



Call for Input

Emergency Call Answering Service – Call Handling Fee review

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All responses to this consultation should be clearly marked:-
“Reference: Submission re ComReg 10/87” as indicated above,
and sent by post, facsimile, e-mail or on-line at www.comreg.ie
(current consultations), to arrive on or before 5pm on 15
November 2010 to:

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Please note ComReg will publish all respondents submissions
with the Response to this Consultation, subject to the provisions
of ComReg’s guidelines on the treatment of confidential
information – ComReg 05/24

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1 Foreword

The Emergency Call Answering Service (“ECAS”) is the centre point for all emergency calls (999/112¹) made in the State. The two main ECAS centres, one in Navan and the other in Ballyshannon, known as Public Safety Answering Points (“PSAP”), receive and handle all emergency calls and are responsible for forwarding every genuine call to the responsible emergency service, as quickly and efficiently as possible.

In line with EU legislation, all emergency calls are free of charge to the caller. In Ireland, the ECAS is funded through the Call Handling Fees (“CHF”) payable by the telephone network operator and/or the telephone call service provider. Each year, ComReg is required to review the maximum CHF that may be charged. ComReg may confirm the existing maximum CHF or, following consultation with the ECAS provider, ComReg may raise or lower the existing maximum CHF. ComReg shall also provide the Minister for Communications, Energy and Natural Resources with reports on the operation of the ECAS, at such times as the Minister may specify.

ComReg now seeks views from all interested parties on a number of key principles that relate to the inputs required to ensure that the maximum permitted CHF is reasonable, having regard to the right of the ECAS provider to recover all of its reasonable costs together with an appropriate rate of return. ComReg does not intend to publish a formal response to this call for input, but ComReg will use the responses to inform the decision-making process over the coming months.

Mike Byrne
Commissioner

¹ 112 is the pan-European emergency number that is used to contact the emergency services within any country in the EU. In Ireland, 999 and 112 operate in parallel and are handled in a similar fashion by the PSAP and the emergency services.

2 Introduction

Background

Part 6 of the Communications Regulation Act, 2002 (inserted by section 16 of the Communications Regulation (Amendment) Act 2007) (“the Act”) empowered the Minister for Communications, Energy and Natural Resources (“the Minister”) to enter into a contract with a person who shall undertake to provide the ECAS. .

A public tender was conducted by the Department of Communications, Energy and Natural Resources (“DCENR”) during 2007 and 2008. BT Communications Ireland Ltd (“BT”) was the declared winner of that tender process and BT subsequently entered into an ECAS contract with the Minister, under the terms of which BT agreed to provide the ECAS for a period of five years. The contract between BT and the Minister was called the “Concession Agreement” (“CA”) and it was entered into on 12 February 2009. The CA set the initial maximum CHF at €2.23.

BT, as the contracted ECAS provider, was required under the terms of the CA to provide at least two ECAS centres, to be located in Ballyshannon Co Donegal and Navan Co Meath and these have been fully functional since mid-July. A third PSAP is located in EastPoint, Dublin 3 and is also fully functional. In addition, there are two data centres; one at BT’s existing Citywest offices and the other within BT’s Navan ECAS centre. The PSAPs in Ballyshannon and Navan were developed from brownfield status with considerable work required to bring them up to the specification required.

Further costs have been incurred in designing and rolling out a new ECAS network which meets the resilience requirements set down in the CA. For example, these requirements necessitated the procurement and installation of totally new hardware and software platform, which has many additional features that add significant value to the handling of emergency calls (e.g. location evaluation). It should also be noted that BT Ireland, in its role as ECAS provider, handles emergency calls only within the PSAP’s and is not engaged in any other business activities of the type which, ordinarily, might help to distribute operating costs further across a business. For example in the UK, Directory Enquiry calls are handled by the 999 Operator and which would allow the common operating costs of the 999 service to be distributed across a number of services.

Legislation

ComReg has two key statutory responsibilities in regard to ECAS:

1. To review the maximum CHF that the ECAS provider may charge².

² Section 58D(1) of the Act

2. To monitor the ECAS provider’s Quality of Service (‘QoS’) and report to the Minister on the ECAS operational performance against the metrics set out in the Concession Agreement³.

The Act provides that the initial maximum CHF shall have effect for the first two years of the CA. Section 58D of the Act provides that ComReg shall do the following:

- 1 Conduct a review of the maximum CHF before the second anniversary of the signing of the CA (12 December 2010).
- 2 As soon as practicable following this review, ComReg shall determine what the new maximum CHF should be. The new maximum CHF shall have effect from 12 February 2011 until 12 February 2012.
- 3 Before applying this revised CHF, ComReg shall invite all affected parties who shall be required to pay the CHF to a meeting where staff of ComReg shall explain the rationale for the decision to increase or decrease the maximum CHF, or to leave the maximum CHF unchanged.
- 4 This review of the maximum CHF shall be repeated annually by ComReg for the duration of the ECAS contract between BT Ireland and the Minister.

The main purpose of each review is to find a maximum permitted CHF which will allow BT to cover the “reasonable costs” which BT has incurred and is likely to incur in operating the ECAS and, in particular, to have regard to the need for BT Ireland recover its “guaranteed rate of return” for providing the ECAS.

In order to assist ComReg to carry out its review, an independent consultancy firm, Horwath Bastow Charleton (“HBC”), was selected. HBC’s work has been ongoing for the last number of months. The review underway by ComReg, with the assistance of HBC, is detailed in the following section.

³ Section 58G of the Act

3 Reasonable cost review

Background

The maximum permitted CHF which the ECAS provider may impose is derived by dividing the aggregate of the ECAS provider's reasonable costs and guaranteed rate of return by the volume of emergency calls forwarded to the ECAS provider. Given that the ECAS provider has no control over the volume of emergency calls that are forwarded to it by the telecommunication networks, ComReg, along with HBC, has mainly focused on assessing the reasonable costs incurred by BT Ireland to date and the costs that it is likely to incur, going forward.

Reasonable cost review

The approach taken by ComReg is presented diagrammatically below. Although there is some overlap between the five tasks (A-E) a broadly sequential structure is followed:

Task A: Project Initiation

The CHF review project was initiated in Quarter 1 2010 with an extensive review of documentation from the DCENR and BT pertaining to the commercial and operational aspects of the ECAS.

Task B: Review Financial Information

ComReg and HBC are carrying out a detailed review of the full set of financial information provided by BT Ireland, which includes annual audited financial statements to March 2010 and unaudited quarterly management accounts to July 2010. This financial also review required gaining an understanding of the forecasted model that set the initial CHF.

Task C: Supply Side Assessment

ComReg and HBC is also carrying out a "supply-side" assessment which entails a root-and-branch review of all aspects of the delivery of ECAS by BT, in order to determine whether the costs associated with ECAS operations are reasonable and appropriate. This assessment will in turn help to establish whether the maximum permitted CHF is reasonable and appropriate. The supply-side" assessment includes an operational review of the ECAS function provided by BT Ireland, a review of ECAS staff resources, and a review of the engineering and technical elements of the ECAS.

Carrying out this assessment required a series of site visits to the PSAP's and data centres to see how the service is organised on the ground and the technical and business infrastructure which is in use. ComReg and HBC also undertook interviews and discussions with senior representatives of BT Ireland, reviewed available documentation and conducted a comparison between what BT Ireland originally offered in its tender for ECAS and what has actually been developed in practice.

Task D: Demand Side Assessment

ComReg and HBC are also conducting a “demand side” assessment. This involves examining historic volumes of emergency calls made in the State while also reviewing the economic and demographic data which is relevant to the number of emergency calls being made, in order to produce a reasonable estimate of likely future emergency call volumes. ComReg and HBC will factor in the demographic projections produced by the Central Statistics Office, in order to assess the possible impact that population growth or demographic shift may have upon emergency call volumes in future.

Task E: Combined Analysis / Cost Model

Task E involves combining the findings from the supply and demand side assessments (tasks C and D) in order to review the reasonableness of the CHF from the cost model which takes all pertinent factors into account.

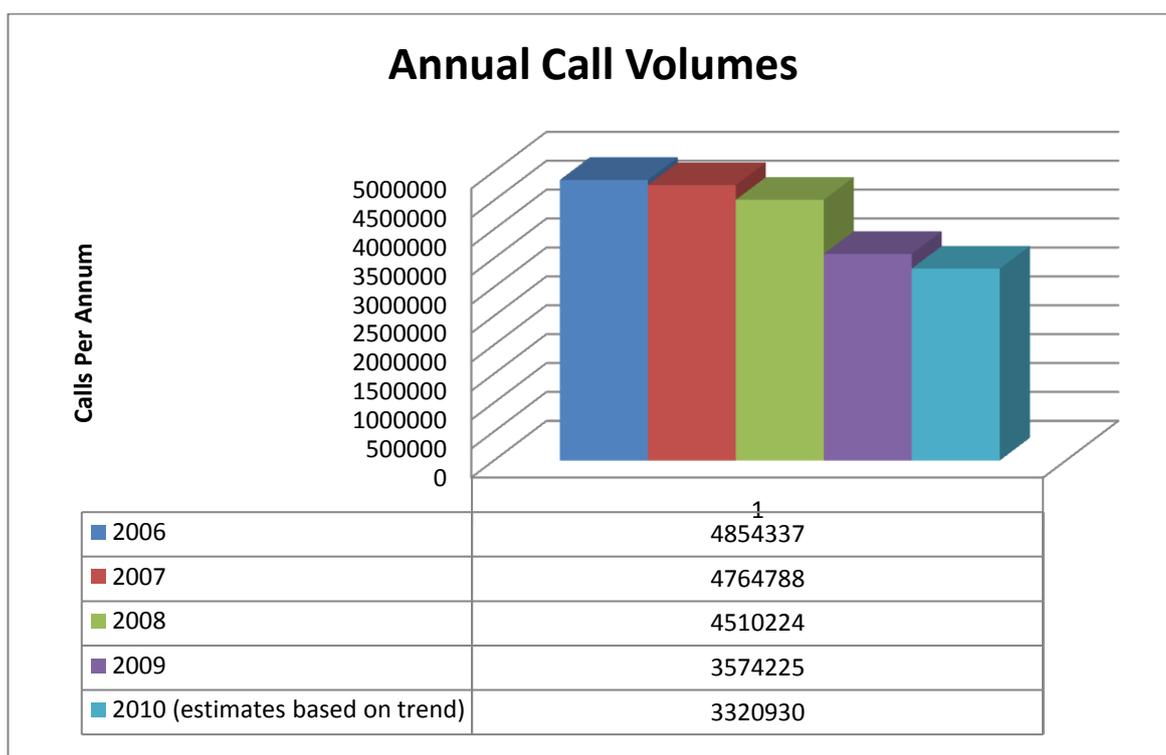
4 Material issues to consider

There are some key issues under review which could have a material impact on the level of costs which BT Ireland may be allowed to recover through the CHF, and which could therefore determine the maximum CHF which may be charged, going forward. ComReg would welcome the input of stakeholders on these issues. The main issues which require input are:

- 1) Likely emergency call volumes going forward
- 2) Relevant cost standard to apply when considering relevant costs

1) Call volumes

In 2006, the previous ECAS operator, Eircom Limited, experienced a significant reduction in its annual volume of emergency calls, compared with earlier years. That overall drop in call volume has remained. Industry would be aware of this fact as the issue was raised during some of the industry briefings⁴ that they have received during this changeover process. Figure 1 below shows the call volume between 2006 and 2009 and a predicted call volume for 2010:



At the time of tendering for the new ECAS contract, annual call volumes, provided for in the tender by DCENR, were estimated at 4.8million calls. However, since that time the estimate has been reduced to approximately 3.3million calls, for 2010. The

⁴ Industry meetings dated 26th February 2010 & 13th April 2010

original maximum permitted CHF of €2.23, which was set down in the ECAS contract between BT Ireland and the Minister, was based on call volume estimate of 4.8 million calls per annum.

The significant decline in annual call volume will have a material impact on the amount of the maximum permitted CHF, going forward. Because call volume is the key denominator in calculating the CHF, a significant decrease in call volumes will most likely lead to a greater unit cost and therefore an increased CHF. It should be noted that the CA provides a fixed percentage return to BT, and any movement in the CHF does not adjust this percentage and does not result in BT making any additional profit.

ComReg is currently assessing whether this reduction in call volumes will lead to a corresponding reduction in costs, however it is unlikely that there will be a one for one correlation due to the large fixed cost incurred by BT Ireland in setting up three new ECAS centres.

ComReg seeks input from interested parties, particularly from the telecommunication network providers regarding the current level of call volumes now and views on the expected trend into the future. The key areas where input will be of benefit to ComReg relate to:

- Overall experience to date of customers using the emergency number service
- Any remediation work (at network level or at end-user level) that could explain the current decline in call volume and any expected future decline expected as a result of such measures
- Views on likely trend across all networks on call volumes going forward

In providing any such views, the use of supporting information would be extremely useful.

2) Relevant cost standard

A number of cost standards could be used by ComReg to ensure that only the relevant and reasonable costs of the ECAS operation of BT are recovered through the CHF. Regulators can generally adopt different approaches when reviewing the costs of monopolies or operators with Significant Market Power, depending on the purpose of the exercise. Such cost standards include the use of Historical Cost Accounting Information (“HCA”), Current Cost Accounting Information (“CCA”), Long Run Incremental Costs (“LRIC”), Fully Allocated Costs (“FAC”) and Avoidable Costs (“AC”).

A number of different costs incurred by BT can be recovered through the CHF. Some costs are directly attributable to the ECAS operation – for example, the costs of setting up and running the Ballyshannon and Navan PSAPs can be clearly identified as being direct to the ECAS operation. However, other costs incurred outside the PSAPs may not be directly attributable, for example overheads which are

common to BT's ECAS operation and its other operations in electronic communications markets more generally in the State, for example Head Office rent.

However, it is essential, when identifying those costs that could be deemed "reasonable", to consider the nature of the ECAS. It is a stand alone service provided by BT on behalf of the State. Whilst the initial contract was entered into on foot of a competitive tender, the successful tenderer is not subject to competition, in that neither the caller nor the originating network can choose between competing emergency call answering services.

In selecting the appropriate cost standard, there is a balance to be struck between allowing BT to recover its reasonable and unavoidable costs and to find the correct contribution towards its indirect cost and overheads. Like all telecom companies, the ECAS has a large fixed and common cost base. In reviewing the CHF a key requirement is to determine - from BT's total fixed and common costs across all of its operations - the appropriate amount of those costs that should be attributed to its ECAS operation

ComReg is currently reviewing all of the costs presented to it by BT, to ensure they were related to, and necessary for, the provision of a "fit for purpose" ECAS and were not excessive. Expert advice is being provided by HBC in relation to more technical areas of expenditure, including set up costs.

ComReg seeks input from interested parties on the appropriate level of cost recovery appropriate to the running of the ECAS operation by BT based on experience in either Ireland or other jurisdictions when allocating costs to services, either regulated or non-regulated. In providing any such views, the use of supporting information would be extremely useful.

5 Submitting inputs and views

The Commission welcomes all written responses from stakeholders by 5pm on 15 November 2010. ComReg will, in the interest of openness and transparency, publish all non-confidential inputs received and would, therefore, request that electronic submissions be submitted in an unprotected format so that they can be published electronically. Submissions will be published subject to the provisions of ComReg's Guidelines on the Treatment of Confidential Information - ComReg 05/24. Any confidential material should be clearly identified and placed in a separate Annex to the response.