

Office of the Director of  
**Telecommunications  
Regulation**

**Interconnection in Ireland  
eircom's Reference Interconnect Offer and  
Interim Rates 1 April 2000 to 31 March 2001**

**Status Report**

**Document No.**

**ODTR 00/46**

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**Oifig an Stiúirthóra 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](http://www.odtr.ie)

## Introduction

Interconnection is vital to the efficient operation of a competitive telecommunications environment. eircom as an operator with significant market power has particular obligations under the European Communities (Interconnection in Telecommunications) Regulation, 1998<sup>1</sup> (as amended). These include the obligation to publish an appropriate reference interconnections offer (RIO) and to include rates that are justified as being cost-oriented. The Director of Telecommunications Regulation (the Director) has powers to ensure that the RIO and the rates it contains are prepared in accordance with the legislation.

This document provides a status report on developments to the RIO and key interconnection rates. The highlights are as follows:

- eircom published revised text to the RIO on 27 June. Having reviewed this text against previous decision notices, the current RIO and the requirements of the law, the Director considers this text to be an appropriate basis for interconnection in Ireland given current market conditions.
- eircom has been directed to publish new interconnection rates for key conveyance services. These interim rates are a further reduction of 16% (based on a weighted average of calls of different type and the 24 hour rate) on the interim rates set out in ODTR 00/15. They will apply from 1 April 2000, will run until 31 March 2001 and are subject to finalisation.

This report sets out the work undertaken by ODTR and summaries the reasoning behind key decisions. It also describes items of work still outstanding and the actions ODTR intends to put in place to resolve these.

## Background

A chronology of events is included in Annex A to this report. This details the sequence of activities leading up to the submission by eircom of a draft RIO that included proposed new rates on 22<sup>nd</sup> May 2000 as was required by ODTR D7/00. Annex B outlines the legal background.

D7/00 indicated the requirement for a revised RIO including rates to be published by 27<sup>th</sup> June and the Director has consistently been working towards this goal. Since the publication of D7/00, the Director has sought further information and explanations from eircom through correspondence, telephone conversations and meetings. This process continued right up to 27<sup>th</sup> June 2000. The Director greatly appreciates the work of her staff and consultants on the issues and also thanks staff at eircom for their considerable efforts during this period.

In undertaking her review of the RIO, the Director has been assisted by a number of expert consultants. The work included a detailed review of the text of the RIO and of the rate proposals that it contained. In reviewing the text, the ODTR undertook a comparison of the draft against the requirements of D7/00, other relevant ODTR decisions, the requirements of Irish telecommunications generally and previous versions of the RIO. In reviewing rates, the Director considered eircom's justification and

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<sup>1</sup> SI 15 of 1998

supporting information against the requirements of D7/00, other relevant ODTR decisions and the requirements of Irish telecommunications generally. The Director also considered rates proposed against a range of values indicated by ODTR's bottom-up LRIC model, EU benchmarks and EU recommendations.

In reaching her decisions as referenced in this status report, the Director has taken into account, inter alia, the following:

- Irish and EU telecommunications law notably the European Communities (Interconnection in Telecommunications) Regulations, 1998 (SI 15 of 1998) (as amended) and the EU Directive 97/33/EC of 30 June 1997 on Interconnection in Telecommunications.
- EU recommendations and guidance.
- The Director's obligations to regulate the telecommunications market generally.
- The importance of suitable interconnection services available at appropriate prices to all licensed operators especially those new to the market.
- The urgency of a revised RIO and the timetable previously set by ODTR.
- Expert advice available to the ODTR.
- Multi-national comparison data and other relevant information available to the Director.
- The capabilities and limitations of eircom's regulatory accounting systems.
- The interim nature of the determination.
- The opportunities that all licensed operators will continue to have to refer contentious items in the RIO to the Director for her consideration and, where appropriate, determination.
- LRIC modelling

## **RIO Text**

The Director confirms that the text of the RIO (see below for comments on rates) as published by eircom is acceptable under the requirements of the Interconnection Regulations. She believes that the text will contribute to an efficient interconnection regime in Ireland. However, two points need to be made: the first is that a number of best practice targets set out in D7/00 are to be modified. The second concerns SLAs.

## **Timeframes for setting up Points of Interconnect and Interconnect Links**

In D7/00 Decision 4.3 imposed a requirement on eircom to meet best practice timeframes for the delivery of interconnect circuits by 31<sup>st</sup> December 2000. The Director included a table which set out her understanding of the current best practice timeframes for the interconnect circuits described.

However following a detailed review, it became clear that like was not necessarily being compared with like and as a result certain delivery times were inaccurate. The

requirement in D7/00 for eircom to comply with best practice stands. However the timeframes for best practice to be used should now be as set out in Table 1 below.

These revised timeframes will also be applicable for SLA purposes from 31<sup>st</sup> December 2000. This table replaces that at Para. 4.3 of D7/00

**Table 1-** Interconnection implementation time scales

Description of service	Eircom RIO	EU best practice (shortest timeframe)
New interconnect paths on existing interconnection links using an existing PoI (capacity augmentation)	8 weeks (2 months)	6 weeks <sup>2</sup>
New interconnect links using an existing PoI	10 weeks	10 weeks <sup>3</sup>
New PoI using Customer Sited Interconnect (CSI)	16 weeks	14 weeks <sup>4</sup>
New PoI using In-Span Interconnect (ISI)	26 weeks (6 months)	17 Weeks <sup>5</sup>

*Source: Analysys/Arcome: European Interconnect Atlas*

## Service Level Agreements (SLAs)

D7/00 imposed an obligation on eircom to produce SLAs for certain interconnect services. In particular, because of their critical importance at this stage of market development, priority was given to the development of SLAs for certain interconnect circuits. eircom was directed to produce SLAs for these circuits, having consulted with other operators, by 22<sup>nd</sup> May and to submit its proposals to the Director at that time.

While a proposal in respect to SLAs was submitted, no consultation occurred with industry. The Director did not accept eircom's proposals and instructed the company to carry out the consultation required under D7/00. On 13<sup>th</sup> June, eircom submitted a revised proposal on this matter. However it has not been possible for the Director to accept or approve the revised proposals because no reasoning or information has been provided as to eircom's position in relation to the comments it received from OLOs on SLAs.

In order to advance and finalise this issue, the Director has instructed eircom to carry out the following steps:

1. eircom was required to submit to this Office a copy of all comments received from OLOs in response to its consultation (this has now been done).

<sup>2</sup> KPN RIO (Netherlands)

<sup>3</sup> eircom RIO and TeleDanmark (Denmark) RIO

<sup>4</sup> Telefonica (Spain).

<sup>5</sup> Telia RIO (Sweden)

2. By close of business on 30<sup>th</sup> June, eircom is to submit its justification for its acceptance or rejection of the comments received (as requested previously by her Office on 14<sup>th</sup> June).
3. Her Office will assess eircom's comments and the comments received from OLOs and, if necessary, may direct that further adjustments be made to Annex D in order to ensure compliance with D7/00 and the relevant legislation.
4. If such direction is made, eircom shall adjust the text and notify the market accordingly by 12<sup>th</sup> July.

Given the importance of SLAs to the effective and efficient provision of interconnection in the market, this is a crucial element of the revised RIO. Pending the conclusion of these text, eircom has been directed to include an amended Annex D (which sets out the SLAs to apply) in the revised RIO to be re-published on 27<sup>th</sup> June, but it should be noted that this text is not approved by the ODTR.

A further communication will be issued to the market on 12<sup>th</sup> July when this matter is finalised.

## **RIO Rates**

Having reviewed the rates proposed by eircom, the Director has directed eircom to make a number of modifications to ensure compliance with the legislation and ODTR Decision Notice D7/00. Given time constraints, other rates such as those for interconnect circuits and number translation services have not been fully reviewed and further directions on these may be issued at a later date. The Director considers that all rates proposed by eircom should be included in the republished RIO pending that further consideration.

The interim rates proposed will apply from 1 April 2000. The rates will be subject to a final review at the end March 2001. This is without prejudice to the Director's rights and duties to regulate the market as necessary.

- **LRIC**

As outlined in ODTR 00/13 the Director considers that interconnect rates should be calculated on a LRIC basis. The methodology to be used in Ireland is set out in previous ODTR documents, notably D6/99. In considering the interim rates proposed by eircom in respect of 2000/1 the Director has reviewed, inter alia, the 'bottom-up' LRIC model developed with the assistance of the Industry Advisory Group (IAG), and further analysis carried out by the ODTR developing and refining the model. She considers that the results produced by the current model indicate the range of forward looking LRIC costs having regard to the topography of eircom's network and of the demand profile for eircom's services. She has also reviewed the results of an analysis of eircom's historic costs on an efficient operator basis, taking account of the approach outlined in Decision Notice D7/00 (ODTR 00/31).

The Director is pleased to see that the adjustments to historic costs contained in this Direction result in conveyance rates that are not materially different from those that the bottom up LRIC model produces using IAG inputs and are also within EU best practice benchmarks.

- Further Work

In the development of the LRIC bottom up model, certain inputs have been provided by the IAG which the ODTR LRIC team consider should be adjusted, resulting in lower outputs. The IAG has not had the opportunity to comment on these inputs and the Director would wish to have the Group's further input before relying more heavily on the model outputs.

Ideally, the Director would wish also to compare the bottom-up model with the top down model being prepared by eircom which is due to be completed in December 2000, but the Director considers that waiting for this would unnecessarily delay the introduction of new interim rates for the period already started on 1 April 2000.

The Director proposes to re-convene the Industry Advisory Group to re-examine certain assumptions recommended by the group and to further develop the bottom up model. She also expects to have an opportunity to compare eircom's top-down assessment of its forward looking long run average incremental costs due from eircom on 1 December 2000, with the ODTR's bottom-up assessment and may reconsider the interim rates in the light of that work.

## Interim Rates

The revised interim rates are as follows:

	<b>24 Hour</b>	<b>Day</b>	<b>Evening</b>	<b>Weekend</b>
<b>Call Termination \Origination</b>				
Primary	0.50	0.66	0.37	0.36
Tandem	0.69	0.91	0.51	0.50
Double Tandem > 50km	0.92	1.21	0.67	0.66
Transit	0.27	0.36	0.20	0.20

Rates in pence per minute

A table showing a comparison with EU best practice and other EU members is attached at Annex C

## Annex A – Chronology of Events

The Director and her Office (“ODTR”) have been working with eircom on the development of the interconnect regime over many years. The RIO should not be regarded as a static document since the competitive outlook in Ireland is constantly changing.

In preparation for the full liberalisation of the telecommunications sector in December 1998, the Director and ODTR carried out a series of consultations on the services and charges set out in eircom’s RIO (eircom was then known as Telecom Éireann). This led to the publication by the office of two position papers and the availability of services and rates to allow the fully liberalised market to start working. eircom published a consolidated RIO in March 1999 that took account of the positions agreed in 1998.

In March 1999, the ODTR launched a consultation process on further developments to the RIO and certain pricing principles. The process involved the publication of a consultation document (ODTR 99/16)<sup>6</sup>. On the 7<sup>th</sup> September 1999, the Director concluded her review with the publication of Decision Notice D12/99 (ODTR 99/54)<sup>7</sup>. On 10<sup>th</sup> September, eircom announced that it was challenging the Director's decision and had issued High Court proceedings. As a result of the proceedings, by operation of law as it then stood, the operation of Decision Notice D12/99 was then suspended.

To provide an opportunity to move forward on the RIO issues which are of key importance to all players in the market, the Director issued a new consultation (ODTR 00/16)<sup>8</sup> on all matters in D12/99. In so doing, the Director recognised that developments would have occurred in the telecommunications market place and, furthermore, that licensed operators would have greater experience operating under the interconnection regime. In April 2000 and following a review of the comments received, the Director published D7/00 which directed eircom to make changes to its RIO. These changes provided for an expansion on the scope of the RIO and for changes to certain costing and routing principles. eircom dropped its legal challenge to D12/99 and re-submitted a revised draft RIO on 22<sup>nd</sup> May 2000 with new price proposals.

The revised draft RIO was submitted on 22<sup>nd</sup> May with further changes received on 15<sup>th</sup> June. Final changes were incorporated into the RIO published on 27 June 2000.

Interconnection rates were first set in 1998 prior to the liberalisation of the market. During 1999 and early 2000, as part of the ODTR examination of eircom’s costing and in light of the difficulties in information gathering, eircom developed a number of proposals and presented justifications based on information as it became available. For a variety of reasons, including incompleteness of information, these were not acceptable to the ODTR. Discussions with eircom at that time concentrated on the principles governing interconnection rates.

The Director also consulted on the development of long run incremental costing for interconnection in ODTR 99/17 which led on to her Decision Notice D6/99 published in ODTR 99/38 and to the actual development of a bottom-up model with advice from the Industry Advisory Group (IAG) in which eircom have played a significant part, providing important quantitative and qualitative inputs to the ODTR model.

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<sup>6</sup> Telecom Éireann’s Reference Interconnect Offer, Consultation Paper

<sup>7</sup> Telecom Éireann’s Reference Interconnect Offer - Decision Notice D12/99

<sup>8</sup> eircom’s Reference Interconnect Offer, Consultation Paper

In the context of these discussions eircom proposed a way forward which the Director considered in ODTR 00/13, ODTR 00/14 and ODTR 00/15. These documents covered:

- A status report on developments.
- The finalisation of rates for the period from 1 December 1998 to 1 December 1999 (previously set on an interim basis prior to liberalisation).
- The introduction of new interim rates that would apply from 1 December 1999 to 31 March 2000.

Eircom included new rates in its draft revised RIO of 22<sup>nd</sup> May 2000. These rates were not acceptable to ODTR and have been replaced.



## **Annex B - Legislative background**

EU and Irish legislation set out procedures for providing interconnection. The most important of these are the following:

- Directive 97/33/EC of the European Parliament and Council of 10 April 1997 on “a common framework for general authorisations and individual licences in the field of telecommunications service” (the “Interconnection Directive”);
- European Communities (Interconnection in Telecommunications) Regulations, 1998 (as amended) (SI No 15 of 1998) (the “Interconnection Regulations”), which transpose the Interconnection Directive into Irish law.

The Directive and Regulations place special obligations on an operator who is designated by the Director as having SMP. The essence of these obligations is:

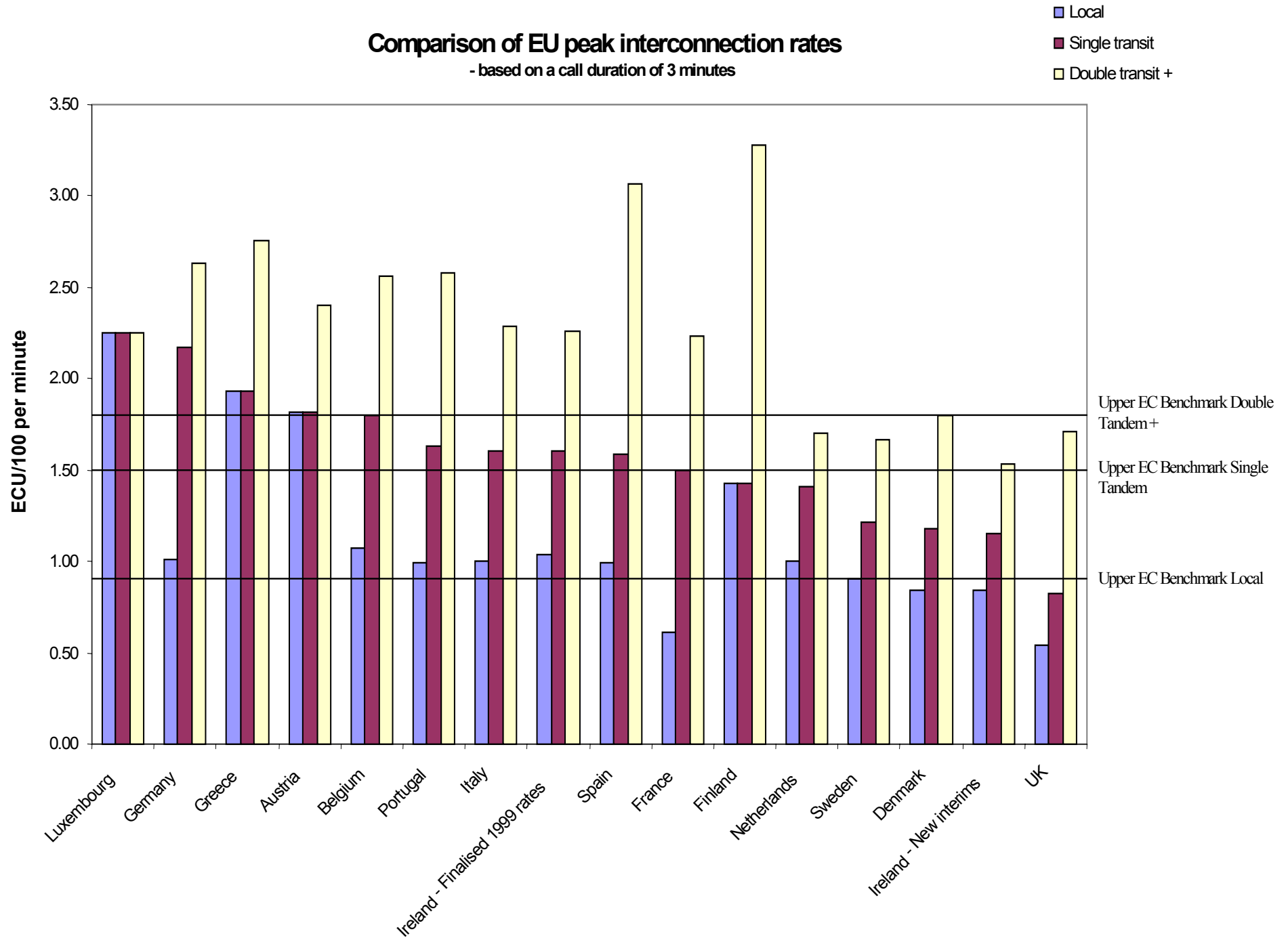
- interconnection charges should follow the principles of transparency, non-discrimination and cost-orientation;
- the Director may direct an organisation to justify its charges and to adjust these charges where they are not in compliance with these principles;
- the “burden of proof” regarding justification lies on the organisation providing interconnection;
- a RIO set out in accordance with market needs shall be published and the Director may direct changes to this offer, where appropriate.

In addition, guidance from the European Union on interconnection and the setting of rates intended to help Member States realise the objectives of the Interconnection Directive is of relevance. Of particular note are the following:

- Commission Recommendation of 8 January 1998 on interconnection in a liberalised market, 98/195/EC, as amended by Commission Recommendation of 29 July 1998, 98/511/EC;
- Commission Recommendation of 8 April 1998 on Interconnection in a liberalised telecommunication market. Part 2: Accounting separation and cost accounting (Part 1 was published on 15 October 1997)
- Commission Recommendation of 24 November 1999 on Leased Lines Interconnection pricing in a liberalised telecommunications market, C(1999)3863.

## Comparison of EU peak interconnection rates

- based on a call duration of 3 minutes



Source: Official Journal of the European Communities March 2000, ODTR June 2000