Office of the Director of
**Telecommunications**
**Regulation**

# *eircom's* Reference Interconnection Offer & Accounting Separation and Publication of Financial Information for Telecommunications Operators

Consultation Paper

**Document No. ODTR 01/11** **March, 2001**


**Oifig an Stiúrthóra Rialála Teileachumarsáide**
**Office of the Director of Telecommunications Regulation**
Abbey Court, Irish Life Centre, Lower Abbey Street, Dublin 1.
*Telephone* +353-1-804 9600 *Fax* +353-1-804 9680
*Web:* www.odtr.ie

**Section** **Page**

# 1. Introduction

The Director of Telecommunications Regulation ("the Director") is responsible for the regulation of the Irish Telecommunications sector in accordance with national and EU legislation. Two of the areas of importance to the sector are Interconnection and Accounting Separation.

In April 2000 the Office of the Director of Telecommunications Regulation ("ODTR") published ODTR 00/31[1] which directed *eircom* to make changes to its Reference Interconnection Offer (RIO). These changes provided for an expansion on the scope of the RIO and for changes to certain costing and routing principles.

In June 2000 a Status report ODTR 00/46[2] was published, this document included the interim rates to apply for the period 1st April 2000 to 31st March 2001 together with text changes to D7/00, in respect of delivery of Interconnect Circuits and Service Level Agreements.

New RIO rates are due shortly, and the Director wishes to take account of views of interested parties on some specific topics that require to be considered in that context.

In August 2000, the ODTR published a Decision Notice on accounting separation and publication of financial information for telecommunications operators (ODTR 00/59).[3] This Decision Notice described the outcome of the regulatory accounting process with regard to the first year of reporting on the Separated Accounts of *eircom*, the only fixed network operator that has been designated as having Significant Market Power ("SMP") in the fixed, interconnect and leased line markets.

*eircom* published on the 30th September 2000 Historical Cost Account ("HCA") Separated Accounts for the year ended 31st March 2000 and a supporting Accounting Document. Following a review by the ODTR, *eircom* republished the HCA Separated Accounts on 22nd November 2000 with a revised Accounting Document.

Current Cost Account ("CCA") and Long Run Incremental Cost ("LRIC") Statements were published by *eircom* on 1st December 2000 together with an Accounting Document on a current cost accounting basis for the first time.

At present, *eircom* is the only fixed operator that has been designated as having SMP in the fixed network, interconnect and leased line markets.[4] This Consultation relates solely to Accounting Separation for fixed Interconnect and Local Loop Unbundling. Accounting Separation in relation to mobile operations is being considered separately.

The Director is now undertaking a consultation on Accounting Separation and publication of financial information for telecommunication operators. Interested parties are invited to submit their views on the Consultation in writing before 5pm on 26th March 2001 to :-

---

[1] *eircom's* Reference Interconnect Offer D7/00 & Report on Consultation, (Document No. 00/31)

[2] Interconnection in Ireland, *eircom's* Reference Interconnect Offer and Interim Rates 1 April 2000 to 31 March 2001, Status Report, (ODTR 00/46)

[3] Accounting Separation and Publication of Financial Information for Telecommunications Operators, Decision Notice D9/00 & Issue for Further Consideration, (Document No. ODTR 00/59)

[4] Significant Market Power in the Irish Telecommunications Sector, Decision Notice D15/99 & Report on the Consultation Paper ODTR 99/59, (Document No. ODTR 99/75)

Ms Ruth Kenny
Office of the Director of Telecommunications Regulation
Abbey Court
Irish Life Centre
Lower Abbey Street
Dublin 1
Tel: +353-1-804 9600
Fax: +353-1-804 9680
Email: kennyr@odtr.ie

All comments are welcome, but it would make the task of analysing responses easier if respondents refer to the relevant question numbers in this document. In order to promote further openness and transparency, the ODTR will publish general summaries of responses received to this consultation paper. Where material that is commercially sensitive is included in a response, this should be included in an annex and clearly marked "confidential". Information of this nature will only be made available to ODTR staff and will not be disclosed to third parties.

The ODTR will analyse the comments received, take them into consideration and issue a Decision Notice in early April 2001.

*This consultative document does not constitute legal, commercial or technical advice. The Director is not bound by it. The consultation is without prejudice to the legal position of the Director or her rights and duties to regulate the market generally.*

# 2. **Scope of Consultation**

Both EU and Irish legislation recognise that, in the interest of developing and sustaining competition in the telecommunications industry, entrants to the market must have the facility to interconnect to the network of an incumbent operator. Under the legislation, a telecommunications operator providing fixed public telephone networks and designated as having SMP, is required to publish a RIO and to republish the offer when there is any change made to it. The RIO is a fundamental document that influences the way competition operates in the Telecommunications sector. The RIO defines the mechanism that allow competing operators to pass telephone traffic between each other (a task that is essential if a "complete" telecommunications service is being offered) and the prices that will apply in such cases. The RIO must include a statement of the rates at which Other Licensed Operators ("OLOs") may interconnect to the SMP operator's network. Under the Interconnection Regulation[5], *eircom* is required to publish a RIO that is in compliance with the relevant legislation, including the principle of transparency and cost orientation and that sets out the particular components of interconnection according to market needs. To assist in ensuring that these rates fairly reflect the associated costs, the legislation also requires transparency in and access to the accounts of such organisations. This transparency/access mandate includes "accounting separation".

The purpose of accounting separation is to provide an analysis of information derived from financial records to reflect as closely as possible the performance of parts of a business as if they were operating as separate businesses. The information in turn is a valuable tool for demonstrating that there is no undue discrimination between the SMP operator's own downstream arm and competing operators or between one competitor and another when providing similar services.

The Director may under 9(3) and 9(5) of the Interconnection Regulations obtain and publish any information she sees fit which contributes to an open and competitive market, while taking account of considerations of commercial confidentiality.

One of the key objectives of accounting separation is transparency in and access to the accounts of telecommunications operators providing fixed public telephone networks and designated as having SMP. The Director believes that the development of the accounting separation framework is an iterative process, and expects to issue consultations and decision notices from time to time on accounting separation. The purpose of this process will be to either further improve the current framework and/or to set out the framework for areas not previously covered.

The Director mentioned in ODTR 99/35 that Accounting Separation decisions would be reviewed and amended from time to time. The Director carried out a brief review after the first year that Separated Accounts were published (1999) and a more extensive review will be carried out after 3 years i.e. in 2002. Taking into account the Decision Notices issued in 2000 and the Decision Notice which will result from this Consultation, the Director considers that most of the important issues in relation to Accounting Separation have been consulted upon and that the review to be carried out in 2002 will not be extensive.

Following the publication of recent decision notices[6]on Accounting Separation and the ODTR's review of *eircom's* published Separated Accounts and Accounting Documents, the Director has decided to issue this consultation in order to ascertain the industry's views on

---

[5] European Communities (Interconnection in Telecommunications) Regulations, 1998 (S.I. No. 15 of 1998)
[6] ODTR 00/59, ODTR 00/72 and ODTR 01/10

issues that arose as a result of the review and to decide on the future direction of Accounting Separation.

Following the Consultation, the ODTR will publish a Decision Notice; the decisions set out in that decision Notice will have to be incorporated into *eircom's* published Separated Accounts for the year ended 2000/2001.

# 3. Future Direction of Accounting Separation

The aim of accounting separation is to assist in ensuring that charges are cost based, transparent and non-discriminatory, which in turn promotes a competitive environment in a number of ways, including;

(i) helping other operators to understand how the SMP operator's revenues relate to costs,

(ii) building confidence that the interconnection arrangements are equitable and that there is no over or under recovery of the SMP operator's network costs, and

(iii) providing supporting evidence that there is no unfair cross subsidisation taking place.

The Separated Accounts published by *eircom* on 22nd November 2000 were based on a fully allocated cost basis. Currently the figures in the Core Network include non-relevant costs; therefore the figures published in the RIO (which include only relevant costs) are not directly comparable with the figures set out in the Statement of Cost of Network Services in the Separated Accounts. The Director considers it relevant to consider the issue of whether the Separated Accounts should continue to be prepared on a fully allocated basis or on a basis that is directly comparable with the RIO. Decision Notice D9/00 took the initial step in Decision 6.1 which states that "*from 2000/2001 onwards, operating costs for the Core Network shall be the relevant costs as determined or agreed by the Director for the calculation of the rates in the RIO that is applicable to the accounting period. Non relevant costs would be disclosed as a reconciling item in the statement of reconciliation between the Separated Accounts and the Financial Statements.*"

The Director proposes that the format and content of the information set out in the Separated Accounts for the year 2000/2001 would be comparable with the RIO for 2000/2001. This would require that the method for calculating call conveyance and RIO services costs would be incorporated in the Separated Accounts for that year.

There are a number of options available that are set out below; the Director would welcome comments in respect of these options.

(i) The HCA and CCA Separated Accounts would continue to be prepared on a fully allocated cost basis, but an additional Network Statement of Costs and the Statement of Costs of Network Services would be published with adjustments required by the ODTR (these adjustments would be the same as the adjustments that the ODTR require *eircom* to make in respect of Interconnection rates). This has the advantage of continuing to prepare the Separated Accounts on a fully allocated cost basis as well as containing rates that are comparable with the RIO.

(ii) The HCA and CCA Separated Accounts for the Core Network would include adjustments required by the ODTR and the figures relating to the other business units in the accounts would be on a fully allocated cost basis. The difference between the Core Network costs on a fully allocated basis and the adjusted figures would be shown as a reconciling item between the Separated Accounts and the Statutory Financial Statements. This approach is consistent with Decision 6.1 as set out in D9/00.

(iii) All aspects of the Separated Accounts would include adjustments required by the ODTR. The difference between the costs on a fully allocated basis and the adjusted figures would be shown as a reconciling item. This approach would extend the principle set out in Decision 6.1 of D9/00 throughout the Separated Accounts.

*Q 3.1 Do you agree that the format and content of the information set out in the Separated Accounts should be comparable with the RIO for the year 2000/2001 and following years? If you do not agree, please specify your reasons.*

*Q 3.2 Which of the options listed (i) to (iii) above in relation to non-relevant costs do you consider would be the most appropriate? Please explain you reasons.*

*Q 3.3 Do you consider that there are other options? If so, please specify in detail any other options.*

Irrespective of the option mentioned above for the publication of the Separated Accounts, the RIO rates will be calculated using *eircom's* top down and the Industry Advisory Group's bottom up model. The results of the two models will be reviewed together with any other relevant information which will be considered before determining Interconnection rates.

Several examples are set out below which demonstrate the linkages between the RIO and the Separated Accounts:

- If the RIO for 2000/2001 is finalised using different rates for Call Origination and for Call Termination then the Separated Account for 2000/2001 should differentiate between the cost of the two services. Alternatively, if it is concluded in the finalisation of the RIO for 2000/2001 that Call Origination and Call Termination should be the same then the costs of the two services should be the same in the Separated Accounts published for 2000/2001.

- All the RIO services that were published in *eircom's* RIO for 2000/2001 and which use routing factors must have costs included in the Statement of Costs of Network Services in the Separated Accounts for the year 2000/2001. More generally, the calculation of every RIO charge for an existing service should be visible in the Separated Accounts.

These issues are discussed further in this consultation paper and are considered individually.

# 4. Format of the Statement of Costs of Network Services

## 4.1 Two-part Charging

This section considers the subject of two-part charging which has in the past been discussed in relation to the RIO. The effect of using two-part charging is essentially to charge for the set-up of the call (per call cost) and a duration charge (per minute cost). Long duration calls, such as calls to Internet, currently incur higher charges than if there were two-part charging. The converse also applies to short duration calls, such as calls to mobile which would incur a higher cost if there were two-part charging. In so far as call costs can be meaningfully separated between call set-up and call duration, long duration calls subsidise short duration calls in a one-part charging structure. *eircom* have stated in the past that costs associated with call set-up events should be recovered separately by means of per call charges. This would result in splitting the Interconnection tariffs into Call Set-up and Call Duration rather than the current situation where Interconnection charges are set on a per minute basis.[7] The Director acknowledged in D7/00 that the *issue of moving to two-part charging has moved from "if " to "when"*. Set out below is a brief summary of the ODTR's view to date in relation to two-part charging in the context of the RIO.

(i) In document ODTR 98/52[8], the ODTR acknowledged the issue of call set-up costs for both successful and failed calls and the problems surrounding their identification and methods of charging for them. It is possible to charge for these through a call set-up fee or by including the costs in the duration based charges. The ODTR understood that both the call profile of an interconnecting party and assumptions about average call holding times impact upon the balance between call set-up charges and time-based charges.
Having consulted on this issue and considered the responses received, international best practice and such other information as was available to her, the Director was unconvinced of the principle that cost components of switching could be sensibly divided in a *transparent* manner between the cost of call set-up and the cost of conveyance.

Therefore, the Director was of the view that there should be no explicit call set-up component in interconnection charges for the time being in *eircom's* RIO, and that costs associated with call events should be included in the overall cost of conveyance. However, she recognised that there might be a need to revisit the issue at some future date on evidence that the take-up of new services is being jeopardised by the lack of a call set-up charge.

(ii) The Director reconsidered this issue in ODTR 00/13[9] in the context of increasing Internet traffic and the increasing proportion of overall traffic that is made up of Internet calls. Internet calls have different call duration patterns from voice traffic and may be specifically affected by the absence or existence of two-part charging. The Director also noted developments in the UK market on call set-up, where Oftel has concluded that two-part charging interconnection arrangements for number translation service calls would be appropriate in some circumstances.

[7] Directory Enquiry is calculated on a per call basis.
[8] Interconnection Rates in the Irish Telecommunications Sector, (Document No. ODTR 98/52)
[9] Interconnection Rates in the Irish Telecommunications Sector, Status Report, (Document No. ODTR 00/13)

(iii) The ODTR has mentioned in a number of Decision Notices, the possibility of moving towards a two-part charging structure as set out in ODTR 00/31.[10] In that Decision Notice, the Director recognised that the nature of the market has changed and that there has been a marked movement away from the standard call distribution. The emergence of three types of 'standard' call can now be seen; dial-up Internet calls (longer than average), calls to mobile phones (shorter than average) and the original standard call which has a duration of approximately 3 minutes. She recognised that the introduction of two-part call charges should, in light of these observed changing calling patterns, send correct signals to the market concerning the underlying costs driving call charges. However, she was concerned that there is a lack of transparency in how *eircom* would determine its two-part charging rates. She was concerned that *eircom's* internal systems were not mature enough at the time to make a robust estimate of call set-up costs but the introduction of a new cost accounting system should be able to provide robust estimates of call set-up costs.

The Director is now considering the timing for the introduction of this change.

*Q 4.1 Should Two-part charging be introduced from 1st April 2001?If you disagree, please specify your reasons in detail.*

If this is the case, then two-part charging would have to be introduced in the unit costs calculated in the Separated Accounts (HCA, CCA and LRIC).

## 4.2 Differential pricing for Call Origination and Call Termination for Interconnection

In ODTR 00/31 the issue of whether Call Origination and Call Termination should be charged at different rates in the context of setting the RIO rates was discussed. *eircom* argued that there are different cost elements associated with Call Origination compared to Call Termination in terms of network hardware facilities, network capabilities used and the proportion of unsuccessful calls. Therefore the cost based charges for each type of service should be distinguished. *eircom* believed that the current practice of applying a single rate to both Call Origination and Call Termination results in a subsidy from Call Termination to Call Origination. The RIO that *eircom* published in June 2000 did not distinguish between the Call Origination and Call Termination rates but the Separated Accounts published by *eircom* in September 2000 distinguished between the two services. Different routing factors used for Call Origination and Call Termination resulted in different costs being calculated for the two services.

The Director accepted in 98/52 that there may be different costs for Call Origination compared to Call Termination. However the Director believed that *eircom* had not provided further substantial information to support the introduction of separate Call Origination and Call Termination charges at that stage, but wishes to re-evaluate the topic in this consultation exercise.

*Q 4.2 Do you consider that there are material differences in network cost elements used in the provision of Call Origination and Call Termination, please state in detail your reasons.*

[10] *eircom*'s Reference Interconnect Offer, Decision Notice D7/00 & Report on the Consultation, (Document No. ODTR 00/31)

If the finalised RIO for 2000/2001 differentiates between Call Origination and Call Termination then the Separated Accounts for 2000/2001 should differentiate between the two services. Alternatively, if the RIO for 2000/2001 concludes that the two services should not be differentiated then it follows that the Separated Accounts for 2000/2001 should be on a similar basis.

### 4.3 RIO Services

The Director proposes that Decision 4.3.5 of D9/00 is amended so that the RIO services disclosed in the Separated Accounts are the services listed in the RIO which was in operation for the duration of the accounting year and for which routing factors can be calculated. For example, the services listed in the RIO for the year 2000/2001 should be disclosed in the Separated Accounts for the year 2000/2001. The services included in the RIO document can change from year to year. This proposed amendment would have two advantages:

(i) The Decision Notice on Accounting Separation would not have to be changed every year to include the list of RIO services that have to be disclosed in the Separated Accounts.

(ii) *eircom* will know in advance which RIO services have to be disclosed in the Separated Accounts.

*Q 4.3 Do you agree with the proposed amendment to Decision 4.3.5 in respect of the RIO services to be disclosed in the Separated Accounts? If you disagree, please specify your reasons.*

### 4.4 Non Conveyance Costs

Within the heading of non-conveyance costs, *eircom* was required under Decision 4.3.3 of D9/00 to analyse the costs of Carrier Administration and Carrier Billing on a per minute basis in the HCA, CCA and LRIC Separated Accounts. The timeframe for the publication of this information was extended to 15th December 2000 in the Supplemental Information. The information published by *eircom* in the Supplemental Information did not disclose the required information. All of the costs for Carrier Billing and Carrier Administration were allocated to Interconnect Connections and Rental. Non conveyance costs were not analysed in the context of the CCA and LRIC Statements. The reason for this is that, initially, the focus on LRIC calculations will be for basic inland Conveyance Services covering Call Origination, Call Termination and Domestic Transit.

The Director recognised in ODTR 00/16 that the provision of interconnection can result in costs that are over and above the actual cost of conveyance services such as Carrier Administration and Carrier Billing, the cost of which should be recovered to the extent that the costs have been fully justified and identified as being incremental to interconnection and recovered through a per minute charge on all minutes of relevant traffic over the network.

The Director requires data in relation to Carrier Administration and Carrier Billing to be collected in respect of the RIO services that incur Carrier Administration and Carrier Billing costs. These costs should be calculated on an appropriate basis.

*Q 4.4 Do you agree with the Director's position that Carrier Administration and Carrier Billing should be calculated for each relevant RIO service on an appropriate basis? If you disagree, please specify your reasons.*

## 4.5 LRIC Statements

The LRIC statements published by *eircom* complied with the format of the Network Statement of Cost and the Statement of Cost of Network Services as set out in D9/00. *eircom* also published 3 additional statements which were as follows:

(i) Inland Core Conveyance Network – Statement of Costs including CCA Adjustment Distributed LRIC.

(ii) Inland Core Conveyance Network – Statement of Costs including CCA Adjustments Distributed Long Run Incremental Cost plus Recovery of Inter Increment Fixed Costs and Joint Costs.

(iii) Reconciliation of Incremental Cost Results.
This statement summarised the results from the statements mentioned at (i) and (ii) above together with the Inland Core Conveyance Network Statement of Cost Including CCA Adjustments - Long Run Incremental Costs.

The Director proposes that these statements be formally incorporated into the forthcoming Separated Accounts.

*Q 4.5 Do you agree that the LRIC statements mentioned above (i) to (iii) should be included in the Separated Accounts? If you disagree, please state in detail your reasons.*

## 4.6 Routing Factors

The profile of routing factors is influenced by the development of competition and the increasing level of Interconnection traffic from fixed operators. Routing factors represent the weighted average use of local and main switches, the average distance of junction and trunk transmission between switches and between local exchange and remote subscriber units and the average number of links used in transmission.

Decision 9.1.1 of D7/00 requires *eircom* to recover its cost of conveyance based upon "efficient operator" routing principles as applied in the development of the LRIC calculations of routing factors. Routing factors are fundamental to the calculation of Interconnection rates, as they are a measure of the frequency with which particular components are used by each interconnection service. Routing factors depend on the profile of calls generated by an interconnecting party in terms of time of day and location.

During the ODTR's review of the Separated Accounts (HCA, CCA and LRIC) it was noted that the routing factors used in the RIO were different from the routing factors used in the Separated Accounts. The ODTR is aware that there will be differences between *eircom's* forecast routing factors and the actual routing factors published in the Separated Accounts.
Comparison can be made between the expected routing factors as set out in the forecast RIO statement and the routing factors as published in the Separated Accounts. The difference between the two sets of routing factors would be caused by inefficient routing of calls or routing factors used in the RIO which are not representative of the actual routing of calls within the network.

All services sold by the Core Network to OLOs or to Retail are built up from a combination of one or more network components using routing factors. Currently, the routing factors used in the RIO are based on "efficient operator" principles whereas the routing factors in the Separated Accounts are the actual routing factors generated from samples.

*Q 4.6 Should routing factors used in the Separated Accounts be the same as the routing factors used in the RIO which was in operation for the relevant accounting year? please specify your reasons.*

## 4.7 Transit Rates

Currently, *eircom* charges a single rate for all calls transiting their network. Various operators have commented that different types of call have different paths through the *eircom* network and utilize very different amounts of equipment. To reflect this it would be possible to subdivide the existing single transit call category into three types:

- Geographic call transit
- Non – geographic call transit
- Transit calls to mobile

In addition *eircom* are being called upon to handle peak hour overflow traffic on transit routes. Priced at the average transit rate, *eircom* say that this traffic under-recovers its costs the burden being transferred to other transit traffic and *eircom's* retail traffic. This could be avoided by further subdividing transit call charges into:

- First choice route transit calls
- Second choice route transit calls

Each choice category could be applied to each call category creating six charge rates

*Q 4.7.1 Should the existing single Transit call charge be split into the following:*

- *Geographic call transit*
- *Non – geographic call transit*
- *Transit calls to mobile*

*Please specify you reasons.*

*Q 4.7.2 Should the existing single Transit call charge be split into the following:*

- *First choice route transit calls*
- *Second choice route transit calls*

*Please specify you reasons.*

*Q 4.7.3 If Transit Call charges are to be split, from what date should this split be introduced?*

## 4.8 International Calls

In earlier RIO consultation exercises and subsequently *eircom* have represented that they are not dominant in the wholesale/interconnect market for International Call conveyance because their market share is currently almost zero. They have indicated a desire to offer services at a price below that arrived at after including gross international accounting rates as part of the cost base for the call.

*Q 4.8.1 Do you consider that eircom should publish a RIO price for International Calls including the gross international accounting rate as part of its cost base?*

*Q 4.8.2 Do you agree that eircom should be able to offer de-averaged rates for conveyance of International Calls.*

## 4.9 Gradients

In D7/00 the Director considered the relative merits of:

- Backward looking or Historical retail gradients
- Contemporaneous (real-time) gradients that are adjusted as retail prices change
- Forward looking gradients based on expected future retail traffic

She concluded that although there was merit in the concept of contemporaneous gradients the practical implementation of such a system had not yet been fully explored. The Director decided that a backward looking system should be adopted for the time being and she invited industry to provide views on the advantages and disadvantages of real-time gradients together with how the system would work in practice.

The main difficulty with the contemporaneous gradients would be caused by *eircom* changing its retail prices during the year. It may be onerous to require changes to be made to the retail and interconnection gradients every time a price change occurs. The Director suggested that it may be sufficient to change gradients at regular intervals, say every six months. The other issue of concern is that numerous changes to gradients would cause uncertainty for OLOs.

*eircom* have represented that changes which were not matched by changes to the interconnect price gradients has created some anomalies. They propose that contemporaneous interconnect gradient regime be adopted for substantial price changes to prevent a recurrence.

*Q 4.9.1 Do you consider that a contemporaneous (real time) system of interconnect price gradients should now be adopted? Please state in detail your reasons.*

*Q 4.9.2 If a contemporaneous system of interconnect price gradients were to be adopted, how would it work in practice?*

## 4.10 Primary to Tertiary Link

The Separated Accounts published by *eircom* for the year ended 31st March 2000 included an additional network element called a "Primary to Tertiary" link. This is as a result of a change in *eircom's* network structure which routes traffic between the primary and tertiary node. The Director proposes that the RIO forecasts included in the Separated Accounts should also include this "Primary to Tertiary" link so that comparisons can be made between the RIO and the Separated Accounts. The Director suggests that the format of the Statement of Costs of Network Services be amended to include this link.

*Q 4.10 Do you agree that the RIO Forecast included in the Separated Accounts should use the "Primary to Tertiary" link in calculating costs? If you disagree, please state in detail your reasons.*

## 4.11 Double Tandem

The RIO which is currently in operation (ODTR 00/31) for the year 2000/2001 does not distinguish between Double Tandem > 50km (long) and Double Tandem < 50km (short). The previous RIO (ODTR 99/54)[11] offered both Double Tandem long and short. These services are a subdivision of Call Termination and Call Origination. The RIO is based on the expected handling of traffic. The switching for Double Tandem short (<50km) is similar to that for Single Tandem. Therefore the Double Tandem short option was eliminated from the RIO charges set in June 2000 which reverted to a single Double Tandem charge. The Director suggests that the Separated Accounts for 2000/2001 should be presented on a basis similar to the RIO which was in operation for 2000/2001 i.e. there is only one set of costs for Double Tandem.

*Q 4.11 Do you agree that the Statement of Costs of Network Services should only include one set of costs for Double Tandem (Call Origination and Call Termination)? i.e. the distinction between Double Tandem long and short should be eliminated in the Separated Accounts. If you do not agree, please state in detail your reasons.*

## 4.12 Retail Services

The Director proposes that Internet Service Supply and Leased Lines be excluded from the Statement of Cost of Network Services, on the basis that these services are not sold on a per minute or per call basis.

*Q 4.12 Do you agree that Internet Service Supply and Leased Lines should be excluded from the Statement of Costs of Network Services? If you disagree, please specify your reasons.*

## 4.13 Payphones

The format adopted in Payphones treats *eircom's* retail arm on the same basis as external competition and shows the transfer from *eircom's* retail calls at the wholesale rate applicable to external operators. Whilst this presentation directly addresses the issues of discrimination, cross subsidy and fair competition, it presents an incomplete picture in relation to assessing the extent of *eircom's* universal service obligations.

To address this second issue, the Director proposes that a memorandum note be added to the payphone statements indicating the level of returns achieved by public payphones, including the returns earned elsewhere in Retail, Access and the Core Network.

*Q 4.13 Do you agree with the proposal that eircom be required to produce a memorandum to the payphone services as specified. If you wish to add to the specification, or you disagree with it, please give your reasons.*

[11] Telecom Eireann's Reference Interconnect Offer, Decision Notice D12/99, (Document No. 99/54)

# 5. Boundary between Local Access Network and Core Network

This section of the consultation considers the boundary between the Local Access Network and the Core Network. The ODTR has considered this issue in a number of Consultations issued in the past in particular ODTR 99/17,[12] which focused on the calculation of Long Run Incremental Costs for Conveyance services and ODTR 99/10[13] that focused on the definition of Local Access Network and Core Network for Accounting Separation.

The Director considers it relevant to obtain the industry's view at this time in relation to the boundary between the Local Access and the Core Network given the importance of the issue which arose when the ODTR reviewed *eircom's* Separated Accounts for the year ended 31st March 2000.

In preparing the HCA Separated Accounts for 1999/2000, *eircom* included only *'a share of line cards and ports located at concentrators and/or exchanges'* whilst the definition in the Decision Notice D5/99 and the Separated Accounts for the year ended 1st April 1999 included the entirety of "*line cards and ports located at concentrators and/or exchanges"*. The first set of Separated Accounts for the year ended 31st March 2000 did not conform to Decision Notice D5/99.

*eircom* claimed that the treatment of the line card in the Separated Accounts was underscored by manufacturing studies that suggested that a portion of the line card costs should be attributed to the Core Network.

The ODTR requested *eircom* to restate the HCA Separated Accounts on the basis of the decision set out in D5/99. This *eircom* undertook to do, and the restated HCA Separated Accounts were republished on 22nd November 2000.

The Director would like to reconsider the issue of where the boundary lies between the Core Network and the Local Access Network in light of changing technology and developments. Appendix II sets out the original definition for the Local Access Network and the Core Network as set out in ODTR 99/10.

*Q 5.1 Do you agree with the definition of the Core Network as set out in Appendix II? If not, what is a suitable definition of the Core Network?*

*Q 5.2 Do you agree with the definition of the Local Access Network as set out in Appendix II? If not, what is a suitable definition of the Local Access Network?*

# 6. Notional Debtors/Creditors

The subject of whether the Notional Debtors/Creditors should be specifically excluded from the Separated Accounts is discussed below. In the past, this issue has mainly been discussed

[12] The Development of Long Run Incremental Costing for Interconnection, Consultation Paper, (Document No. ODTR 99/17)
[13] Accounting Separation and Publication of Financial Information for Telecommunications Operators, Consultation Paper, (Document No. ODTR 99/10)

in the context of setting Interconnection rates. Set out below, is a brief summary of the issues discussed and the conclusions reached.

**Interconnection**

(i) In ODTR 98/52 the subject of whether Notional Debtors/Creditors should be excluded was considered and it was decided that Notional Debtors should be excluded in the calculation of capital employed for the network business. Decision 4.7 prohibits *eircom* from including these assets and liabilities in its calculation of RIO rates.

(ii) Also in ODTR 00/31, Decision 8.3.1 specifically states that Notional Debtors are removed in the calculation of Customer Sited Interconnection circuits.

**Separated Accounts**

The issue of excluding Notional Debtors in an Accounting Separation context has not been discussed previously. The Director therefore considers it relevant that the subject is discussed at this time. The ODTR requested *eircom* to separately disclose Notional Debtors/Creditors within each business unit balance sheet in the unaudited Supplemental Information that *eircom* published on 15th December 2000.

The Director is of the view that Notional Debtors/Creditors should be excluded in the Separated Accounts for the following reasons: -

(i) Notional Debtors/Creditors are specifically excluded in the RIO calculations. If the Separated Accounts are to be prepared on a basis comparable with the RIO, then it is necessary to exclude Notional Debtors/Creditors.

(ii) The inclusion of Notional Debtors/Creditors within the Separated Accounts can make business units appear as if they are making a greater loss than in reality, due to the transfer charge from the Core Network and Local Access Network being inflated by the inclusion of Notional Debtors within those networks. Also some retail business units have negative working capital which is partly caused by the inclusion of Notional Creditors which is as a result of the business unit "buying" from the Core Network or Local Access Network.

(iii) Notional Debtors/Creditors are an artificial figure that can be calculated on an arbitrary basis.

*eircom* claim that the Accounting Separation regime is designed to present financial reports of various businesses and activities as though they were separated entities. A key feature of this arrangement is that transactions between these businesses and activities are presented on a consistent and non-discriminatory basis for transactions with other operators. Transactions with other operators are conducted on a normal commercial basis with specific credit and settlement terms, whereas similar transactions between *eircom* businesses and activities are simple book transactions that do not involve any credit or settlement terms. The creation of Notional Debtors/Creditors is a device to present transactions, within *eircom* and to other operators, on the same basis by applying the settlement terms applicable to other operators to *eircom's* businesses and activities. The creation of Notional Debtors/Creditors is a way of presenting sales to *eircom* retail business and other operators on a similar basis and at the same cost/price.

The inclusion/exclusion of Notional Debtors/Creditors is largely determined on whether Industry believes that the HCA Separated Accounts should be prepared on a basis similar to the RIO calculation. If that were the case then the Notional Debtors/Creditors would have to be excluded from the Separated Accounts.

*Q 6.1 Do you agree that Notional Debtors/Creditors should be excluded from the Separated Accounts to ensure consistency of treatment with the method of calculating RIO charges? If you disagree, please state in detail your reasons.*

*Q 6.2 If you consider that Notional Debtors/Creditors should be included in the Separated Accounts, how should the figures be calculated?*

*Q 6.3 Do you consider that Notional Debtors/Creditors should only be separately disclosed as unaudited Supplemental Information in the published HCA Separated Accounts?*

# 7. Disaggregated Activities

## 7.1 Definitions

It was mentioned in ODTR 99/35 that the list of Disaggregated activities might have to be reviewed to take account of technological and commercial developments. The Director would like to review the list of disaggregated activities set out in Appendix III in the light of relevant market growth, or changes in products offered by *eircom.* The list of disaggregated activities are based on the disaggregated activities included in Appendix III of ODTR 99/35 and ODTR 99/52.

*Q 7.1 Do you agree with the list of disaggregated activities set out in Appendix III? What disaggregated Activities do you consider should be included/excluded, and what is your reasoning for this? What is your definition of any additional disaggregated activities?*

## 7.2 Internet Service Provision

In D9/00, a consultation was issued in respect of Internet Service Provision (ISPs) that focused on whether ISPs should be disclosed in the Separated Accounts and what activities should be included in the ISP business unit. The ODTR issued ODTR 01/10 in February 2001, which proposed to offer interested parties the opportunity to contribute further to the issue of ISP within the Separated Accounts in this consultation. Therefore the questions included in D9/00 are repeated here.

*Q 7.2.1 Do you agree that an ISP business unit should be separately disclosed in the Separated Accounts?*

*Q 7.2.2 What activities should be included in the ISP business unit?*

# 8. Capital Attribution for the purpose of calculating Return On Capital Employed

At present *eircom* calculates a Return on Capital Employed (ROCE) for each business unit that is based on the working capital attributable to that business unit. Where the entity in question is a discrete organisational unit, such as a subsidiary, the results are meaningful. The ROCE calculated for disaggregated Retail activity can be less meaningful. Part of the capital is apportioned on an appropriate basis as the structure of the disaggregated business units do not reflect the way in which the statutory accounting records are maintained.

Many of the disaggregated Retail businesses have negative Mean Capital Employed partly due to the distortions introduced by Notional Debtors/Creditors. Negative Mean Capital Employed results in a meaningless ROCE irrespective of whether the return is positive or negative.

Appendix IV recalculates two ROCE figures. Both methods recalculate the return using the Turnover and Operating Costs in the HCA Separated Accounts that were published in November 2000. Certain costs have been excluded such as Exceptional Operating Costs, Exceptional Transfer Charge from the Core Network and Exceptional Transfer Charge from the Local Access Network.

The first ROCE calculation uses the Mean Capital Employed per the published HCA Separated Accounts. The second calculation of ROCE uses the existing Mean Capital Employed in the Retail activity plus a reallocation of the Mean Capital Employed from the Local Access and Core Network to the various Retail activities. The Core Network and Local Access Network Mean Capital Employed is reallocated to Retail activities in proportion to the level of Transfer Charges from the Access and/or Core Network.

The restated values show positive ROCEs when returns are positive and vice versa. They also give a more reasonable indication of the level of return on capital being achieved in relation to the total quantity of Mean Capital Employed involved in providing these Retail services.
The purpose for the disclosure of this additional ROCE is to redistribute the Mean Capital Employed from the Local Access/Core Network to the Retail business units that use the Local Access/Core Network as evidenced by the Transfer Charges from the Local Access and Core Network to the Retail businesses.

*Q 8.1 Do you agree that the publication of an additional ROCE in the format of Appendix IV increases the transparency of the Separated Accounts? If you disagree, What is the basis for your opinion.*

*Q 8.2 Do you agree that the attribution of the Core Network and the Local Access Network Mean Capital Employed on a pro-rata basis to the Transfer Charge from the Core Network and or Local Access Network is an adequate mechanism for this purpose? If you disagree, please specify you reason and suggest an alternative approach.*

# 9. Supplemental Information

*eircom* published HCA Supplemental Information on 15th December 2000 in response to D10/00. The Director gave *eircom* this derogation based on *eircom's* commitment to having developed its systems to support the provision of this information for the year ended 31st March 2001. The Director was disposed to allow additional time for publication in the year 2000 only. The Director received representation from *eircom* to the effect that some of the data required could not be presented in the Separated Accounts, due to the extensive development work required on *eircom's* accounting system to capture this data. *eircom* stated that this development work has commenced with a view to having this information in place for future Separated Accounts.

The Director requires that the information published in the HCA Supplemental Information should be incorporated into the Accounting Document and the HCA Separated Accounts with comparative figures where appropriate.

The fact that *eircom* will have sufficient time to incorporate any changes which will result from this Consultation Paper into their cost accounting system should negate the necessity to publish Supplemental Information.

## 9.1 Network Statement of Costs

*eircom* published in the Supplemental Information the required information in respect of the Network Statement of Costs in terms of National Operator Assistance, International Operator Assistance, Carrier Administration, Carrier Billing and Intelligent Network. This information should be incorporated into the HCA Separated Accounts for 2000/2001.

## 9.2 Forecast Statements

In D9/00, the Director stated that the transparency of Interconnection charges would be aided by the publication of a forecast Network Statement of Costs and a forecast Statement of Costs of Network Services which would set out the relevant forecast costs used in calculating the interim RIO rates currently in force. *eircom* published this information in the Supplemental Information. The Director acknowledges that the publication of the Forecast Network Statement of Costs that contains projected traffic volumes is commercially confidential. Therefore Decision 6.2 of D9/00 which requires *eircom* to publish a forecast Network Statement of Costs will be amended in the forthcoming decision notice.

## 9.3 Payphone Access Charge

Decision 4.3.5. of D9/00 required *eircom* to separately identify a number of network elements, which included a payphone access charge. *eircom* included a statement in the Supplemental Information but the information disclosed could be presented in a more useful format. *eircom* published figures in respect of what the payphone access charge would have been, if the service had been in operation at 31st March 2000. The Director would like comments in respect of the template set out in Appendix V, the format and content of which is similar to the Direction[14] issue by the ODTR in respect of the agreed Payphone Access Charge.

*Q 9.3 Do you agree with the format and content of the template for Payphone Access Charge included in Appendix V? If not, what additional information should be included or what information should be excluded? Please specify in detail.*

[14] Information Notice, Direction to *eircom* on Payphone Access Charge (Document No. 00/33)

## 9.4 Number Translation Codes

Decision 4.3.5 of D9/00 required *eircom* to separately identify retail costs applicable to Number Translation Code (NTC) Services. The Director would like comments in respect of the template set out in Appendix VI, the format and content of which are based on the decision set out in ODTR 00/17.[15]

*Q 9.4 Do you agree with the format and content of the template for Number Translation Codes included in Appendix VI? If not, what additional information should be included or what information should be excluded? Please specify in detail.*

[15] Interconnect for calls destined for Internet services and Number Translation Codes, Decision Notice D4/00, (Document No. 00/17)

# 10. Local Loop Unbundling and the Separated Accounts

The development of the Local Loop Unbundling (LLU) regime will have an impact on the format and content of the Separated Accounts. An Access Network Statement of Cost and a Statement of Cost of Access Network Services will have to be published. The Director would welcome comments on the templates set out in Appendix VII and VIII.

*Q 10.1 Do you agree with the format and content of the Access Network Statement of Costs set out in Appendix VII? If you disagree, what additional information should be disclosed? Please specify in detail.*

*Q 10.2 Do you agree with the format and content of the Statement of Costs of Access Network Services set out in Appendix VIII? If you disagree, what additional information should be disclosed? Please specify in detail.*

# 11. Timeframe for the publication of the Separated Accounts

The Director is of the view that for Accounting Separation to be effective the information must be published in a timely manner. However, the publication of information that has been inadequately and not properly prepared would lessen the value of the Separated Accounts process and fail to meet the aims and objectives set out in Section 2 of this consultation paper. The Director proposes that Decision 4.1.1. of D9/00 should continue, this decision stipulates that the "*HCA separated Accounts must be published within 2 months after the date on which the SMP operators annual statutory financial statements are published and, in any event, within 4 months after the end of the period to which they relate. CCA and LRIC Separated Accounts are to be published within 6 months after the end of the period to which they relate*."

*eircom* were able to produce the Separated Accounts for the year ended 31st March 2000 within the timeframe set out in the Decision 4.1.1. while concurrently implementing a new cost accounting system. That decision gave *eircom* an extension to the timeframe for publishing the Separated Accounts for the year ended 31st March 2000 to take account of the resource constraint which was imposed as a result of the implementation of a new cost accounting system. Since the cost accounting system is now in operation there seems no justifiable reason to continue with the extended timeframe for publication. The Director's current position is that the timeframe set out in Decision 4.1.1 should stand.

The Director suggests that draft HCA, CCA and LRIC Separated Accounts should be submitted to the ODTR one-month prior to the required publication date. The Director understands that these figures may be subject to change. The following dates are being proposed for *eircom* to submit draft accounts to the ODTR.

- Draft HCA Separated Accounts to be submitted to the ODTR by 30th June.
- Draft CCA and LRIC Separated Accounts to be submitted to the ODTR by 31st August.

Also the Director suggests that a copy of the Accounting Document is submitted to the ODTR prior to the submission of the draft Separated Accounts.

*eircom* have requested a derogation to forego the preparation and submission of the 2000/2001 half-yearly separated accounts on the grounds that the time and effort required to produce the half year results will significantly impact on *eircom's* ability to produce timely and accurate full year accounts. Given the work that *eircom* is carrying out in order to improve its accounting systems and the current time constraints the Director is considering whether to grant a derogation in respect of the half-yearly Separated Accounts and would welcome comments from interested parties. However, she is also of the view that the timetable for the production of the full year 2000/2001 financial information as outlined in Decision Notice D9/00, must be adhered to.

*Q 11.1 Do you agree with the proposed timeframe for publishing HCA, CCA and LRIC Separated Accounts? If you disagree, what is your basis for your proposed timeframe?*

*Q 11.2 Do you agree with the proposed timeframe for submitting draft HCA, CCA and LRIC Separated Accounts to the ODTR? If you disagree, what is your basis for your proposed timeframe?*

*Q11.3 Do you agree that eircom does not need to produce the half-year accounts for 2000/2001. If you disagree, what is your basis for disagreement?*

# Appendix I - Legislative Background

There is a range of relevant legislation in this area; the most relevant of which is summarised below:

**Interconnection Legislation:**

- *Council Directive 97/33/EC on interconnection in Telecommunications with regard to ensuring universal service and interoperability through application of the principles of Open Network Provision (ONP) and*

- *The European Communities (Interconnection In Telecommunication) Regulations, 1998, SI No. 15 of 1998, transposing the above directive.*

**Accounting Separation**
This legislation states that organisations providing public telecommunications networks and/or publicly available services and which have been designated by the Director as having SMP, and which offer interconnection services to other organisations are required to keep separate accounts for their activities relating to interconnection and 'other activities'. These accounts should identify all elements of cost and revenue, 'with the basis of their calculation and the detailed attribution methods used, related to their interconnection activity including an itemised breakdown of fixed asset and structural costs.'

NRA's "may publish such information as would contribute to an open and competitive market, while taking account of considerations of commercial confidentiality."

**Interconnection (obligation on operators with SMP in the fixed market)**

- interconnection charges should follow the principles of transparency, non-discrimination and cost-orientation;
- the Director may direct an organisation to justify its charges and to adjust these charges where they are not in compliance with these principles;
- the burden of proof lies on the organisation providing interconnection;
- a RIO shall be published and the Director may direct changes to this offer;
- interconnection charges shall be sufficiently unbundled, so that applicants are not required to pay for anything not strictly related to the service requested.

**Voice Telephony Legislation**

- *Council Directive 98/10/EC on the application of open network provision (ONP) to voice telephony and on universal service for telecommunications in a competitive environment, and*

- *European Communities (Voice Telephony and Universal Service) Regulations, 1999, SI No. 71 of 1999, transposing the above directive and Directive No. 97/33/EC*

This legislation states that an organisation with SMP, which has an obligation for its tariffs to follow the principles of transparency and cost orientation in accordance with the legislation, shall operate and maintain a cost accounting system based on generally accepted accounting practices and which is suitable for compliance with the legislation's requirements.

Compliance by an organisation with the cost accounting system referred to in the above paragraph shall be verified by a person or body independent of the organisation and selected by the organisation with the prior approval of the Director.

The Director may issue directions establishing standards for cost accounting systems required pursuant to this legislation and an organisation subject to this legislation shall comply with any such directions.

**Leased Lines**

- *Council Directive 92/44/EC on the application of open network provision to leased lines as amended by 94/439/EC and Directive 97/51/EC*

- *European Communities (Leased Lines) Regulations, 1998, SI No. 109 of 1998, transposing the above directive*

This legislation states that, for SMP or notified operators, tariffs for leased lines must follow the basic principles of cost orientation and transparency, and are independent of the type of application, which the users of the leased lines implement. A notified[16] organisation shall operate and maintain a cost accounting system suitable for the implementation of these and other principles set out in the legislation.

**Licence Condition**

*Pro Forma General Telecommunications Licence (ODTR Document No. 98/50R)*

Condition 15 of the General Telecommunications Licence applies to organisations that have been designated as having SMP in the fixed telephone network and services market. The condition provides, inter alia, that the licensee shall maintain accounting records in a form which enables the activities of any business unit specified in any direction given by the Director to be separately identifiable, and which the Director considers to be sufficient to show and explain the transactions of each of those business units.

**European Commission Recommendations**

In addition, the Commission has published recommendations on the pricing of interconnection as well as on costing methods that could be used to calculate such prices. The relevant documents are:

*Commission Recommendation of 8 January 1998 on interconnection in a liberalised telecommunications market (as amended) – Part 1 Interconnection Pricing (98/195/EC as amended by 98/511/EC)*

This Recommendation states that interconnect costs should be calculated on the basis of forward-looking long run average incremental costs since these costs closely approximate those of an efficient operator employing modern technology.

*Commission Recommendation of 8 April 1998 on interconnection in a liberalised telecommunications market – Part 2 – Accounting separation and cost accounting (98/322/EC)*

This Recommendation concerns the implementation of accounting separation and cost accounting systems by operators designated by their NRA as having significant market power in accordance with Article 8(2) of Directive 97/33/EC for implementation of interconnection obligations, with particular regard to the principles of transparency and cost orientation.

[16] An organisation directed by the Director to provide at any point within a specific geographic area, a type of leased line that is specified in Annex II, as amended by Article 1 of Commission Decision 94/439, of Council Directive 92/44.

The Commission Recommendation (the “recommendation”) suggests that notified operators provide a disaggregation of their operating costs, capital expenditure and revenue into at least the following main business areas: -

-Core Network (Transmission and Switching)

-Local Access Network (Local Loop infrastructure)

-Retail

-Other Activities

The recommendation also states that disaggregated accounts within the above main business areas may be considered appropriate by NRAs, having regard to the transparency and competitive requirement of national and /or community law.

# Appendix II - Definitions of Business Areas

**Core Network**
The Core Network business provides a range of interconnection services internally and externally in order to allow the customer of one operator to communicate with customers of the same or another operator, or to access services provided by another operator. These services include the switching and conveyance of calls.
In addition, the Core Network business may provide other services to operators e.g. engineering services related to the development and maintenance of private networks.
The accounts for the Core Network business will include the costs; revenues and capital employed associated with the provision of these services. The revenues of the Core Network business will derive principally from the sale of interconnection services to the Retail business and to other operators.

**Local Access Network**
The Local Access Network provides connections to the Core Network. The accounts for the Local Access Network business will include the costs and capital employed associated with providing and maintaining these connections.
For accounting separation, the Local Access Network business will include all the customer-dedicated components of the network including, for example, the line cards and ports located at concentrators and/or exchanges.
The Core Network business will include all other network components. Customer line rental will be a service provided by the Retail business. The revenue from line rental provided to end users will therefore be recorded in the Retail accounts. The cost of providing customer lines will be recorded against the Local Access Network business and there will be a transfer charge of costs to the Retail business in order to match revenues with their associated costs. The costs transferred to Retail should be net of any possible local access revenue.

# Appendix III - Definitions of Disaggregated Activities

**Retail – Access**

The business relating to the supply of customer line rental and its associated costs.

**Retail – Local Calls**

Local dialled calls originating from ordinary, ISDN and private payphone telephone exchange lines.

**Retail – National Calls**

Dialled calls charged at regional and national tariff rates originating from ordinary, ISDN and private payphone telephone exchange lines.

**Retail – Calls To Mobile**

Dialled calls originating on ordinary and private payphone lines that terminate on a mobile, not fixed, network.

**Retail – International Calls**

Continental, Intercontinental calls and Northern Ireland calls originating from ordinary, ISDN and private payphone telephone exchange lines. This also includes receipts from overseas telecommunications operators and cashless calling.

**Retail – Directory Enquiry**

Inland and international calls placed with the operator to obtain information about Irish and overseas telephone numbers, whether made from business or residential telephone exchange lines or from public payphones and includes calls made to the Directory Enquiry database.

**Retail – Leased Lines**

Business of rental, maintenance, connection and change of inland and international leased lines beyond customers' premises and which have access to the public switched network (PSTN).

**Retail – Public Payphones**

Local, national and international dialled calls, originating from public payphones, using cash, phone cards or credit cards.

# Appendix III (Contd.)

**Retail – Calls to Internet**

Calls to the Internet originating from ordinary and ISDN telephone exchange lines.

**Retail – Internet Services Supply**

The business relating to the supply of Internet services

**Retail – Supplemental Services Business**

The Business relating to the supply of certain data and value added services.
Examples of these services are data networks, messaging services, mobile messaging communications, fax network services, electronic information services, broadcast and visual services, internet multimedia services, managed answering services and telemarketing.

**Retail – Remaining Activities**

All other telecommunications services that are within the Retail Business.

**Other – Apparatus Supply**

The Business relating to the rental, sale and maintenance of customer premises equipment in the Republic of Ireland.

**Other – Remaining Activities**

All other remaining activities.

**Other- Subsidiary Activities**

Subsidiary activities for accounting separation purposes should comply with the definition as outlined in the Companies Acts, 1963 to 1990, the European Community (Companies: Group Accounts) Regulations, 1992 and relevant Accounting Standards. For Accounting separation purposes the following subsidiaries need not be disclosed separately: -

- Non trading subsidiaries;
- Subsidiaries not offering licensable telecom services within Ireland.

# Appendix IV - Capital Attribution for the purposes of calculating ROCE

| | Total Retail | Access | Local Calls | National Calls | International Calls | Calls to Mobile | Directory Enquiry | Leased Lines | Public Payphones | Calls to Internet | Internet Services Supply | Supplemental Services |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Turnover | 1,364,464 | x | x | x | x | x | x | x | x | x | x | x |
| Total Operating costs | 1,611,132 | x | x | x | x | x | x | x | x | x | x | x |
| **Less:** | | | | | | | | | | | | |
| Exceptional Operating Costs | (53,221) | (x) | (x) | (x) | (x) | (x) | (x) | (x) | (x) | (x) | (x) | (x) |
| Exceptional Transfer Charge from Core Network | (41,957) | | (x) | (x) | (x) | (x) | (x) | (x) | | (x) | | (x) |
| Exceptional Transfer charge from Access Network | (301,341) | (x) | | | | | | (x) | | | | |
| Recalculated Return | 149,851 | x | x | x | x | x | x | x | x | x | x | x |
| Mean capital employed | 81,148 | x | x | x | x | x | x | x | x | x | x | x |
| ROCE per above figures | 185% | % | % | % | % | % | % | % | % | % | % | % |
| ROCE after Capital Attribution | 13% | % | % | % | % | % | % | % | % | % | % | % |
| **Access** | | | | | | | | | | | | |
| From other Operators | | | | | | | | | | | | |
| Transfer to retail | 523,100 | x | - | - | - | - | - | x | - | - | - | - |
| Mean capital Employed | 806,714 | | | | | | | | | | | |
| Attributed capital | 806,714 | x | - | - | - | - | - | x | - | - | - | - |
| **Core Network** | | | | | | | | | | | | |
| From Other Operators | 94,808 | | | | | | | | | | | |
| Transfer to retail | 477,107 | - | x | x | x | x | x | x | - | x | - | x |
| Mean capital Employed | 372,610 | | | | | | | | | | | |
| Attributed capital | 310,841 | - | x | x | x | x | x | x | - | x | - | x |

# Appendix V - Payphone Access Charge

**Allowable Costs for Payphone Access Charge**

| | € 000's |
|---|---|
| **Operations** | x |
| | |
| **Other Operating Costs** | |
| Data Processing | x |
| Office Equipment | x |
| Office Supplies | x |
| Payphone Kiosk Clean | x |
| Training | x |
| Eircell Charges | x |
| | |
| **Network Costs** | |
| Installation | x |
| Maintenance | x |
| Connection Fee | x |
| Line Rental | x |
| Cost Centre Allocated Costs | x |
| District and Corporate Overheads | x |
| | |
| **Depreciation** | |
| Kiosks | x |
| Information Systems | x |
| Accommodation | x |
| District Overheads General | x |
| Transport | x |
| | |
| **Total Allowable Costs for Payphone Access Charge** | X |
| | |
| **No. of Traffic Minutes** | M |
| | |
| **Average Cost per Traffic Minute in cents** | X/M |

# Appendix VI - Retail Costs applicable to Number Translation Codes

| **Allocated to Number Translation Code Services** | **Number of Calls** | **Call Related Costs** | **Revenue Related Costs** | **TOTAL Costs** |
|---|---|---|---|---|
| | | **€** | **€** | **€** |
| Access to Premium Rates Services | x | x | x | X |
| Access to Freefone Services | x | x | x | X |
| Access to Shared Cost Timed Services | x | x | x | X |
| Access to Shared Cost Fixed Services | x | x | x | X |
| Chargecard | x | x | x | X |
| Retail costs included in Number Translation Code Services | | | | **X** |

# Appendix VII - Access Network Statement of Costs

| For the year ended dd mm yyyy | Operating Costs €'000 | Exceptional Costs €'000 | Mean Capital Employed €'000 | Rate of Return % | Capital Costs €'000 | Total Operating and Capital Costs €'000 | Volume (Line Equivalents) | Cost per Line Equivalent |
|---|---|---|---|---|---|---|---|---|
| ***Line Sensitive*** | | | | | | | | |
| Subscriber Unit | x | x | x | x | x | x | x | x |
| DSLAM | x | x | x | x | x | x | x | x |
| Line Splitter | x | x | x | x | x | x | x | x |
| ***Non-Length Dependant*** | | | | | | | | |
| Main Cable Network | x | x | x | x | x | x | x | x |
| Distribution Cable Network | x | x | x | x | x | x | x | x |
| ***Length Dependant*** | | | | | | | | |
| Main Cable Network | x | x | x | x | x | x | x | x |
| Distribution Cable Network | x | x | x | x | x | x | x | x |
| Drop Wire | x | x | x | x | x | x | x | x |

# Appendix VIII - Statement of Costs of Access Network Services

| **For the year ended dd mm yyyy** | **Line Sensitive** | | | **Non-Length Dependent** | | **Length Dependent** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subscriber Unit | DSLAM | Line Splitter | Main Cable Network | Distributed Cable Network | Main Cable Network | Distributed Cable Network | Drop Wire | Co-Location |
| Average Cost/Line Equivalent | x | x | x | x | x | x | x | x | |
| Total Cost | x | x | x | x | x | x | x | x | |
| **Usage factors** | | | | | | | | | |
| **Retail Services** | | | | | | | | | |
| Access Lines PSTN | x | x | x | x | x | x | x | x | |
| Access Lines ISDN | x | x | x | x | x | x | x | x | |
| Analogue Leased Lines 2 Wire | x | x | x | x | x | x | x | x | |
| Analogue Leased Lines 4 Wire | x | x | x | x | x | x | x | x | |
| Digital Leased Lines | x | x | x | x | x | x | x | x | |
| **Wholesale Services** | | | | | | | | | |
| Bitstream | x | x | x | x | x | x | x | x | |
| Physical Access | | | | | | | | | |
| Full | x | x | x | x | x | x | x | x | |
| Sub-loop | x | x | x | x | x | x | x | x | |
| Line Sharing | x | x | x | x | x | x | x | x | |
| Co-Location | | | | | | | | | x |