



Office of the Director of  
**Telecommunications  
Regulation**

## **PRICE CAP ON TELECOM EIREANN 1998**

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

### **Compliance Statement**

### **Decision Notice 4/99**

**Document No. ODTR 99/33**

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

**Legislative background**

The Telecommunications Tariff Regulation Order (the 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.

This Order provided a new framework for changes in Telecom Eireann'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 Order applies to a basket of telecommunications services provided by Telecom Eireann. 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 Eireann's tariffs requiring an overall downward movement in tariffs which must, as a minimum, 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 Eireann has some flexibility to adjust and rebalance its tariffs within clearly laid out parameters. The annual allowable tariff increase for any service within the basket may not exceed the annual percentage change in the Consumer Price Index plus 2%, nor may 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 may 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;
- $\Delta\text{Pi}$  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;
- $\text{Ri}$  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;
- $\text{Rt}$  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.

### **Price Cap Obligations**

This is the report on the second year of operation of the price cap, from the 1<sup>st</sup> January 1998 to the 31<sup>st</sup> December of 1998.

1997 was the first year for which the price cap was in place.  $\Delta\text{CPI}$  for the year preceding the relevant year (i.e. 1996 when referring to the price cap for 1997) was 1.7%. This meant that in 1997 Telecom Éireann had to implement reductions totalling 4.3%. During 1997, Telecom Eireann 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%.

$\Delta$ CPI in 1997 was 1.6% meaning that for 1998, Telecom Éireann had an obligation to reduce its tariffs by 4.4%. However, as stated above, the carryover from 1997 was 4.5%, meaning that Telecom Éireann could increase tariffs in the overall basket by 0.1% and still meet its statutory obligations.

### **Report on Compliance for 1998**

Telecom Eireann supplied information showing aggregate reductions in the tariffs charged for the basket of services totalling 9.2% in 1998. Telecom Eireann also confirmed that there were no increases in the tariffs charged for any individual items within the basket of telecommunications services during 1998. Telecom Eireann also asked for permission to carry over excess price reductions to 1999.

The ODTR has carried out a review of information supplied by Telecom Eireann to confirm Telecom Eireann's compliance with the price cap in 1998. The result of this review is that the Director is satisfied that Telecom Éireann complied with the Telecommunications Tariff Regulation Order in 1998.

The Director will permit Telecom Éireann to carry over the excess reductions for 1998 into 1999, the last year of the current price cap.

The current price cap mechanism continues to apply for 1999, although a review is under way and the mechanism may be changed for future years. (See ODTR Consultation Paper – Review of the Price Cap on Telecom Eireann; ODTR 99/19).

In relation to compliance with the price cap in 1999,  $\Delta$ CPI for 1998 (the relevant year for the 1999 price cap) has been confirmed at 2.4%.