the UK operators charge for calls to fixed numbers in the Channel Islands

At the moment, fixed and mobile operators in the UK charge extremely high rates for calls to the Channel Islands. [✂]The rate charged by Sure for transporting calls from the middle of the Channel to a Guernsey landline varies between [✂]ppm (weekends), [✂]ppm (off-peak), and [✂]ppm (peak), (at weekends and off-peak that is below the regulated interconnection on-island). Despite that being the case, BT charges its retail customers (ex. VAT) 23p as a set-up call, 15ppm weekdays and 4ppm at weekends. That gives BT a mark-up of between [✂]% and [✂]%[14] [redacted values refer to thousands of percent].

An even starker example of how low wholesale charges do not result in reductions in UK retail pricing for calls to a Guernsey landline, is that Vodafone (who pays the same wholesale rates to Sure as set out above for BT) charges its UK retail customers 45ppm, resulting in a mark-up by Vodafone of between [✂]% and [✂]% [redacted values also refer to thousands of percent, but significantly higher than those of BT].

What does the above mean for the expected outcome of reducing the Channel Islands' MTR?

Sure believes that the analyses set out above clearly demonstrates that an assumption that a reduction in the commercially negotiated rates to transport calls from the middle of the Channel will be passed on to end users in the UK is not realistic.

The evidence set out above shows that in relation to calls to Guernsey landlines there is a huge disparity between the wholesale payments from BT to Sure and BT's associated retail charges. Despite this, Ofcom is asserting that a reduction in the charge paid by BT (and Vodafone) to Sure (and other Channel Islands operators) for carrying calls from the middle of the Channel to the called mobile

[14] All mark-up percentages based on an average call duration of 3 minutes.

number, would result in a reduction in the retail charges applied by the UK mobile operators. Ofcom is putting pressure on CICRA to reduce the on-island MTR as the first step in achieving a significant reduction in the commercial charges to BT and Vodafone to Channel Islands' operators for carrying calls from the middle of the Channel to the called mobile number.

Sure does not believe that Ofcom is right for the following reasons:

1. UK operators are charging very high rates to Channel Islands fixed numbers despite the commercial charge to carry those calls from the middle of the Channel being very low; and
2. Ofcom has no powers to force UK operators to charge reasonable rates for calls to Channel Islands numbers (whether fixed or mobile).

Sure therefore does not believe that there are likely to be any beneficiaries of substantial reductions to the payments from UK operators to Channel Islands operators other than the UK operators who will likely simply retain the increased mark-up. Thus, it would simply move revenues from Channel Islands' operators to UK operators.

2. Impact on Channel Islands' operators

Channel Islands' operators face significant demands to invest in new infrastructure, presently driven by the requirement to introduce 5G services in the Channel Islands. The costs of introducing new technologies are a mixture of up-front costs, which are often not scalable, and costs that vary depending on the size of the network.

When Sure upgraded its 2G network to 3G and, subsequently, its 3G network to 4G, there were considerable investments made in new technologies, masts and electronic equipment. At present, Sure is still recovering its 4G investment, but is also aware that it will very soon need to start investing in the introduction of 5G.

5G differs from the previous generation mobile technologies in that it enables very high speed and high capacity transmission via mobile devices. 5G is expected to be capable of delivering connections that are around 1000 times faster than 4G[15], and that means that the entire network needs to be upgraded to support those speeds, including the fixed network that connects the mobile base stations.

To launch 5G, Sure will need to invest in new masts and electronic equipment (antennae, etc.), as was the case for 3G and 4G, but in contrast to 3G and 4G, Sure also needs to invest substantially in its Guernsey fixed network to enable it to support the high data transmissions required by 5G. This means installing new, and significantly enhancing existing, fixed fibre connections across the Bailiwick at very high costs. Sure estimates an incremental investment in its fibre core network connectivity of between £[✂]m and £[✂]m between 2020 and 2025 to directly support 5G[16]. This is as a result of Sure's core network having to be significantly upgraded to enable [✂]Gbps transmission speeds, from the existing [✂]Gbps.

The relevance of the 5G investment to CICRA's MTR proposals is that the upfront costs of 5G are disproportionately higher for a small operator like Sure, compared to, for example an operator that operates a network across the UK. For example, Sure pays significantly more for each piece of network

[15] https://5g.co.uk/guides/4g-versus-5g-what-will-the-next-generation-bring/.

[16] Whilst this investment will also help support higher speed broadband delivery in Guernsey, Sure expects no significant additional revenue from broadband customers or mobile customers resulting from that investment. The investment has to be funded from existing revenue streams.

equipment than would be the case for a large operator in the UK. This is simply because of our lack of purchasing power, as a small operator[17]. It is also generally recognised that electronics for mobile networks is typically designed to be able to serve large numbers of customers. This means that an operator like Sure, with around 71,000 mobile customers across the Channel Islands, needs to purchase equipment designed to serve a customer base of some 14 times larger than its requirements, therefore having to recover the cost of that equipment over a customer group that is 1/14th of that of a larger operator – resulting in significantly higher unit costs for the smaller operator.

Currently, Sure charges BT and Vodafone a commercial rate for carrying calls from the middle of the Channel to the called mobile handset. That rate is higher than the local Channel Islands MTR that is available to locally licensed operators and it is unregulated. It is, however, clear that Ofcom's ultimate objective is that the commercial rates applicable to calls from BT and Vodafone to Channel Islands' mobile numbers should be substantially reduced. Ofcom hopes that this would cause BT and Vodafone to then reduce their wholesale rates to other operators and also their retail charges to UK customers calling Channel Islands' mobile numbers, preferably including calls to both Channel Islands' fixed and mobile numbers in their call bundles[18].

If, at the extreme, the commercial rate for calls from the UK were to be reduced to the same level as the MTR proposed by CICRA (between 0.5 and 1ppm), Sure would lose approximately £[✂] per annum in revenues. That revenue is critical for Sure to be able to continue investing in new mobile technologies, particularly for 5G where the investment includes changes to both the fixed and the mobile network.

In the main body of this document, Sure has demonstrated that the benefits to Channel Islands' consumers of introducing a LRIC-based MTR are likely to be very small indeed (a maximum reduction in retail rates of [✂]ppm, if the LRIC rate were, in the extreme, to go to zero and the full net saving were to be passed on to retail customers), and that a significant reduction in MTRs could have a negative impact on the level of competition in the Channel Islands' mobile markets.

Sure has further demonstrated that it is highly questionable whether UK consumers will benefit at all from reductions in the Channel Islands' MTR. As described above, the most likely result of the introduction of a LRIC-based MTR in the Channel Islands, would be a transfer of revenues from Channel Islands' operators to UK operators[19] with no benefits to UK consumers, simply increasing profits of UK operators. Without the revenue from the UK operators, Sure may not be able to make the necessary investments to launch 5G in the timeframe requested by the States of Guernsey.

[17] [✂]

[18] Sure already includes calls to UK fixed and mobile numbers in its bundles, despite the commercial rates payable to BT and Vodafone differing from the local Channel Islands' interconnection rates.

[19] If the heavily reduced regulated MTR causes a significant reduction in the commercial unregulated charge paid from UK operators to send calls from the middle of the Channel to Channel Islands' mobile handsets.

Annex 2 – Confidential letter sent to CICRA (31st July 2018) and subsequently shared with Ofcom (3rd September 2018)

[✂]