



Media Release- 22 May 2008

ComReg sets new Eircom cost of capital at 10.21%

The Commission for Communications Regulation (ComReg) today published a paper containing the new cost of capital that Eircom should be allowed. The cost of capital is the return on investment that Eircom is allowed to earn on its regulated fixed-line business. It is known as the Weighted Average Cost of Capital (WACC).

ComReg believes that setting the correct value of the WACC is important in order to ensure that the correct regulated prices are achieved. It is also necessary to ensure that Eircom does not obtain too high a price - at the expense of consumers - or too low a price - which would see Eircom under-recover its costs, compromise investment and potentially impact on the long term sustainability of the industry. ComReg is satisfied that in setting the rate at 10.21% it has struck the right balance.

ComReg undertook a rigorous and comprehensive assessment of all aspects underlying the WACC value and has adopted international best practice in its estimation techniques and methodologies. ComReg consulted on its preliminary view that a WACC in the range of 7.77% to 11.08% is reasonable and that a WACC approximately in the mid-point of this range (9.43%) would constitute an adequate return on investment for Eircom.

In setting the new WACC, ComReg has had full regard to the submissions made in response to our consultation. Furthermore, in light of the volatility in financial markets since the summer of 2007 – which may affect the rates of return required by investors – ComReg and its expert advisers have analysed in detail the impact of recent financial volatility on Eircom's cost of capital. Following this further analysis, ComReg reaffirms that a WACC in the range of 7.77% to 11.08% is entirely reasonable. However, within this range, a rate of 10.21% (0.78% above the mid-point) would now be prudent and appropriate.

The overall approach to setting the WACC is compatible with providing investment incentives to Eircom. ComReg explored the possible application of split rate WACCs and capital expenditure triggers¹ as potential measures to incentivise new investment, including capital expenditure on Next Generation Access infrastructure. However, having regard to the responses to the consultation from interested parties, and in the absence of additional specific and detailed plans from Eircom on Next Generation Access investment (which would need both to define the level and type of investment and to demonstrate the specific higher risks associated with this investment), ComReg is of the view that the allowed return of 10.21% is appropriate. ComReg may reassess this finding in the light of any substantial new information submitted to it.

The new WACC comes into force from today, 22 May, 2008.

The full Decision document – ComReg 08/35 is available on the ComReg website www.comreg.ie

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Issued By
Tom Butler
Public Affairs Manager, ComReg
Ph: 01 804 9639 Mobile: 087 2536358 tom.butler@comreg.ie

Note for Editors

¹ ‘Split rate WACCs’ are differential WACCs applied to different portions of the regulated business. ‘Capital expenditure triggers’ is a generic term for a regulatory measure that introduces financial rewards or penalties (or both) linked to the level and /or type of capital expenditure (capex) undertaken by the regulated company.