



JT's Response to

Initial Notice of Proposed Determination T817J

JT Price Control

21st December 2011

1 Introduction and Background

JT welcomes the opportunity to respond to the Jersey Competition Regulatory Authority's (JCRA's) Initial Notice of Proposed Determination on the JT Price Control.

The JCRA has proposed a one year control from 1st January 2012, due to the expected introduction of new wholesale access products under the Channel Island Wholesale Access Project ("CIWAP"). The JCRA anticipates that the introduction of new wholesale access products in the fixed line services area will encourage more effective competition and as a consequence will reduce JT's dominance in this market. The JCRA has not undertaken a market review of the relevant markets namely:-

- Access to the public telephone network at a fixed location for residential and non-residential customers;
- Call origination on the public telephone network provided at a fixed location; and
- Call termination on individual public telephone networks provided at a fixed location.

The JCRA has reviewed the provisional market share returns provided by Jersey operators for the period to the end of December 2010 and has concluded that there has been no significant change in market share during that period.

The JCRA propose to leave the Weighted Average Cost of Capital ("WACC") at the same level as determined by the previous price control.

The JCRA therefore determine that fixed line rental, connection and calls from a fixed line to local, UK (including other Channel Islands and Isle of Man) and International destinations should be charged at the maximum price charged by JT for that service on 23rd November 2011.

2 General Comments

JT has been working with the JCRA, Office of Utility Regulation (OUR) in Guernsey and the other telecoms operators in the assessment of wholesale access products (WAPs) and accepts that a one year price control is a sensible approach considering the intention to develop new fixed line wholesale access products in Jersey and Guernsey.

JT supports the JCRA's statement that the introduction of new fixed line services may make it appropriate to reduce or remove the requirement for price control. However, in order to make an assessment of dominance and the relevant wholesale and retail markets (if relevant) it will be necessary for the JCRA to undertake a thorough market review to assess and define the markets. It is important that the JCRA plan ahead and ensure sufficient time is allocated to consult on the price control and to conduct a thorough market review prior to the end of December 2012.

The Initial Notice makes reference to the proposed price control being applied to any new service introduced by JT that does or could compete with any such service. Again a thorough market assessment is required to ensure that the correct markets are defined and substitute products are assessed.

The current copper based line rental product resides in the market "Access to the public telephone network at a fixed location for residential and non-residential". The copper line's primary function is for voice with broadband developed to run over the copper line to provide internet access.

With JT's move to Next Generation Access ("NGA") the fibre's primary function is to provide internet access with voice being a secondary function. This raises the question of what is the appropriate market going forward? It also has to be considered that some segments of the current fixed line user base will elect not to retain a fixed line voice service and will use their fibre access to gain access to internet based services solely.

It is already generally accepted that there is a substitution effect where consumers are utilising mobile minute bundles to satisfy their voice call requirements and their fixed line service is primarily used for broadband. There is also a move to utilising the broadband service to offer voice and this is recognised in the comments made by the European Commission's Questionnaire on the Costing Methodologies for Key Wholesale Access Prices in Electronic Communications dated 3rd October 2011.

"The demand for WLR services seems to be stagnant or decreasing with Voice over Broadband (VoB) access becoming a substitute for public switched telephone network (PSTN) access".¹

JT looks forward to working with the JCRA in providing timely information for the JCRA to make a proper market assessment in an appropriate timescale.

¹ http://ec.europa.eu/information_society/policy/ecomm/library/public_consult/cost_accounting/index_en.htm
Questionnaire for the Public Consultation on Costing Methodologies for Key Wholesale Access Prices in Electronic Communications

3 Separated Accounts

The Initial Notice makes the following comments relating to JT's Separated Accounts

“they raise questions about the underlying allocation of charges between the wholesale and retail arms of JT. The provision of robust financial accounting information remains a key priority for the JCRA so that properly informed decision can be made on JT's charges (both retail and wholesale). In light of the issues highlighted by the draft 2010 regulated accounts, the JCRA believes it is impossible to have confidence that any increased charge for price-controlled services would be cost-justified.”

The JCRA had not raised this concern with JT directly prior to making the comments in the consultation document. The JCRA's consultants Regulaid undertook a review of JT's Separated Accounts and the underlying methodologies in 2009. Regulaid subsequently made recommendations for changes to the methodologies which JT undertook and were then applied to the Separated Accounts. JT has spent the last year working with the JCRA's consultants KPMG on Separated Accounts and has prepared its latest set of Separated Accounts in the format required by KPMG. In light of this on-going work and JT's willing participation in the process, JT is disappointed with the comments made about its Separated Accounts.