



Office of the Director of
**Telecommunications
Regulation**

Price Cap on *eircom* 1999

The Telecommunications Tariff Regulation Order 1996 (Statutory Instrument No. 393 of 1996)

Compliance Statement

Decision Notice D8/00

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**THE TELECOMMUNICATIONS TARIFF REGULATION ORDER 1996
(STATUTORY
INSTRUMENT NO. 393 of 1996)**

Legislative background

The Telecommunications Tariff Regulation Order, 1996 (the 1996 Order) was made by the Minister for Transport, Energy and Communications (the Minister), under section 7 of the Telecommunications (Miscellaneous Provisions) Act, 1996. It came into operation on the first day of January, 1997.

The 1996 Order provided a new framework for changes in Telecom Éireann's tariffs, which had previously been controlled under Section 90 of the Postal and Telecommunications Services Act, 1983. Under the terms of that legislation, the consent of the Minister had been required for increases in prices.

The 1996 Order applies to a basket of telecommunications services provided by Telecom Éireann. These services are as follows:

- The provision of telephone exchange lines
- The provision of Integrated Services Digital Network lines
- Telephone exchange line and Integrated Services Digital Network connection and take-over
- Local dialled calls
- Trunk dialled calls (except for weekend trunk dialled calls)
- Weekend trunk dialled calls
- International dialled calls
- Operator calls
- Directory enquiry calls
- Payphone calls

The order placed a price cap on Telecom Éireann's tariffs requiring an overall downward movement in tariffs which was required, as a minimum, to equal the annual percentage change in the Consumer Price Index for the year preceding the relevant year ("ΔCPI") minus 6%.

Within this overall price cap, Telecom Éireann had some flexibility to adjust and rebalance its tariffs within specified parameters. The annual allowable tariff increase for any service within the basket could not exceed the annual percentage change in the Consumer Price Index plus 2%, nor could the average bill of the low volume user or the charge for provision of telephone exchange lines increase by more than the annual percentage change in the consumer price index.

The responsibilities of the Minister in respect of the price cap were transferred to the Director of Telecommunications Regulation, (the Director) under the terms of the Telecommunications (Miscellaneous Provisions) Act, 1996. Some carryover of reductions or increases which are greater or less than those allowed under the order could be permitted, at the Director's discretion.

Price Cap Methodology

The formula for the calculation of the price cap in respect of the total basket of telecommunications services, where the price cap is $\Delta\text{CPI} - 6\%$, is:

$$\Sigma^n = \Delta\text{Pi} * (\text{Ri} / \text{Rt})$$

where,

- n is the total number of services in the basket of telecommunications services;
- ΔPi is the percentage change in tariff (before discounts, except for any light user scheme) for telecommunications service “i” calculated from either:
 - (i) the base of the tariff pertaining at the end of the year preceding the relevant year, or
 - (ii) on the basis of a representative sample of bills for the service “i” specified and applied by the company with the consent of the Minister;
- Ri is the total audited revenue before discounts for the telecommunications service “i” in the financial year ending on or about 31 March in the relevant year;
- Rt is the overall total revenue before discounts in the financial year ending on or about 31 March in the relevant year for all telecommunications service in the basket.

Total revenue for an individual service in the basket is divided by the total revenue for the complete basket of telecommunications services. This figure is then multiplied by the percentage tariff change for the individual telecommunication service. This is done for all individual components and the answers are summed to calculate the price change for the overall basket of telecommunications services.

In assessing 1997 and 1998 compliance, the percentage changes made to tariffs were analysed. For the 1999 analysis, elements of the calculation were based on a representative sample of bills in order to capture the effect of *eircom*'s switch to per second billing.

Price Cap Obligations

This is the report on the third year of operation of the price cap, from the 1st January 1999 to the 31st December of 1999.

Price Cap Compliance 1997 and 1998

1997 was the first year for which the price cap was in place. The ΔCPI for the preceding year (i.e 1996) was 1.7%. This meant that in 1997 Telecom Éireann was required to reduce prices in the overall basket by 4.3%. During 1997, Telecom

Éireann exceeded the required level of reductions, reducing its tariffs by a total of 8.8%. The Director allowed carryover of the total excess of 4.5%. There were no increases in any of the individual services within the basket.

The Δ CPI in 1997 was 1.6%. In 1998, Telecom Éireann had an obligation to reduce its tariffs by 4.4%. However, as stated above, the carryover from 1997 was 4.5%. In effect there was no requirement on Telecom Éireann to impose further reductions in 1998. Indeed Telecom Éireann had scope to increase the price of the basket of services by 0.1%. Information submitted by Telecom Éireann to the ODTR showed that in fact Telecom Éireann reduced prices by 9.2% in 1998. There were no increases in any of the individual services within the basket. Based on information submitted, the Director held that Telecom Éireann complied with the price cap requirements for 1998 and exceeded those obligations.

In 1998 the Δ CPI was 2.4%. The Director permitted Telecom Éireann full carry over of the excess of 1997 (0.1%) and 1998 (9.2%) totalling 9.3% for 1999. This meant that Telecom Éireann could increase the overall basket by 5.7% (where 3.6% - 9.3% = 5.7%) and still meet its statutory requirements. In relation to the sub-caps, individual items could increase by 4.4%. Line rental charges and the average bill of low income users could increase by 2.4% (2.4% +0).

Report on Compliance for 1999

Telecom Éireann (now *eircom*) supplied information showing aggregate reductions in the tariffs charged for the basket of services totalling 4.6% in 1999. *eircom* also confirmed that there were no increases in the tariffs charged for any individual items within the basket of telecommunications services which exceeded the permitted levels under the Telecommunications Tariff Regulation Order 1996. Tariffs for all services were reduced with the exception of line rental and off-peak local rates.

The ODTR has carried out a review of information supplied by *eircom* to confirm *eircom's* compliance with the price cap in 1999. The result of this review is that the Director is satisfied that *eircom* complied with the Telecommunications Tariff Regulation Order, 1996 during 1999.

Modified Price Cap

1999 is the third and final year of the price cap control under the original terms of the Telecommunications Tariff Regulation Order, 1996. Following a direction from the Minister for Public Enterprise, Mary O'Rourke, TD, to review the price cap mechanism, in 1999 the Director carried out a consultation on the price cap (see ODTR documents 99/19, 99/34, 99/61 and 99/78). This has resulted in modifications to the 1996 Order and the introduction of a modified price cap. In December 1999, the 1996 Order was amended by way of the Telecommunications Tariff Regulation (Modification) Order, 1999, (S.I. No. 438 of 1999). The modified price cap came into effect on 1st January 2000 and is set for a three year period.

In relation to compliance with the price cap in 2000, Δ CPI for 1999 (the relevant year for the 2000 price cap) has been confirmed at 3.4%.