



Submissions to Consultation

Review of the regulatory asset lives of Eircom Limited

Submissions received from respondents

Document No:	09/65s
Date:	25 August 2009

Consultation:	09/11
Response to Consultation:	09/65

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eircom Ltd.

Response to ComReg Doc. 09/11

***Review of
Regulatory Asset Lives of eircom Limited***



27th March 2009

DOCUMENT CONTROL

Document name	eircom Ltd. Response to 09/11 Review of Regulatory Asset Lives of eircom Limited
Document Owner	eircom
Last updated	27 th March 2009
Version	Final
Status	Non-Confidential

This document constitutes eircom's response to ComReg's Consultation and Draft Decision paper 09/11 of 17th February 2009 regarding ComReg's review of eircom's regulatory Economic Useful Lives (EULs) of assets. Since this review was initiated by ComReg in May 2008, eircom has submitted significant amounts of data on its existing EULs to ComReg, in response to Statutory Direction from ComReg, and has addressed numerous queries from ComReg. The position expressed by eircom in the context of this correspondence is an integral part of the present submission and eircom's position is repeated below only to the extent necessary to address the specific questions raised by ComReg in Doc. 09/11.

EXECUTIVE SUMMARY

1. Since May 2008 when ComReg initiated its review of eircom's regulatory asset lives, the Irish economy has entered into a serious recession. This massive deterioration in the economic environment considerably increases uncertainty in future economic outlook and today is a particularly inappropriate time to carry out a far-reaching review of a company's underlying fiscal parameters such as its EULs. This is especially the case as ComReg is proposing to extend considerably the EULs of a significant proportion of eircom's asset base, which would result in increasing risk exposure for eircom. In these circumstances, eircom believes that ComReg should await the return of some stability to the overall economic climate before continuing further with its review.
2. ComReg indicates that its review of asset lives is confined to the asset lives used in the regulatory accounts (as directed by the ODTR in 2001). Indeed ComReg gives no consideration whatsoever to the asset lives used in the statutory accounts. eircom believes that ComReg's approach in this regard is fundamentally flawed. In accordance with the principle set out by the ODTR that "*asset lives used in the statutory accounts should also be used in the separated accounts*",¹ ComReg's starting point for its review should be the asset lives used in the statutory accounts. Only where ComReg can show that the asset lives used in the statutory accounts are inadequate for regulatory purposes is ComReg entitled to direct that other asset lives be used.
3. A considerable number of assets are reviewed in Doc. 09/11. However a very large number of the asset lives reviewed by ComReg are not material from the point of view of regulatory pricing. There is accordingly no reason whatsoever why these asset lives should differ in the regulatory and statutory accounts and ComReg's review of such assets is a disproportionate exercise of its powers.
4. In relation to the EULs of classes of assets which are material from the point of view of regulatory pricing, ComReg is only entitled to direct that different asset lives be used for the purpose of the regulatory accounts when the differences between ComReg's opinion as to the appropriate EUL and the EUL used by eircom is of significance. In reviewing such difference, ComReg must recognise that the appraisal of EUL is not an exact science but rather involves an assessment which is, at least in part, subjective. The directors of eircom should, in the regard, be considered to be in a better position to assess the EUL of eircom's network assets than ComReg.
5. ComReg now suggests that significant changes to the asset lives directed by the ODTR are required in light of "*significant changes in technology in the intervening period and new forms of technology have been introduced while others are no longer used.*" However, the changes of technology which have occurred would support, if anything, a shortening of the EUL of existing assets, and cannot accordingly support

¹ Decision 08/99, p. 29.

their lengthening, as proposed by ComReg. ComReg, in this regard, provides no explanation why current regulatory lives, the appropriateness of which was reviewed and confirmed again in 2003², should no longer be used. Clearly, it is not sufficient that different lives may be used elsewhere or that other lives may reasonably be determined. ComReg must demonstrate that current lives no longer meet its policy objectives, which must include the objective of encouraging efficient investment in infrastructure in accordance with Section 12 of the Communications Regulation Act, 2002. This ComReg has not done.

6. As ComReg recognises, *“the application of benchmarks without significant analysis can be problematic.”*³ It appears to eircom that that the level of analysis undertaken by ComReg in relation to benchmarking data is entirely inappropriate and insufficient and that the heavy reliance placed by ComReg on benchmarking data is misplaced. In particular, the fact that eircom’s lives differ from those used by other telecoms operators does not support, to any extent, the conclusion that eircom’s asset lives are inappropriate. ComReg has not taken into account conditions which are specific to Ireland and eircom’s network, in particular the dispersion of the Irish population and weather conditions in the West of Ireland⁴. Again ComReg has not taken account of this indirect impact.
7. It is of very significant concern to eircom that ComReg appears to have given no consideration to the effects of its proposed changes. There is little doubt that an ill-considered appraisal of EULs could lead to a significant distortion in the price signals set out by regulated prices. Without a prior assessment of the anticipated effects, it appears to eircom that it is impossible for ComReg to be satisfied that its proposed intervention is necessary, reasonable or proportionate. In its Recommendation of 19th September 2005 on accounting separation and cost accounting systems, the European Commission made it clear that *“where a national authority believes corrective action is required then due regard should be taken of the commercial and economic environment to minimise risk and uncertainty in the relevant markets. This action could include, for example, spreading any price adjustment over a reasonable period of time”*. ComReg appears to have entirely ignored this recommendation.
8. eircom, in this regard, does not understand ComReg’s assertion, in the context of its Regulatory Impact Assessment, that the proposed changes would result in lower regulated prices. It appears to eircom that this conclusion cannot be reached without decisions having been made regarding the implementation of the measures concerned. eircom notes that in 2001, it was decided in relation to adjustments to asset lives that the Asset Classes concerned would be rebased. This would translate in an increase in prices.

² See File “090327_021220_IAG2_Comreg_Asset_Lives_Position.pdf” which is included with this response

³ Doc. 09/11, p. 6.

⁴ In addition these factors may have an indirect impact upon the technological roadmap followed within territories. For example, Ireland is among the top-five territories in terms of Wireless Local Loops penetration. See European Commission staff working document accompanying Progress report on the Single European Electronics Communications Market (14th Report), p.36.

9. ComReg has not set out any benefit which would accrue from the significant changes proposed in Doc. 09/11. In turn, it appears to eircom that these changes bear the risk of destabilising the market. Furthermore ComReg's proposals will bring a further unjustified level of disconnect between the regulatory and statutory accounts of eircom, making their reconciliation more difficult (if not impossible) and therefore severely affecting their respective usefulness. In these circumstances, eircom is of the view that ComReg should refrain from adopting the proposed Draft Direction.

RESPONSE TO CONSULTATION QUESTIONS

eircom's response to the questions raised in Doc. 09/11 are set out below. In order to facilitate the understanding of eircom's position, questions have been responded in the following order: Question 1, Question 2, Questions 61 and 62 Questions 56 and 57, Question 3, Questions 8, 10, 12, 13, 19, 21, 22 and 23, Question 11, Question 18, Questions 24 and 25, Questions 41 and 50, Questions 45 and 46, Question 49, Question 55, Question 58, Question 59 and Question 60.

Questions 4, 5, 6, 7, 9, 14, 15, 16, 17, 20, 26, 27, 28, 29, 30, 31, 32, 33, 34, 36, 37, 38, 39, 40, 42, 43, 44, 47, 48, 51, 52, 53, 54 are considered in the context of the response to Questions 61 and 62.

Q. 1. Do you agree or disagree that it is appropriate for ComReg to undertake this review at this time? Please explain in detail your response.

Since the time ComReg initiated its review in May 2008, the Irish economy has entered into a recession of global scale. It is not expected that full recovery will occur for, at least, a number of years.

Ireland has been affected more than most by this recession. The Economic and Social Research Institute, in its most recent Quarterly Economic Commentary, states that "*the Irish economy is in the midst of a contraction that is large by both historic and international comparisons*". eircom too has been affected. Indeed, at the end of February 2009, eircom announced that it had booked a goodwill impairment charge of €720M in the period to the end of December 2008.

This massive deterioration in the economic environment considerably increases uncertainty in the future economic outlook. This is clearly an entirely inappropriate time to carry out a far-reaching review of a company's underlying fiscal parameters such as its EULs. This is particularly the case on this occasion, where ComReg is proposing to extend considerably the EULs of a significant proportion of eircom's asset base. (A lengthening of EULs would clearly increase risk exposure for eircom).

In these circumstances eircom believes that ComReg should await the return of some stability to the overall economic climate before continuing further with this current review.

Q. 2. Do you agree or disagree with ComReg's preliminary conclusion above taking into account the views of RGL? Please explain in detail your response.

eircom agrees to the use of accounting depreciation rather than economic depreciation, in line with ComReg's preliminary conclusion.

Q. 61. Respondents are requested to provide views on whether the proposed direction is proportionate and justified and also to offer views on other factors (if any) ComReg should consider in completing its Regulatory Impact Assessment? Please explain in detail your response.

Q. 62. Respondents are request to provide their detailed views from a commercial, practical and legal perspective in relation to the Draft Decision Instrument.

ComReg proposes to adopt the direction on the basis of Regulation 17 of the Access Regulations and refers further to Regulation 14 of the Access Regulations. Regulation 17 of the Access Regulations provides that ComReg may “for the purpose of further specifying requirements to be complied with relating to an obligation imposed by or under these Regulations, issue directions to an undertaking to do or refrain from doing anything which [ComReg] specifies in the direction”.

eircom accepts that the proposed direction concerns existing obligations of eircom regarding the cost orientation of tariffs and the implementation of accounting separation and accounting systems imposed pursuant to Regulation 14(1) of the Access Regulations in a series of markets where eircom has been found to have Significant Market Power (SMP).

In exercising its powers, ComReg must act in accordance with the principles of reasonableness and proportionality. In addition, in the context of a direction pursuant to Regulation 17 of the Access Regulations, ComReg must ensure that the obligation, as specified in the direction, remains based on the nature of the problem identified - that is, necessary, proportionate and justified in the light of the objectives set out in section 12 of the Communications Regulation Act, 2002.

For the reasons set out below, eircom believes that this is not the case for ComReg's proposed direction. As a result, it is eircom's view that the direction is unreasonable and disproportionate.

The possibility for regulators to require SMP operators to publish separated accounts drawn up on the basis of specific accounting systems is justified by the fact that statutory accounts tend not to provide a level of information that is adequate and appropriate for the purpose of regulation. In its original consultation on accounting separation and the publication of financial information for telecommunications operators in March 1999 (Doc. ODTR 99/10), the ODTR stated that “[t]he 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”. In its Recommendation of 19th September 2005 on accounting separation and cost accounting systems, the European Commission explained that “[t]he purpose of imposing an obligation to implement a cost accounting system is to ensure that fair, objective and transparent criteria are followed by notified operators in allocating their costs to services in situations where they are subject to obligations for price controls or cost-oriented prices” and that “[t]he purpose of imposing an obligation regarding accounting separation is to provide a higher level of detail of information than that derived from the statutory financial statements”. The financial records and the accounting estimates adopted in relation to such records support the statutory accounts and thus constitute the main source of data for the regulatory accounts.

eircom agrees with ComReg that eircom's statutory asset lives “are beyond its remit”. However, in accordance with the general accounting principles of comparability and consistency, asset lives are expected to be the same for both sets of accounts, save where

there are reasons for them to differ.⁵ Such differences should be justified having regard to the different objectives and purposes served respectively by statutory and regulatory accounts and be necessary to achieve the objective pursued.

This principle was clearly set out by the ODTR in Decision 08/99 which states that “asset lives used in the statutory accounts should also be used in the separated accounts. The Director may adjust for inappropriate asset lives, when regulatory decisions are being made on historical costs.”⁶ The ODTR clarified further that “changes in asset lives that have a major impact on costs should be thoroughly reviewed and investigated. This review would involve assessing the technical and economic reasons for this change, as well as to examine the effects on network and interconnect charges.”⁷

It is eircom’s view, accordingly, that an adjustment of the asset lives used in the regulatory accounts should be justified by demonstrating that the asset lives used in the statutory accounts are *materially inappropriate* for the purpose of compliance with relevant regulatory obligations. If this is not the case, then the asset lives used for the statutory accounts should be used, by default, so to speak. This is consistent with the fact that appraising asset lives is an exercise which is subjective in part and that there is not one definitive answer to EUL. The company itself of course is better placed to make such assessment and a regulator should be slow to differ from the assessment made by the directors of the company in accordance with their statutory duties.

This principle recognises that the regulatory accounts build upon the statutory accounts and that the assumptions made in relation to the two sets of accounts should be allowed to differ only where it is strictly necessary to achieve the objective pursued by the obligations which the publication of regulatory accounts supports. This means that, while ComReg may direct changes to the asset lives used by eircom in the regulatory accounts, it may only do so when it shows that the asset lives used in the statutory accounts are *inappropriate* to achieve the objective pursued by the obligation of cost-orientation.

Similarly, in the context of the review of a previous direction, ComReg must justify the change as against its previous position and as against the asset lives used in the statutory accounts.

This, in turn, means that, firstly, ComReg may direct changes to asset lives only when such changes will have a *material* impact. Secondly, such changes must be proportionate and reasonable. This requires, among others, that ComReg demonstrates that the changes proposed are consistent with the relevant accounting framework and that they enhanced the overall objectives associated with the preparation of such financial statements. The fundamental purpose of the regulatory accounts is to supply valuable information in relation to the underlying financial performance of the company in the context of its regulatory framework, and to act as a first checkpoint in relation to the need for further regulatory intervention by the regulator. Asset life changes should only be considered if their net effect is to improve the quality of these disclosures, thereby enabling greater insight into the underlying financial performance of eircom’s operational units.

The approach followed by ComReg in Doc. 09/11 ignores all of these principles and is, as such, fundamentally flawed.

eircom, in this regard, notes that the scope of ComReg’s review is wide-ranging

[REDACTED]. This

⁵ As pointed out by RGL Forensics, Final Report for ComReg, *Review of eircom’s regulatory asset lives*, 16th February 2009, p. 30.

⁶ p. 29.

⁷ p. 32.

means that the asset lives of a very significant number of the assets reviewed by ComReg are not actually capable of influencing regulatory pricing. It is difficult to understand the purpose pursued by ComReg and ComReg's intervention is clearly unnecessary and, as such, unreasonable and disproportionate. This is also the case of the review of those classes of assets which are fully depreciated, for which a review would, by definition, have no effect -. (**Question 49**).

Similarly, regardless of the importance of the asset class in the NBV of the company, a number of changes proposed by ComReg are immaterial from the point of view of regulatory pricing. eircom's position in relation to **Questions 4, 5, 6, 7, 15, 16, 17, 26, 27, 28, 29, 30, 31, 32, 33, 34, 36, 37, 38, 39, 40, 42, 43, 44, 45, 46, 47, 48, 49, 51, 52 and 53** is therefore that ComReg's review of the EULs concerned is entirely unjustified. Accordingly, the asset lives to be retained for the regulatory accounts should be identical to those set out in the statutory accounts.

In addition, in a number of cases, immaterial changes are proposed through the creation of new classes of assets. It is eircom's view that the creation of new Asset Classes, where there is reason to do so from a regulatory pricing perspective, (and it is difficult to see what reason there could be when the changes are not susceptible to affect price levels), will only lead to further inconsistencies between the regulatory accounts and the statutory accounts. Accordingly, eircom is of the view, in relation to **Questions 24, 25, 35 and 54**, that ComReg's proposals are disproportionate and that no new Asset Classes should be created.

In relation to significant changes proposed by ComReg, it is eircom's view that ComReg is required under the regulatory framework to demonstrate why the EULs adopted by eircom in the statutory accounts are inadequate, or why the EULs directed by ComReg or its predecessor are no longer appropriate and how the new asset lives would facilitate the objective of encouraging efficient investment in infrastructure. In this regard, it is entirely insufficient to show that another view of the appropriate EULs could be taken. Rather, it must be demonstrated that current regulatory EULs are no longer appropriate for the purpose of eircom's obligation of cost-orientation. In this regard, many of the changes proposed by ComReg concern assets which are used in the supply of access services. The EULs of these assets were reviewed by the IAG in the context of the development of the bottom-up access model. The conclusion of the IAG, supported by ComReg, was that eircom's asset lives were appropriate. ComReg has not pointed to any changes or other justification which could explain ComReg's change of position on this matter and its proposal to lengthen lives previously considered adequate for regulatory purposes.

Accordingly, eircom is of the view that ComReg, in relation to **Questions 8, 10, 12, 13, 19, 21, 22, 23 & 49** must demonstrate why the asset lives directed by ComReg in 2001 and/or the asset lives used in the statutory accounts are no longer appropriate for the purposes of the regulatory accounts, in light of material changes which have occurred in the intervening period. ComReg has not pointed out to any factor which suggests that the asset lives for the assets should be lengthened. It appears to eircom, in particular, that ComReg's reference to technological changes cannot justify a lengthening of asset lives.

In light of the purpose of regulatory accounts, any changes should result in an enhancement of the effectiveness of the obligations which the accounting obligations support. ComReg must ensure that its approach to EUL is not only consistent with, but actually reflects, the SMP obligations which have been imposed on eircom. The economic lives of assets are clearly driven by the contribution towards such capital costs that can be generated by eircom's revenue streams. As many of these revenue streams are either directly controlled through regulation or indirectly constrained through the effect of upstream access provisions, key regulatory decisions taken by ComReg can have a direct impact upon EULs.

As an example, the access network and underlying assets are being used increasingly for broadband services. This has a significant bearing upon their economic life. However ComReg has recently published a Consultation paper where it proposes to set the price of

Line Share on a purely incremental basis, yielding no contribution towards these asset costs. The logic of this approach is that ComReg believes that only the “narrowband” aspect of the line is providing an economic return and that, consequently, ComReg is placing zero value on the “broadband” portion of the line. A clear economic consequence of this approach is a long term revenue trend towards an equilibrium broadband price which makes no contribution to these assets, which has a clear shortening effect upon asset EULs. Yet, in direct contradiction of this approach, ComReg is assessing the EUL of various categories of eircom’s assets based on their uses for both narrowband and broadband functions, regardless of their economic contribution.

ComReg is equally inconsistent in its approach to asset lives and its approach to the setting of an appropriate WACC for eircom last year (ComReg document 08/35 refers). ComReg set a WACC of 10.21% going forward, based on eircom’s risk profile at that time. Extending the EULs of eircom’s key asset categories, leading to a deferral of capital cost recovery may change this risk profile. Yet no assessment has been done on what the consequent effect on eircom’s WACC might be.

eircom believes that ComReg’s approach creates difficulties under the accountancy principle of “prudence”. Under the prudence principle revenue should not be anticipated, while expenses and losses should be anticipated and charged against income. In practice this means that, in selecting an appropriate EUL for assets, the company must take account of the time period over which management is reasonably certain of achieving a positive economic contribution, rather than the period over which such returns could be earned. In our view, much of the review conducted by ComReg follows the latter approach, and is therefore inconsistent with an accounting framework.

Q. 56. Do you agree or disagree with ComReg's proposal that all amended regulatory asset lives be implemented with immediate effect from the date of a ComReg decision? Please explain in detail your response.

Q. 57. If you do not agree with the above preliminary view of ComReg, do you agree or disagree that any proposed changes to regulatory asset lives are implemented by a “glide path” rather than immediate implementation from the date of the direction? If such an approach were adopted do you believe one to two years is a reasonable period. Please explain in detail your response.

The appropriate form of implementation of changes to asset lives very much depends on the effects of such changes. Doc. 09/11 however does not include any assessment or analysis of the effects of the proposed changes. This is inconsistent with the European Commission’s Recommendation of 19th September 2005 on accounting separation and cost accounting systems that where “*a national authority believed corrective action is required then due regard should be taken of the commercial and economic environment to minimise risk and uncertainty in the relevant markets. This action could include, for example, spreading any price adjustment over a reasonable period of time*”.⁸

It appears to eircom that, in view of the scale of some of the changes proposed by ComReg, ComReg’s direction may result in significant changes in charges in the short-term, possibly followed by subsequent compensating changes later. Such fluctuations would send

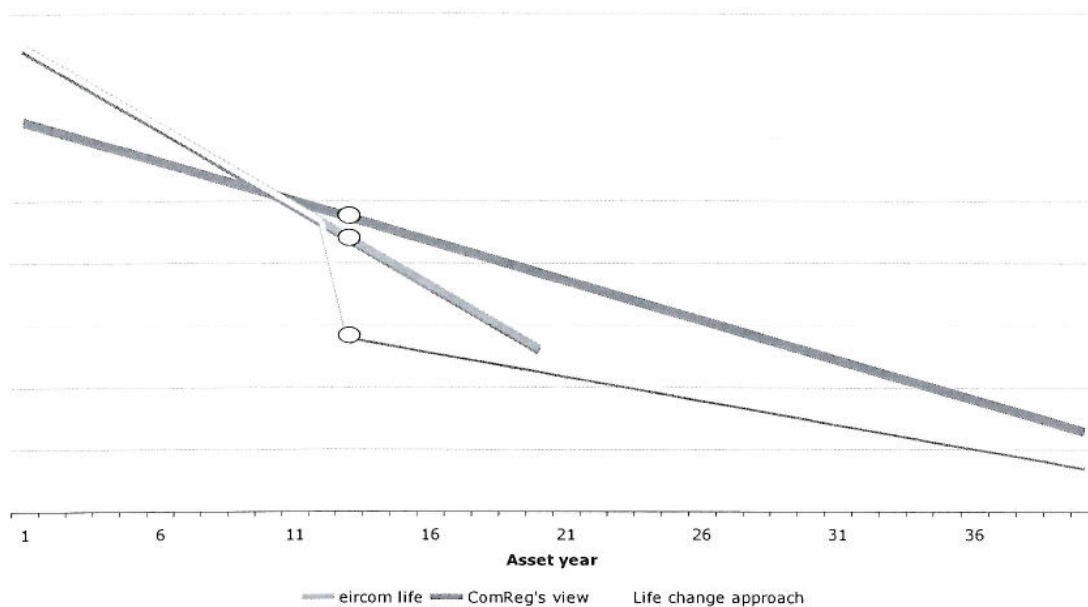
⁸ Recommendation, recital (7).

inappropriate signals to the market and create market distortions and tensions. In order to avoid such market disruption, it is essential that any changes that might be directed by ComReg are properly considered and assessed against the objectives set out in the Communications Act, 2001, in particular the objective of "ensuring efficient investment in infrastructure and promoting innovation" and, where necessary, that an adequate framework for implementation is agreed.

In the absence of any justification of ComReg's proposed changes in the light of eircom's obligations, it is impossible to conduct such an assessment. In addition, assuming that a glide path would be used, several options would be possible which might yield different effects. In this regard, eircom believes that ComReg is mistaken to believe that changes in EULs will necessarily result in a decrease of regulatory prices

For instance, the use of the traditional GAAP accounting approach to the proposed changes would result in the write-down of the residual net book value over the revised remaining useful lives of the assets. This approach can result in a step change in recovery profile which actually moves us further away from the profile implied by ComReg's revised EULs. To illustrate this point, we have shown in the chart below an example impact of ComReg's proposed duct life changes in the context of an estimated average asset age of 12 years. It can be seen that the current capital charges are already below those that ComReg believes are appropriate (base upon the consistent application of the revised EUL from inception), and the effect of the proposed life changes is to exacerbate this issue.

Impact of changing asset life of duct



Furthermore this step-change in capital charges would be wholly inconsistent with the likely treatment in any pricing models, which is likely to lead to the generation of an artificial "profit" level in each business/activity which will be primarily driven by this inconsistency. In this context, the adoption of these changes within the regulatory accounts would serve to both make the statements less comparable across periods, and harder to interpret from a performance point of view, including assessing cost orientation.

Were the changes proposed by ComReg capable of such justification, eircom is of the view the least disruptive form of implementation would be through a glide path over a period of

time commensurate with the impact of the changes directed by ComReg. In particular, this glide path should extend over a number of years in order to minimise the potential “step” effects on metrics such as depreciation, regulatory asset base, wholesale pricing inputs, etc.

Q. 3. Do you agree or disagree with ComReg’s preliminary conclusion that the Eircom’s fixed asset register (in an equivalent form to that received as part of this consultation process) should be submitted annually to ComReg at the same time as the due date for submission of the HCAs to ComReg? Please explain in detail your response.

eircom does not agree that it should provide its fixed asset register annually .

eircom notes that under the current regulatory framework, ComReg may only require information that is “*proportionate to the performance*” of the tasks concerned and that reasons must be given justifying the request for information. It is not clear to eircom why the provision of the FAR annually to ComReg is necessary to the performance by ComReg of its duties. eircom notes that it appears difficult to justify such an obligation having regard, *inter alia*, to the fact that eircom is already subject to an obligation to have its regulatory accounts audited by an independent third party and that ComReg can always require explanations in relation to any aspects of the regulatory accounts.

Poles, Ducts and Civils, Overhead Cables and Fibre, Underground Cables and Fibre

Q. 8 and Q. 19. Do you agree or disagree with a regulatory asset life of 30 years for poles? Please explain in detail your response.

Q. 10. and Q. 21 Do you agree or disagree with a regulatory asset life of 40 years for duct, roadway, and footway boxes? Please explain in detail your response.

Q. 12 and 22. Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre? Please explain in detail your response.

Q. 13. and Q, 23 Do you agree or disagree with a regulatory asset life of 20 years for both underground cables and fibre? Please explain in detail your response.

ComReg’s approach to Poles, Ducts and Civils, Overhead Cables and Fibre, Underground Cables and Fibre raises similar issues and the Consultation Questions 8, 10, 12 and 13 (and 19, 21, 22, 23) are accordingly treated together below.

ComReg proposes, in relation to poles, ducts and civils, overhead cables and fibre, and underground cables and fibre to lengthen current asset lives, as follows:

Asset Category	Existing EUL (years)	Proposed EUL (years)
Duct and Civils	20	40
Poles	15	30
Underground Cables & Fibres	14	20

Overhead Cables & Fibres	8-10	15
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eircom is of the view that the asset lives proposed by ComReg do not adequately reflect the useful economic lives of these assets and that ComReg has not presented any reliable and tangible evidence which could support the conclusion that the current regulatory asset lives are inadequate. A number of issues arise:

Fixed Asset Register (FAR)

ComReg's interpretation of data submitted by eircom from its FAR is incorrect. The EULs in eircom's FAR represent the **average** EUL for a particular Asset Class and eircom strongly objects to ComReg's attempts to use the oldest assets in particular Asset Classes in eircom's FAR as a justification for extending the average EUL of the Class. Just because there is a particular asset on the FAR which is fully depreciated does not, of itself, mean that the EUL in the FAR for that Asset Class is too short.

For example, it may be that the asset in question is no longer operational, but the process of retiring the asset from the FAR has just not yet been implemented. It is also true that there may be particular assets in that Asset Class that have a useful life which is shorter than the EUL of the Asset Class in the FAR. ComReg would not have visibility of this, but the effect of this would be to compensate for assets with a life longer than the EUL. The result of this might well be that the EUL in the FAR would indeed represent the average EUL for a particular Asset Class. ComReg does not appear to have considered any of these possibilities in interpreting eircom's FAR data, with the result that any conclusions based on these interpretations by ComReg are flawed and should be revisited. This is notably the case in relation to **ducts and civils (Questions 10 and 21), overhead cables and fibre. (Questions 12 and 22) and underground cables and fibre (Questions 13 and 23).**

Benchmarking

As eircom has repeatedly pointed out, benchmarking must be used very cautiously in the context of eircom's network assets because of the rural nature of Ireland's population base (and consequently of eircom's network). This has been acknowledged publicly by ComReg in media reports on 16th March 2009 (e.g. "The Examiner" of that day quoted a ComReg spokesman as pointing out that "42% of Ireland's population live in rural areas while the EU average is 15%" and that "it costs more to run services into rural locations"). In this regard, a highly rural population base leads to a low-density network thereby raising the risk profile of assets, as it becomes more difficult to make an economic return as the network becomes more dispersed. It is accordingly inappropriate to draw any conclusions from the fact that eircom deviates in its asset lives from other telecom operators.

In this context, eircom, in correspondence over the course of recent months, has repeatedly pointed out the unsuitability of ComReg/RGL's benchmarking analysis. For example, eircom notes the following:

- ComReg/RGL have not compared "like with like". In relation to **poles**, eircom notes that ComReg and RGL have admitted that their benchmarking exercise had not taken into account differences in poles used in different networks, even where such differences are likely to have a very significant effect on the EUL of the pole - for example, concrete poles are used in other countries metal pylons are used by utilities such as the ESB while eircom only uses timber poles by eircom. This is very problematic. It is also the case that climatic conditions in Ireland are significantly different, with gales, rain, humidity, etc. far more prevalent here than in other

countries (particularly in the western part of the country, where overhead plant tends to predominate). In relation to **ducts and civils**, as pointed out to ComReg before, it is not appropriate to include, for the purpose of benchmarking, an outlier [REDACTED] which is clearly so far off scale as compared with telecoms operators that its inclusion only distorts the comparison.

- While ComReg relies on benchmarking data, the data advanced by ComReg does not necessarily support ComReg's conclusion. For instance, the data presented in relation to poles cannot be used to support an increase in the EUL of eircom's **poles** to 30 years. As eircom pointed out previously, there are other operators who have a shorter asset life than eircom and no European operator has an EUL for poles greater than 25 years. eircom notes further, in this regard, that the benchmarks [REDACTED] shows that the average [REDACTED] is **20.6** years. Similarly, it is difficult to see how ComReg can conclude that eircom's EUL for **underground cables** are unreasonably short when the average benchmarked EUL for these assets is less than 20 years. ComReg, in this regard, does not explain why Irish underground cables should last longer than those in the UK (incl. Northern Ireland).

Supplier Material

While useful information may be gathered from manufacturers, it appears to eircom unreasonable to use that information for regulatory purposes without making any further, detailed, inquiries, regarding the required conditions for achieving such EULs and without taking into account the characteristics of the network in which such assets would be used and the actual conditions of operation. eircom, in this regard, is concerned that ComReg/RGL appear to take information of a marketing nature at face value without seeking to verify and validate the information concerned.

For instance, in relation to the EUL of **poles**, eircom would query the source for the claims made by PDM Limited on its website that many poles "*installed prior to 1930 are still giving good service*".

Technological Obsolescence

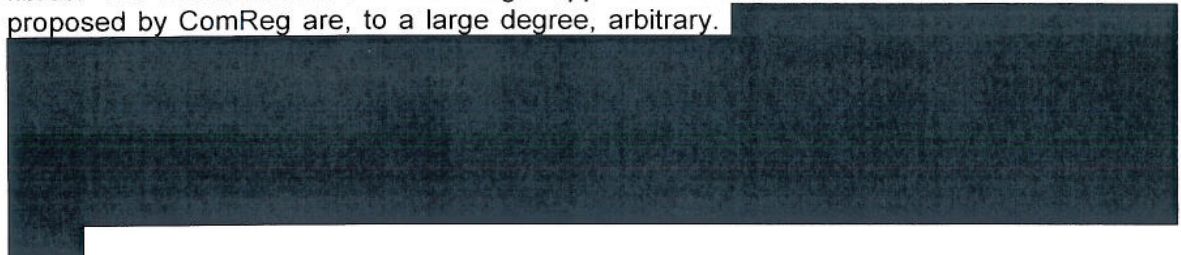
ComReg's errors are compounded by the apparent lack of understanding on the part of ComReg to take into account the issue of technological obsolescence. Technology is currently changing and evolving at an accelerating rate, with other alternative infrastructure, such as wireless and mobile, in some cases replacing traditional copper- and fibre-based infrastructure. This has the effect of shortening the EUL of the asset concerned on a prospective basis, a factor which ComReg does not appear to have taken into account to any degree.

eircom notes that this effect is reinforced in the context of **overhead plant** (poles, cables and fibre) by planning rules which more and more throughout the country favour the replacement of overhead plant by underground or radio-based infrastructure, especially areas of natural beauty, or in rural villages or urban areas. The consequent replacement of poles, in advance of their physical expiry, has the effect of shortening the average EULs of poles.

It is also clear that the average EUL of **poles** is significantly affected by the EUL of the various associated equipment carried on those poles, such as overhead cables, which have an EUL of 7 to 10 years. It is thus not unusual to decommission poles at the same time as an overhead cable, thus shortening the average EUL of the overall class. This effect does

not appear to have been accounted for in ComReg's assessment. Nor does ComReg appear to have given any consideration to the impact of having to dig up a pre-existing trench to add additional duct bores on the asset life. Such activity will obviously reduce the asset life of the existing trench.

In the light of the above, eircom is of the view that ComReg has failed to justify the proposed lengthening of the asset lives for poles, ducts and overhead and underground cables and fibres. The inconsistencies in ComReg's approach demonstrate that the new asset lives proposed by ComReg are, to a large degree, arbitrary.



In these circumstances, eircom believes that the current regulatory lives for these assets should be maintained.

Q. 11. Do you agree or disagree with ComReg's preliminary conclusion that it is likely that the rollout of NGN will also use the same ducts to provide services extending the lives of ducts, and associated civil works even further? Please explain in detail your response.

As already stated in response to questions 10 and 21 above, eircom does not believe that ComReg has adequately considered the issue of technological obsolescence in relation to duct and civils. In addition to the core IP-based NGNs, a number of operators are deploying Next Generation Access Networks, e.g. cable networks and mobile 3G networks. Neither of these networks makes use of the same ducts and civil works which are encompassed by this review. Therefore, while there may be some cases where technology changes such as NGN will tend to extend the EUL of duct (or, more correctly, alleviate the need to retire that particular duct early), the predominant effect of technological development will be to replace duct and cable with other bearer technology, thereby shortening the average EUL of overall class of assets (e.g. duct and civils).

In addition, ComReg appears to suggest that NGN rollout will include a seamless recycling of duct assets. This takes no account of the maintenance of continuity of service during the transition, which is likely to be a key part of the process. eircom notes, in this regard, that it has a greater share of single bore duct than is typical in the other peers examined by RGL, which also impacts upon this question.

Q. 18. Do you agree or disagree with ComReg's preliminary conclusions that the regulatory asset lives of the physical assets, common between both the core and access networks should be the same? Please explain in detail your response.

eircom agrees that the application of a unitary life to this type of common assets is both the most pragmatic and the most appropriate approach.

Q. 24. Do you agree or disagree with regulatory asset lives of 11 years for transmission equipment less than 155 M/bits? Please explain in detail your response.

Q. 25. Do you agree or disagree with a regulatory asset life of 11 years for transmission equipment greater than or equal to 155 M/bits? Please explain in detail your response.

eircom does not believe that it is appropriate to assess the EULs of transmission equipment by drawing a distinction based on bandwidth. This, in particular, would result in unnecessarily splitting existing Asset Classes or requiring the creation of additional classes.

Q. 41. Do you agree or disagree with the maintenance of the existing regulatory asset lives for buildings fixtures and fittings and security equipment of 5 years? Please explain in detail your response.

Q. 50. Do you agree or disagree with a regulatory asset life of 4 years for furniture? Please explain in detail your response.

It does not appear possible to reconcile the position taken by ComReg in relation to Question 50 to that taken in relation to Question 41. Question 41 appears to suggest that it is appropriate for eircom to treat furniture as property Fixtures & Fittings [REDACTED]. Question 50 however appears to require that this expenditure should be further sub-divided. eircom believes that this is not necessary or appropriate for the following reasons:

- Materiality: [REDACTED];
- No additional benefit provided against the additional effort required;
- The distinction is potentially confusing and arbitrary
- The distinction will create inconsistencies, both between the regulatory accounts prior years vs. current and future years, and between the statutory and regulatory accounts, which cannot be reasonably justified as necessary from a regulatory pricing point of view.

Q. 45. Do you agree or disagree with a regulatory asset life for standard vehicles (cars, vans and trucks) of 6 years? Please explain in detail your response.

Q. 46. Do you agree or disagree with a regulatory asset life for specially fitted out vehicles of 6 years? Please explain in detail your response.

Vans and trucks are assets that are commonly used, for similar purposes, across many industries. The generally accepted approach used across the vast majority of industries and companies would be to write these asset types off over a 5 year period. There is absolutely no reasons why, for non telecoms-specific assets (such as vans and trucks), the rates used in the statutory accounts and in the regulatory accounts should differ and ComReg has not

demonstrated any grounds to support why the EUL used in the regulatory accounts should differ from that used in the statutory accounts. In this regard, estimating the EUL of assets has an inherent element of subjectivity involved in the process. While 6 years may be a reasonable assessment, so is 5 years, and ComReg's intervention, in this regard, is therefore wholly unwarranted. It is accordingly eircom's view that 5 years is the appropriate EUL to use for the regulatory accounts.

Q. 49. Do you agree or disagree with a regulatory asset life of 6 years for bespoke, specialised or in-house developed software and 3 years for "off the shelf" packages? Please explain in detail your response.

eircom is of the view that the current level of granularity in eircom's FAR is adequate and eircom sees no justification for the creation of a new Asset Class for the purpose of distinguishing between bespoke and off the shelf software. eircom notes that the current EUL of 4 years is actually consistent with ComReg's proposals, where some assets would have their EUL shortened to 3 years while other assets would have their EUL lengthened to 6 years. It is difficult to see what benefit, and what difference, ComReg's proposals would make, other than introducing further unnecessary inconsistencies with the statutory accounts.

[REDACTED] eircom further notes the following:

- Asset Class [REDACTED] used for Application Software with an asset life of 4 years. ComReg argues that because eircom's FAR includes IT hardware dating from Pre 2004, the asset lives should be extended. The fallacy of this general approach has been explained in response to Question 8. In addition, and in any event, insofar as IT hardware is concerned, the asset concerned may have been subject to several upgrades, modifications, or additions of new features. Contrary to the assertion that "*normally upgrades and modifications are expensed in the year they are incurred*", these upgrades are capitalised as they enhance the economic benefits of the asset in excess of its previously assessed standard.

As eircom has explained previously, determining the EUL of an asset includes a subjective assessment, and appraisals may accordingly differ to a certain extent. eircom is of the view that appraisals of 4 years, 5 years or 6 years are all reasonable assessments. There is no reason why the depreciation policy used in eircom's current audited Regulatory Accounts should differ from that used in eircom's audited Statutory Accounts. It is difficult to see that there are material and significant reasons for a change when the proposed increase is only of 1 year on a generally accepted standard asset life, on a standard asset category, used in many company's statutory accounts.

eircom accordingly does not agree with ComReg's proposal.

Q. 55. Are there any other issues or assets which should be taken into consideration when assessing the regulatory asset lives of a fixed line telecommunications operator? Please explain in detail your response.

A review of the EULs of eircom's assets is a process that requires consideration of the period over which the assets give an economic return on their investment. In addition to the issue of technological obsolescence referred to in response to Questions 8ff, and the current economic environment, eircom believes that it is imperative that adequate consideration be given to the characteristics of eircom's network, having regard to the dispersion of population in Ireland.

In this regard, the population in Ireland is much more dispersed than elsewhere, and, in particular, is much more dispersed than the EU average. This is accepted by ComReg. For instance, in the national media on 16th March 2009, a ComReg spokesman was quoted as saying (in response to a report on line rental costs) that "42% of Ireland's population live in rural areas while the EU average is 15%". Also, an Irish Government paper on NGN from 2008 stated that "Ireland has significantly different demographic profile to comparator countries around the EU. Around 40% of the population in Ireland live in rural areas compared to the European norm of 5% -10%. --- The number of people living in apartments in Ireland is less than 10%. In other advanced economies this figure is much higher". This pattern of a widely dispersed population base results in additional uncertainty about the likelihood of eircom achieving an economic return on its asset base over the physical or technological life of the asset. This will have the effect of reducing the average EULs of particular categories of assets. This effect does not appear to have been considered by ComReg as part of this exercise.

Q. 58. Do you agree or disagree with ComReg's preliminary conclusions that the impact of the introduction of NGN, from an Irish regulatory asset life context, is greatly reduced? Please explain in detail your response.

eircom disagrees with ComReg's preliminary conclusion that the impact of the introduction of NGN, from an Irish regulatory asset life context, is greatly reduced. As pointed out earlier, (refer, in particular, to the response to question 11 above), Next Generation Networks are currently being deployed by all operators including fixed-line, mobile and cable companies. At this early stage of deployment, it is not possible to assess what impact such deployment is going to have on eircom's existing asset base. It appears to eircom however that the deployment of NGN will likely lead to a shortening of the economic useful lives of some assets. Prudence would suggest that it is not appropriate to make material changes to existing asset lives until the impact of Next Generation technologies becomes clearer.

In addition, it is important to emphasise the inherent uncertainty associated with NGN plans. Therefore, the relevant asset lives should not be set too long, as the level of uncertainty will increase the further one looks into the future.

Q. 59. Do you agree or disagree with the proposal that NGN assets be accounted for separately and that the related accounting policies should be disclosed separately? Please explain in detail your response.

The premise on which this question is based is inherently flawed because assets cannot be neatly categorised as either “NGN Assets” or “non-NGN Assets”. There are significant overlaps between “NGN Assets” and “non-NGN Assets”, and some of the assets that were deployed (or are being deployed) as part of eircom’s ongoing NGN programme already have an existing Asset Class on eircom’s FAR, e.g. DWDM and fibre. No New Asset Classes were required for the fibre and DWDM elements of the Core NGN Programme because there is no technical or application difference between a DWDM transmission system deployed a few years ago and a system deployed for the NGN IP.

Ultimately NGN assets will integrate within the existing network and there is accordingly no reason to apply separate accounting policies for NGN assets. NGN asset lives are determined according to the same criteria as used for other assets, namely:

- Usage of the asset – Usage is assessed by reference to the asset’s capacity or physical output;
- Physical wear and tear, which depends on operational factors such as repair and maintenance programmes and care and maintenance of the asset while idle;
- Technical or commercial obsolescence arising from changes or improvements, or from change in the market demand for the product or service output of the asset;
- Legal or regulatory limits on the use of the asset such as the expiry dates of related assets.

Q. 60. Do you believe that once the movement and extent of NGN becomes clearer that ComReg should review the regulatory asset lives of those assets separate to this consultation? Please explain in detail your response.

As explained in response to Questions 61 and 62, a review by ComReg of the asset lives used by eircom must be conducted in the context of any obligations relating in particular to price controls and cost-orientations imposed as a result of a finding of SMP in specific markets. Whether a review of the asset lives used by eircom for NGN assets is justified will depend on the scope of eircom’s obligations.

Assuming that asset lives used by eircom for NGN assets are relevant to such obligations, then intervention by ComReg would only be justified where ComReg is able to demonstrate that the asset lives used by eircom in its statutory accounts are materially inappropriate for the purpose of regulatory pricing.

END OF RESPONSE

2 BT Communications Ireland Limited



**BT Response to ComReg Review of the Regulatory Asset Lives of
eircom Ltd**

Reference: Submission re ComReg 09/11

Non Confidential Version

1. Introduction

BT welcomes this consultation and draft decision on the asset lives of eircom ltd. We agree that this is an important subject that will influence wholesale prices for the next decade of important wholesale services both existing and emerging.

BT has reviewed the asset lives suggested against its own policies as applied in the UK. Inevitably, there are differences, and occasional uncertainty about whether like is being compared with like.

However for a number of the key policies for long-lived assets such as duct and cable, the policies in the consultation are similar to those that BT uses in the UK.

For some of the questions we are unclear as to precisely the meaning intended by ComReg/ definition is.

For some other questions we do not have a strong view and have remained silent deferring to ComReg's judgement.

2. Response to ComReg Questions

Q. 1. *Do you agree or disagree that it is appropriate for ComReg to undertake this review at this time? Please explain in detail your response*

A.1. BT agrees. The asset lives used to set depreciation are an important factor in any regulatory pricing or costing decision. Prices for regulated products and services should reflect an appropriate economic life for the assets consumed by the service.

BT notes that the presence of technological change such as NGN/NGA investment makes it important to review asset lives from time to time. Technological change can materially alter the economic life of existing assets.

Q. 2. *Do you agree or disagree with ComRegs preliminary conclusion above taking into account the views of RGL? Please explain in detail your response.*

A.2. BT agrees.

Q. 3. *Do you agree or disagree with ComRegs preliminary conclusion that the Eircom's fixed asset register (in an equivalent form to that received as part of this consultation process) should be submitted annually to ComReg at the same time as the due date for submission of the HCAs to ComReg? Please explain in detail your response.*

A.3. BT agrees.

Full detail of the fixed asset register is likely to be confidential, as it will refer to assets in markets where regulation does not apply, but ComReg is an appropriate body to review regulatory costings, fixed asset values and asset lives in detail. This depends on the provision of timely and reliable financial and other information by eircom.

There may be reasons why the life used in a regulatory decision may differ from that used by eircom. Where this is the case, ComReg should be explicit about which life policies are being changed and why. For costing and pricing purposes, Ofcom changed the asset life of copper from 15 years to 18 years, and of duct to 40, departing from BT's policy. This was after an extensive consultation process.

<http://www.ofcom.org.uk/consult/condocs/copper/>

Q. 4. *Do you agree or disagree with a regulatory asset life of 4 years for*

customer sited DSL equipment? Please explain in detail your response.

BT agrees. The life here is influenced not only by technical factors that will cause existing equipment to become obsolete, but also customer choice. For example house moves will lead to significant churn of such equipment. It is relatively unlikely that Eircom will be able to achieve significant re-use of customer equipment. A relatively short life is likely to be consistent with the average life of a customer contract.

Q. 5. Do you agree or disagree with a regulatory asset life of 8 years for customer sited Data, Ethernet and IP terminating equipment? Please explain in detail your response.

A.5. Confidential Text

Q. 6. Do you agree or disagree with a regulatory asset life of 8 years for customer sited transmission terminating equipment? Please explain in detail your response.

A.6. Confidential Text

Q. 7. Do you agree or disagree with a regulatory asset life of 8 years for customer sited application capability equipment? Please explain in detail your response.

A.7. BT is unclear as to what “application capability equipment” is.

Q. 8. Do you agree or disagree with a regulatory asset life of 30 years for poles? Please explain in detail your response.

A8. Confidential Text

Q. 9. Do you agree or disagree with a regulatory asset life of 35 years for towers? Please explain in detail your response.

A.9. Confidential Text

Q. 10. Do you agree or disagree with a regulatory asset life of 40 years for

duct, roadway, and footway boxes? Please explain in detail your response.

A.10. BT agrees. Prior to 2005, BT had been using shorter lives. However as a results of Ofcom's review "*The Cost of Copper*", it was decided by Ofcom to extend duct life to 40 years. BT later changed its accounting life policy to be consistent with the regulatory decision. Details of Ofcom's reasoning can be found in the consultation cited in A3 above.

Q. 11. *Do you agree or disagree with ComReg's preliminary conclusion that it is likely that the rollout of NGN will also use the same ducts to provide services extending the lives of ducts, and associated civil works even further? Please explain in detail your response.*

A.11. Confidential Text

Q. 12. *Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre? Please explain in detail your response.*

A.12. Confidential Text

Q. 13. *Do you agree or disagree with a regulatory asset life of 20 years for both underground cables and fibre? Please explain in detail your response.*

A.13. BT agrees. Underground cable and fibre are in general well-protected assets, but would be replaced on a quicker cycle than the duct they are housed in. Existing cable would be expected to be re-used in the first instance.

Q. 14. *Do you agree or disagree with a regulatory asset life of 20 years for equipment associated with the maintenance of cables? Please explain in detail your response.*

A.14. BT is unclear as to what this equipment might be.

Q. 15. *Do you agree or disagree with a regulatory asset life of 8 years for active equipment including DSLAMs, MSAN's in exchanges or other conditioned areas? Please explain in detail your response.*

A.15. Confidential Text

Q. 16. *Do you agree or disagree with the maintenance of a regulatory asset life of 8 years for switching: line terminals? Please explain in detail your response.*

A.16. BT is unclear as to what this equipment might be.

Q. 17. *Do you agree or disagree with regulatory asset lives of 20 years for pair gains systems, 10 years for radio access and 8 years for antennae? Please explain in detail your response.*

A17. Please see related questions and answers above.

Q. 18. *Do you agree or disagree with ComRegs preliminary conclusions that the regulatory asset lives of the physical assets, common between both the core and access networks should be the same? Please explain in detail your response.*

A. 18. BT would expect that items such as duct, underground cable and overhead cable would have the same life, regardless of where in the network they lie. Exchange buildings would have a life in their own right, and the costs would be allocated to core and access services. It is the assets and their physical and economic conditions that determine life, not the part of the network costs are allocated to. There is no reason to expect that sharing an asset would cause the different shares to have a different life

Q. 19. *Do you agree or disagree with a regulatory asset life of 30 years for poles? Please explain in detail your response.*

A.19. Please see A.8. above.

Q. 20. *Do you agree or disagree with a regulatory asset life of 35 years for towers? Please explain in detail your response.*

A. 20. Please see A.9 above.

Q. 21. *Do you agree or disagree with a regulatory asset life of 40 years for duct, roadway, and footway boxes? Please explain in detail your response.*

A.21. Please see A.10 above.

Q. 22. *Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre? Please explain in detail your response.*

A.22. Please see A.12 above.

Q. 23. *Do you agree or disagree with a regulatory asset life of 20 years for underground cables and fibre? Please explain in detail your response.*

A.23. Please see A.13 above.

Q. 24. *Do you agree or disagree with regulatory asset lives of 11 years for transmission equipment less than 155 M/bits? Please explain in detail your response.*

A.24. Confidential Text

Q. 25. *Do you agree or disagree with a regulatory asset life of 11 years for transmission equipment greater than or equal to 155 M/bits? Please explain in detail your response.*

A.25. Confidential Text

Q. 26. *Do you agree or disagree with a regulatory asset life of 9 years for international satellite equipment? Please explain in detail your response.*

A.26.

Q. 27. *Do you agree or disagree with regulatory asset lives of 9 years for submarine transmission equipment and 15 years for submarine cable? Please explain in detail your response.*

A.27. Confidential Text

Q. 28. *Do you agree or disagree with the maintenance of the existing regulatory asset life of 6 years for IP and Internet router hardware? Please explain in detail your response.*

A.28. Confidential Text

Q. 29. *Do you agree or disagree with a regulatory asset life of 6 years for Ethernet: Transport and switch equipment? Please explain in detail your response.*

A.29.

Q. 30. *Do you agree or disagree with regulatory asset lives of 6 years for ATM Frame relay equipment? Please explain in detail your response.*

A.30. Confidential Text

Q. 31. *Do you agree or disagree with regulatory asset lives of 9 years for the "MARTIS" system and 6 years for other data equipment? Please explain in detail your response.*

A.31. The Martis system is something of a peculiarity of eircoms and would would defer to ComReg in this regard.

Q. 32. *Do you agree or disagree with a regulatory asset life of 10 years for class 4 / 5 switch hardware (excluding line terminals)? Please explain in detail your response.*

A.32. BT is not clear as to what this equipment is.

Q. 33. *Do you agree or disagree with a regulatory asset life of 5 years for class 4 / 5 switch software? Please explain in detail your response.*

A.33. See A.32 above.

Q. 34. *Do you agree or disagree with a regulatory asset life of 6 years for*

custom hardware and applications? Please explain in detail your response.

A.34. BT is unclear as to what this is.

Q. 35. *Do you agree or disagree with regulatory asset lives of 5 years for server hardware? Please explain in detail your response.*

A. 35. BT is unclear as to what this is.

Q. 36. *Do you agree or disagree with a regulatory asset life of 5 years for Applications and OS? Please explain in detail your response.*

A. 36. BT is unclear as to what this is.

Q. 37. *Do you agree or disagree with the maintenance of the existing regulatory asset lives for network management systems of 4, data and traffic management systems of 5 years and OPS support systems of 9 years? Please explain in detail your response.*

A. 37. Please see above.

Q. 38. *Do you agree or disagree with regulatory asset lives for specific test equipment of 5 years, miscellaneous test equipment of 11 years and line testing equipment of 20 years? Please explain in detail your response.*

A.38. Please see A37.

Q. 39. *Do you agree or disagree with the maintenance of the non-depreciation for land freehold and land leasehold for regulatory purposes? Please explain in detail your response.*

A.39. BT agrees on freehold land. It is normal practice not to depreciate land, as there is no reason to expect the value of land to decline through "use." BT would expect leasehold land to depreciate over the remaining life of the lease.

Q. 40. *Do you agree or disagree with the maintenance of the existing regulatory asset lives for exchange buildings of 40 years? Please explain in detail your response.*

A.40. BT agrees.

Q. 41. *Do you agree or disagree with the maintenance of the existing regulatory asset lives for buildings fixtures and fittings and security equipment of 5 years? Please explain in detail your response.*

A.41.

Q. 42. *Do you agree or disagree with the maintenance of the existing regulatory asset lives for phone and internet kiosks of 8 years? Please explain in detail your response.*

A.42.

Q. 43. *Do you agree or disagree with the maintenance of the existing regulatory asset lives AC/DC power equipment and air conditioning of 5 years for fixtures and fittings, 17 years for electrical equipment and 22 years for power? Please explain in detail your response.*

A.43.

Q. 44. *Do you agree or disagree with the maintenance of the existing regulatory asset lives for generators of 25 years? Please explain in detail your response.*

A.44.

Q. 45. *Do you agree or disagree with a regulatory asset life for standard vehicles (cars, vans and trucks) of 6 years? Please explain in detail your response.*

A.45.

Q. 46. *Do you agree or disagree with a regulatory asset life for specially*

fitted out vehicles of 6 years? Please explain in detail your response.

A.46.

Q. 47. *Do you agree or disagree with a regulatory asset life of 4 years for P.C.'s and miscellaneous hardware and 5 years for ancillary equipment? Please explain in detail your response.*

A.47.

Q. 48. *Do you agree or disagree with a regulatory asset life of 5 years for IT networking equipment? Please explain in detail your response.*

A.48.

Q. 49. *Do you agree or disagree with a regulatory asset life of 6 years for bespoke, specialised or in-house developed software and 3 years for "off the shelf" packages? Please explain in detail your response.*

A.49. Confidential Text

Q. 50. *Do you agree or disagree with a regulatory asset life of 4 years for furniture? Please explain in detail your response.*

A.50.

Q. 51. *Do you agree or disagree with a regulatory asset life of 4 years for PCs and server hardware? Please explain in detail your response.*

A.51. PC hardware and software should have the same life. 4 years reflects a realistic cycle of corporate replacement.

Q. 52. *Do you agree or disagree with a regulatory asset life of 4 years for PCs and server software? Please explain in detail your response.*

A.52.

Q. 53. *Do you agree or disagree with the maintenance of the regulatory asset life of 4 years for other electrical equipment? Please explain in detail your response.*

A.53.

Q. 54. *Do you agree or disagree that the regulatory asset lives of licences and intellectual property rights should be for the duration of licences, copyrights, or agreements? Please explain in detail your response.*

A.54. Confidential Text.

Q. 55. *Are there any other issues or assets which should be taken into consideration when assessing the regulatory asset lives of a fixed line telecommunications operator? Please explain in detail your response.*

A.55 As BT carries out its NGN investment, with the expectation that some legacy systems will be completely replaced; it is becoming more usual to use a common expiry date rather than an accounting book life. Rather than have a life that begins from installation, assets are reclassified so that they will all be fully written off by a certain date.

This procedure could extend or reduce the remaining useful life, depending on the expectation on NGN rollout, and if / when the legacy equipment is expected to be no longer in use.

Q. 56. *Do you agree or disagree with ComReg's proposal that all amended regulatory asset lives be implemented with immediate effect from the date of a ComReg decision? Please explain in detail your response.*

A.56. BT agrees that if ComReg is going to amend lives, and they differ from the lives in use by Eircom, then they should be implemented immediately. However this may not imply immediate changes to prices. See A.57.

Q. 57. *If you do not agree with the above preliminary view of ComReg, do you agree or disagree that any proposed changes to regulatory asset lives are implemented by a "glide path" rather than immediate implementation from the date of the direction? If such an approach were adopted do you believe one to two years is a reasonable period. Please explain in detail your response.*

A.57. It would seem reasonable that if ComReg is to make a decision on asset lives that impacts costs via depreciation then it should be implemented immediately. This does not imply that any prices should change immediately however. The concept of the “glide path” is normally applied to prices, if it is felt that an instantaneous change to prices would produce an undue shock in the market. Prices would follow the “glide path” to the future level of costs, while costs would have changed immediately.

Q. 58. *Do you agree or disagree with ComRegs preliminary conclusions that the impact of the introduction of NGN, from an Irish regulatory asset life context, is greatly reduced? Please explain in detail your response.*

A.58.

Q. 59. *Do you agree or disagree with the proposal that NGN assets be accounted for separately and that the related accounting policies should be disclosed separately? Please explain in detail your response.*

A.59. BT agrees. The timing and extent to which NGN investment becomes part of the regulatory cost base can be a contentious issue. ComReg will need access to distinct information on NGN investment in order to inform such views.

Q. 60. *Do you believe that once the movement and extent of NGN becomes clearer that ComReg should review the regulatory asset lives of those assets separate to this consultation? Please explain in detail your response.*

A.60. BT agrees. Some existing assets may be replaced entirely by NGN investments, some services may be provided in a very different manner. Asset lives are a key factor in determining regulatory costs. How this should be taken into account is likely to be highly case specific.

Q. 61. *Respondents are requested to provide views on whether the proposed direction is proportionate and justified and also to offer views on other factors (if any) ComReg should consider in completing its Regulatory Impact Assessment? Please explain in detail your response.*

A.61. BT agrees with the proposed direction and agrees that it is proportionate.

Q. 62. *Respondents are request to provide their detailed views from a commercial, practical and legal perspective in relation to the Draft Decision Instrument.*

A.62. BT has no further comments to add.

end

3 Magnet Networks Limited

Q. 1. Do you agree or disagree that it is appropriate for ComReg to undertake this review at this time? Please explain in detail your response
Yes it is appropriate to undertake a review at this time for the reasons set out in the consultation paper.

Q. 2. Do you agree or disagree with ComRegs preliminary conclusion above taking into account the views of RGL? Please explain in detail your response.
There is agreement with ComRegs preliminary conclusion, that the calculation of an economic depreciation charge is not feasible, for reasons set out in the consultation paper.

Q. 3. Do you agree or disagree with ComRegs preliminary conclusion that the Eircom's fixed asset register (in an equivalent form to that received as part of this consultation process) should be submitted annually to ComReg at the same time as the due date for submission of the HCAs to ComReg? Please explain in detail your response.
Yes, it is agreed that Eircom's Fixed Asset Register should be submitted annually, for reasons set out in the consultation paper.

Q. 4. Do you agree or disagree with a regulatory asset life of 4 years for customer sited DSL equipment? Please explain in detail your response
It is agreed that customer sited DSL equipment should have a shorter asset life than 6 years, and that 4 years is more appropriate.

Q. 5. Do you agree or disagree with a regulatory asset life of 8 years for customer sited Data, Ethernet and IP terminating equipment? Please explain in detail your response.
Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.

Q. 6. Do you agree or disagree with a regulatory asset life of 8 years for customer sited transmission terminating equipment? Please explain in detail your response.
Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.

Q. 7. Do you agree or disagree with a regulatory asset life of 8 years for customer sited application capability equipment? Please explain in detail your response.
Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.

Q. 8. Do you agree or disagree with a regulatory asset life of 30 years for poles? Please explain in detail your response.
Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.

Q. 9. Do you agree or disagree with a regulatory asset life of 35 years for towers? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 10. Do you agree or disagree with a regulatory asset life of 40 years for duct, roadway, and footway boxes? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 11. Do you agree or disagree with ComReg's preliminary conclusion that it is likely that the rollout of NGN will also use the same ducts to provide services extending the lives of ducts, and associated civil works even further? Please explain in detail your response.

[Yes, there is agreement with ComReg's preliminary conclusion regarding the rollout of NGN, for reasons set out in the consultation paper.](#)

Q. 12. Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 13. Do you agree or disagree with a regulatory asset life of 20 years for both underground cables and fibre? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 14. Do you agree or disagree with a regulatory asset life of 20 years for equipment associated with the maintenance of cables? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 15. Do you agree or disagree with a regulatory asset life of 8 years for active equipment including DSLAMs, MSAN's in exchanges or other conditioned areas? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 16. Do you agree or disagree with the maintenance of a regulatory asset life of 8 years for switching: line terminals? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 17. Do you agree or disagree with regulatory asset lives of 20 years for pair gains systems, 10 years for radio access and 8 years for antennae? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 18. Do you agree or disagree with ComRegs preliminary conclusions that the regulatory asset lives of the physical assets, common between both the core and access networks should be the same? Please explain in detail your response.

[Yes, there is agreement with ComReg's preliminary conclusions regarding the regulatory asset lives of the physical assets, for reasons set out in the consultation paper.](#)

Q. 19. Do you agree or disagree with a regulatory asset life of 30 years for poles? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 20. Do you agree or disagree with a regulatory asset life of 35 years for towers? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 21. Do you agree or disagree with a regulatory asset life of 40 years for duct, roadway, and footway boxes? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 22. Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 23. Do you agree or disagree with a regulatory asset life of 20 years for underground cables and fibre? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 24. Do you agree or disagree with regulatory asset lives of 11 years for transmission equipment less than 155 M/bits? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 25. Do you agree or disagree with a regulatory asset life of 11 years for transmission equipment greater than or equal to 155 M/bits? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 26. Do you agree or disagree with a regulatory asset life of 9 years for international satellite equipment? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 27. Do you agree or disagree with regulatory asset lives of 9 years for submarine transmission equipment and 15 years for submarine cable? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 28. Do you agree or disagree with the maintenance of the existing regulatory asset life of 6 years for IP and Internet router hardware? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 29. Do you agree or disagree with a regulatory asset life of 6 years for Ethernet: Transport and switch equipment? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 30. Do you agree or disagree with regulatory asset lives of 6 years for ATM Frame relay equipment? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 31. Do you agree or disagree with regulatory asset lives of 9 years for the "MARTIS" system and 6 years for other data equipment? Please explain in detail your response. [Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 32. Do you agree or disagree with a regulatory asset life of 10 years for class 4 / 5 switch hardware (excluding line terminals)? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 33. Do you agree or disagree with a regulatory asset life of 5 years for class 4 / 5 switch software? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 34. Do you agree or disagree with a regulatory asset life of 6 years for custom hardware and applications? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 35. Do you agree or disagree with regulatory asset lives of 5 years for server hardware? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 36. Do you agree or disagree with a regulatory asset life of 5 years for Applications and OS? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 37. Do you agree or disagree with the maintenance of the existing regulatory asset lives for network management systems of 4, data and traffic management systems of 5 years and OPS support systems of 9 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 38. Do you agree or disagree with regulatory asset lives for specific test equipment of 5 years, miscellaneous test equipment of 11 years and line testing equipment of 20 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 39. Do you agree or disagree with the maintenance of the non depreciation for land freehold and land leasehold for regulatory purposes? Please explain in detail your response.

[Yes, there is agreement with the maintenance of non depreciation for land freehold, and land leasehold, for regulatory purposes, for reasons set out in the consultation paper.](#)

Q. 40. Do you agree or disagree with the maintenance of the existing regulatory asset lives for exchange buildings of 40 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 41. Do you agree or disagree with the maintenance of the existing regulatory asset lives for buildings fixtures and fittings and security equipment of 5 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 42. Do you agree or disagree with the maintenance of the existing regulatory asset lives for phone and internet kiosks of 8 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 43. Do you agree or disagree with the maintenance of the existing regulatory asset lives AC/DC power equipment and air conditioning of 5 years for fixtures and fittings, 17 years for electrical equipment and 22 years for power? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 44. Do you agree or disagree with the maintenance of the existing regulatory asset lives for generators of 25 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 45. Do you agree or disagree with a regulatory asset life for standard vehicles (cars, vans and trucks) of 6 years? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 46. Do you agree or disagree with a regulatory asset life for specially fitted out vehicles of 6 years? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 47. Do you agree or disagree with a regulatory asset life of 4 years for P.C.'s and miscellaneous hardware and 5 years for ancillary equipment? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 48. Do you agree or disagree with a regulatory asset life of 5 years for IT networking equipment? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 49. Do you agree or disagree with a regulatory asset life of 6 years for bespoke, specialised or in-house developed software and 3 years for "off the shelf" packages? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 50. Do you agree or disagree with a regulatory asset life of 4 years for furniture? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 51. Do you agree or disagree with a regulatory asset life of 4 years for PCs and server hardware? Please explain in detail your response.

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 52. Do you agree or disagree with a regulatory asset life of 4 years for PCs and server software? Please explain in detail your response

[Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.](#)

Q. 53. Do you agree or disagree with the maintenance of the regulatory asset life of 4 years for other electrical equipment? Please explain in detail your response.

Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.

Q. 54. Do you agree or disagree that the regulatory asset lives of licences and intellectual property rights should be for the duration of licences, copyrights, or agreements? Please explain in detail your response

Yes, there is agreement with this regulatory asset life for reasons set out in the consultation paper.

Q. 55. Are there any other issues or assets which should be taken into consideration when assessing the regulatory asset lives of a fixed line telecommunications operator? Please explain in detail your response.

The issues and assets already discussed sufficiently cover any considerations in assessing the regulatory asset lives of a fixed line telecommunications operator.

Q. 56. Do you agree or disagree with ComReg's proposal that all amended regulatory asset lives be implemented with immediate effect from the date of a ComReg decision? Please explain in detail your response.

Answer is private and confidential

Q. 57. If you do not agree with the above preliminary view of ComReg, do you agree or disagree that any proposed changes to regulatory asset lives are implemented by a "glide path" rather than immediate implementation from the date of the direction? If such an approach were adopted do you believe one to two years is a reasonable period. Please explain in detail your response.

Answer is private and confidential

Q. 58. Do you agree or disagree with ComReg's preliminary conclusions that the impact of the introduction of NGN, from an Irish regulatory asset life context, is greatly reduced? Please explain in detail your response.

There is agreement with ComReg's preliminary conclusions.

Q. 59. Do you agree or disagree with the proposal that NGN assets be accounted for separately and that the related accounting policies should be disclosed separately? Please explain in detail your response.

There is agreement with ComReg's proposal.

Q. 60. Do you believe that once the movement and extent of NGN becomes clearer that ComReg should review the regulatory asset lives of those assets separate to this consultation? Please explain in detail your response

Once the movement and extent of NGN becomes clearer, ComReg should review the regulatory asset lives of those assets.

Q. 61. Respondents are requested to provide views on whether the

proposed direction is proportionate and justified and also to offer views on other factors (if any) ComReg should consider in completing its Regulatory Impact Assessment? Please explain in detail your response.

The proposed direction is proportionate and justified. ComReg has sufficiently covered material factors in completing its Regulatory Impact Assessment.

Q. 62. Respondents are request to provide their detailed views from a commercial, practical and legal perspective in relation to the Draft Decision Instrument.

No further commentary to add.

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4 Vodafone Ireland Limited



Vodafone Response to the ComReg Consultation and Draft Decision on the Review of the Regulatory Asset Lives of Eircom Limited – Document No. 09/11

Introduction

Vodafone welcomes the opportunity to respond to this consultation on the Review of the Regulatory Asset Lives of Eircom. Our views on ComReg's proposals and draft decision are set out fully in response to the consultation questions below.

Response to Consultation Questions

Q. 1. Do you agree or disagree that it is appropriate for ComReg to undertake this review at this time?

In view of the time elapsed since the last review on the treatment of eircom's regulatory asset lives, and the significant changes in technology in the intervening period, Vodafone agrees that it is appropriate for ComReg to undertake the review at this time.

Q. 2. Do you agree or disagree with ComRegs preliminary conclusion above taking into account the views of RGL?

Vodafone agrees with ComReg's preliminary conclusions taking into account the views of RGL. As was noted in this report, there appears to be no evidence to suggest that some of the major categories of assets (cables, ducts, poles) should have materially different economic useful lives (EULs) in Ireland when compared to countries with similar geographical and environmental conditions. Without such evidence, it is reasonable to align eircom's treatment of assets lives against suitable benchmarks.



On the issue of the appropriate form of depreciation to employ, Vodafone agrees that the use of accounting depreciation rather than economic depreciation is appropriate in this case and should yield a reasonable outcome. While recognising the theoretical advantages of economic depreciation methods, Vodafone considers that the practical difficulties and the significant costs required to provide the information and allow analysis of economic depreciation make this approach inappropriate to implement in this case.

Q. 3. Do you agree or disagree with ComRegs preliminary conclusion that the Eircom's fixed asset register (in an equivalent form to that received as part of this consultation process) should be submitted annually to ComReg at the same time as the due date for submission of the HCAs to ComReg?

To ensure consistency and transparency, Vodafone agrees that that eircom's fixed asset register (as submitted as part of this consultation) should be submitted annually to ComReg.

Q. 4. Do you agree or disagree with a regulatory asset life of 4 years for customer sited DSL equipment?

Vodafone agrees.

Q. 5. Do you agree or disagree with a regulatory asset life of 8 years for customer sited Data, Ethernet and IP terminating equipment?

Vodafone agrees.

Q. 6. Do you agree or disagree with a regulatory asset life of 8 years for customer sited transmission terminating equipment?

Vodafone agrees.

Q. 7. Do you agree or disagree with a regulatory asset life of 8 years for customer sited application capability equipment?

Vodafone agrees.

Q. 8. Do you agree or disagree with a regulatory asset life of 30 years for



poles?

Vodafone agrees.

Q. 9. Do you agree or disagree with a regulatory asset life of 35 years for towers?

Vodafone agrees.

Q. 10. Do you agree or disagree with a regulatory asset life of 40 years for duct, roadway, and footway boxes?

Vodafone agrees.

Q. 11. Do you agree or disagree with ComReg's preliminary conclusion that it is likely that the rollout of NGN will also use the same ducts to provide services extending the lives of ducts, and associated civil works even further?

Vodafone agrees that the rollout of NGN will extend the lives of existing ducts and associated civil works. It is clear that for the foreseeable future, DSL will continue to be provided in many, if not most, locations using copper infrastructure in existing ducts. Even as fibre to the home (FTTH) becomes more prevalent, it is likely that existing ducts will continue to be utilised both within the core and local access networks. Vodafone also notes eircom's publicly expressed intention to roll out NGN on an 'overlay' basis rather than replacing existing infrastructure. We agree with ComReg's view that new infrastructure will be rolled out only gradually and that existing services will continue to be provided using the existing asset base.

Q. 12. Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre?

Vodafone agrees.

Q. 13. Do you agree or disagree with a regulatory asset life of 20 years for both underground cables and fibre?

Vodafone agrees.



Q. 14. Do you agree or disagree with a regulatory asset life of 20 years for equipment associated with the maintenance of cables?

Vodafone agrees.

Q. 15. Do you agree or disagree with a regulatory asset life of 8 years for active equipment including DSLAMs, MSAN's in exchanges or other conditioned areas?

Vodafone agrees.

Q. 16. Do you agree or disagree with the maintenance of a regulatory asset life of 8 years for switching: line terminals?

Vodafone agrees.

Q. 17. Do you agree or disagree with regulatory asset lives of 20 years for gains systems, 10 years for radio access and 8 years for antennae?

Vodafone agrees.

Q. 18. Do you agree or disagree with ComRegs preliminary conclusions that the regulatory asset lives of the physical assets, common between both the core and access networks should be the same?

Vodafone agrees.

Q. 19. Do you agree or disagree with a regulatory asset life of 30 years for poles?

Vodafone agrees.

Q. 20. Do you agree or disagree with a regulatory asset life of 35 years for towers?

Vodafone agrees.

Q. 21. Do you agree or disagree with a regulatory asset life of 40 years for



duct, roadway, and footway boxes?

Vodafone agrees.

Q. 22. Do you agree or disagree with a regulatory asset life of 15 years for overhead cables and fibre?

Vodafone agrees.

Q. 23. Do you agree or disagree with a regulatory asset life of 20 years for underground cables and fibre?

Vodafone agrees.

Q. 24. Do you agree or disagree with regulatory asset lives of 11 years for transmission equipment less than 155 M/bits?

Vodafone agrees.

Q. 25. Do you agree or disagree with a regulatory asset life of 11 years for transmission equipment greater than or equal to 155 M/bits?

Vodafone agrees.

Q. 26. Do you agree or disagree with a regulatory asset life of 9 years for international satellite equipment?

Vodafone agrees.

Q. 27. Do you agree or disagree with regulatory asset lives of 9 years for submarine transmission equipment and 15 years for submarine cable?

Vodafone agrees.

Q. 28. Do you agree or disagree with the maintenance of the existing regulatory asset life of 6 years for IP and Internet router hardware?

Vodafone agrees.



Q. 29. Do you agree or disagree with a regulatory asset life of 6 years for Ethernet: Transport and switch equipment?

Vodafone agrees.

Q. 30. Do you agree or disagree with regulatory asset lives of 6 years for ATM Frame relay equipment?

Vodafone agrees.

Q. 31. Do you agree or disagree with regulatory asset lives of 9 years for the "MARTIS" system and 6 years for other data equipment?

Although Vodafone sets a regulatory asset life of 8 years for "Martis" systems, we agree that 9 years is reasonable in the case of eircom. Vodafone agrees that 6 years is appropriate for other data equipment.

Q. 32. Do you agree or disagree with a regulatory asset life of 10 years for class 4 / 5 switch hardware (excluding line terminals)

Vodafone agrees.

Q. 33. Do you agree or disagree with a regulatory asset life of 5 years for class 4 / 5 switch software?

Vodafone agrees.

Q. 34. Do you agree or disagree with a regulatory asset life of 6 years for custom hardware and applications?

Vodafone agrees.

Q. 35. Do you agree or disagree with regulatory asset lives of 5 years for server hardware?

Vodafone agrees.

Q. 36. Do you agree or disagree with a regulatory asset life of 5 years for



Applications and OS?

Vodafone agrees.

Q. 37. Do you agree or disagree with the maintenance of the existing regulatory asset lives for network management systems of 4, data and traffic management systems of 5 years and OPS support systems of 9 years?

Vodafone agrees.

Q. 38. Do you agree or disagree with regulatory asset lives for specific test equipment of 5 years, miscellaneous test equipment of 11 years and line testing equipment of 20 years?

Vodafone sets a life of 4 years for specific test equipment and does not differentiate for miscellaneous equipment. On this basis, an asset life of 5 years for specific test equipment is reasonable. Setting line testing equipment asset lives at 20 years is appropriate due to the unchanging nature of the technology that requires testing.

Q. 39. Do you agree or disagree with the maintenance of the non depreciation for land freehold and land leasehold for regulatory purposes?

Vodafone agrees.

Q. 40. Do you agree or disagree with the maintenance of the existing regulatory asset lives for exchange buildings of 40 years?

Vodafone agrees.

Q. 41. Do you agree or disagree with the maintenance of the existing regulatory asset lives for buildings fixtures and fittings and security equipment of 5 years?

Vodafone agrees.

Q. 42. Do you agree or disagree with the maintenance of the existing regulatory asset lives for phone and internet kiosks of 8 years?

Vodafone agrees.



Q. 43. Do you agree or disagree with the maintenance of the existing regulatory asset lives AC/DC power equipment and air conditioning of 5 years for fixtures and fittings, 17 years for electrical equipment and 22 years for power?

Vodafone agrees

Q. 44. Do you agree or disagree with the maintenance of the existing regulatory asset lives for generators of 25 years?

Vodafone agrees.

Q. 45. Do you agree or disagree with a regulatory asset life for standard vehicles (cars, vans and trucks) of 6 years?

Vodafone agrees.

Q. 46. Do you agree or disagree with a regulatory asset life for specially fitted out vehicles of 6 years?

Vodafone agrees that 6 years (2 years over standard) is appropriate for specially fitted out vehicles.

Q. 47. Do you agree or disagree with a regulatory asset life of 4 years for P.C.'s and miscellaneous hardware and 5 years for ancillary equipment?

Vodafone agrees.

Q. 48. Do you agree or disagree with a regulatory asset life of 5 years for IT networking equipment?

Vodafone agrees.

Q. 49. Do you agree or disagree with a regulatory asset life of 6 years for bespoke, specialised or in-house developed software and 3 years for "off the shelf" packages?

Vodafone agrees.

Q. 50. Do you agree or disagree with a regulatory asset life of 4 years for



furniture?

Vodafone agrees.

Q. 51. Do you agree or disagree with a regulatory asset life of 4 years for PCs and server hardware?

Vodafone agrees.

Q. 52. Do you agree or disagree with a regulatory asset life of 4 years for PCs and server software?

Vodafone agrees.

Q. 53. Do you agree or disagree with the maintenance of the regulatory asset life of 4 years for other electrical equipment?

Vodafone agrees.

Q. 54. Do you agree or disagree that the regulatory asset lives of licences and intellectual property rights should be for the duration of licences, copyrights, or agreements?

Vodafone agrees.

Q. 55. Are there any other issues or assets which should be taken into consideration when assessing the regulatory asset lives of a fixed line telecommunications operator?

Vodafone considers the RGL report to be comprehensive in its treatment of eircom's regulatory asset lives and in its consideration of the treatment of fixed assets in general. The information sources used and the benchmarks considered seem appropriate for this exercise. While Vodafone would have different treatment for some similar categories of asset, the difference in most cases is minor and, if implemented, would be unlikely to have a material effect on subsequent regulated prices.

Q. 56. Do you agree or disagree with ComReg's proposal that all amended



regulatory asset lives be implemented with immediate effect from the date of a ComReg decision?

Vodafone believe that in view on the considerable time that has elapsed since the last review, the amended asset lives should be implemented with effect from the date of a decision. If a glide path approach is implemented, it should be for a period no greater than one (1) year.

Q. 57. If you do not agree with the above preliminary view of ComReg, do you agree or disagree that any proposed changes to regulatory asset lives are implemented by a “glide path” rather than immediate implementation from the date of the direction? If such an approach were adopted do you believe one to two years is a reasonable period.

Q. 58. Do you agree or disagree with ComRegs preliminary conclusions that the impact of the introduction of NGN, from an Irish regulatory asset life context, is greatly reduced?

Vodafone agree for the reasons set out by ComReg that the impact of NGN in the context of regulatory asset lives is greatly reduced. Until there is evidence of significant investment in new NGN infrastructure, this is likely to remain the case.

Q. 59. Do you agree or disagree with the proposal that NGN assets be accounted for separately and that the related accounting policies should be disclosed separately?

Vodafone agrees that NGN assets should be accounted for separately once their deployment in the eircom network becomes material. It is vital that a sufficient level of transparency is available to ComReg to properly evaluate all cost categories, including depreciation charges, which impact the price of regulated products. The vital importance of NGN in the national context makes this obligation even more relevant and imperative. Vodafone recognises that the obligation is not costless but nevertheless believes it is necessary to ensure transparency, efficient pricing, and sustainable competition.

Q. 60. Do you believe that once the movement and extent of NGN becomes clearer that ComReg should review the regulatory asset lives of those assets separate to this consultation?

Vodafone agrees that once the dynamics of NGN deployment become clearer, ComReg should conduct a separate consultation on NGN assets. Vodafone further considers that



extensive information on the nature of the future NGA network of eircom will be a necessary requirement for ComReg to determine the optimal approach to all aspects relating to the regulation of next generation products and related markets (e.g. any next generation variants of existing Bitstream products in the Wholesale Broadband Access market).

Vodafone believe that ComReg should consult on the details of all the regulatory obligations in respect of next generation access at the earliest opportunity once sufficient information on the nature of the plans of eircom for the next generation access network is obtained to allow the optimal approach to regulation to be determined. The key objective for ComReg in developing the detail of NGA product regulation must be to incentivise NGA investment which is as pro-competitive as possible. As no significant NGA infrastructure has been commercially deployed by eircom in the market to date, there is currently an outstanding opportunity to shape regulation so as to ensure that a NGA network is developed that maximises the prospects for successful competition by OAOs underpinned by their own significant investments in NGA network infrastructure elements. Sustainable infrastructure based competition will provide tangible benefits to the retail customers of all operators, especially in the medium to longer term, in terms of lower prices and enhanced variety and quality of communications services.

Vodafone considers that the optimal regulatory approach to promote pro-competitive NGA investment should not treat all forms of such investment in the same way. Some forms of NGA investment, such as in cabinets which allow sufficient spare capacity for other operators to locate their equipment in them, offer far greater scope for infrastructure based competition than others. A pro-competitive approach must encourage those NGA investments that best facilitate competition in a cost effective manner and this can be achieved by ComReg making it clear that such investments will attract less intensive regulation than investments which restrict the scope for such competition.

Q. 61. Respondents are requested to provide views on whether the proposed direction is proportionate and justified and also to offer views on other factors (if any) ComReg should consider in completing its Regulatory Impact Assessment?

Vodafone believe that the proposed direction is proportionate and justified at this time.

Q. 62. Respondents are request to provide their detailed views from a commercial, practical and legal perspective in relation to the Draft Decision Instrument.

5 IrelandOffLine

Dear Sir/Madam

IrelandOffline believes that the 62 questions in this report highlight the utter lack of effective regulation in Ireland during the time that Comreg and its predecessor have been in office. These should have been rightfully asked over 10 years ago. These questions are only now being asked yet for the last ten years these have been included in the rationale (and economic model) for the exorbitant line rental charges.

No effort has been made to analyse the costs associated with an efficient operator to date and to allow cost recovery associated with an efficient operator. Instead of this every attempt at obfuscation and obstruction by eircom is warmly indulged.

Sadly we do not have concrete examples from operators in countries such as Finland and Sweden in this report. Their assets function much better under more extreme conditions, yet a pole is a pole and a wire is a wire. Weatherproofing is not rocket science.

Therefore we propose to answer 2 questions only. Question 1 and Question 8

Question 1

We believe that this review should have been carried out 10 years ago. In the intervening period we have had to endure the worlds highest line rental. Comreg has had no proper model of the cost of effectively provisioning of a phone line and of how to depreciate the assets allowing for prudent management of the asset base.

Question 8

We are delighted that Comreg, after 10 years in operation, has finally noticed that a Telephone Pole lasts 30 years. We agree with this analysis.

We believe that a Pole lasted 30 years before privatisation

We believe that a Pole lasted 30 years right though the LLU Process and the publication of the ARO and of LLU Costs.

We believe that this was the case when the highest line rental in the world was first introduced in Ireland in 2003.

We believe that this was still the case when the highest line rental in the world increased in 2007.

We believe that Comreg have analysed the Pole issue comprehensive and correctly and as follows,

"4.19 Poles

4.19.1 ComReg considers poles include poles to carry overhead copper, co-axial or fibre cables.

4.19.2 Poles are constructed to accommodate different types of aerial cable and cable technologies over time. This enables them to be reused.

4.19.3 ComReg understands that many timber poles, which are the predominant type of pole in Eircoms network, can have a useful life in excess of 50 years, when properly maintained.

4.19.4 P.D.M. Limited of Kill, Co. Kildare, which supply poles to telecommunication companies state on their website⁸ that:

“There are many instances of Creosoted Timber structures and Wood Poles still giving good service after 100 years in ground contact. In Ireland, the E.S.B. has used 1,250,000 pressure treated creosoted Transmission Poles in the Rural Electrification Scheme since 1947 and replacement has hardly commenced: Over 100,000 poles erected prior to 1947 are still in use. Eircom have over 1,000,000 Creosoted Telegraph Poles standing in Ireland and of these more than 100,000 installed prior to 1930 are still giving good service. “

4.19.5 A reference from the North American Wood Pole Council⁹ article “Wood Poles: How long do they last” states that:

“Currently, most utilities assume a 30 to 40 year life expectancy for wood poles but utility experience indicates that actual life of properly produced and maintained wood poles is significantly longer – certainly approaching 75 or more years service”

8 www.pdm.ie (extracted 13 February 2009)

9 www.woodpoles.org (extracted 13 February 2009)

Review of the Regulatory Asset Lives of Eircom Limited

4.19.6 However given the climatic conditions in Ireland and the increased tendency to replace overhead infrastructure (i.e. poles) with underground infrastructure (i.e. ducts and trenches), ComReg considers, the service life of a pole in Ireland could be less.

4.19.7 The existing regulatory asset life for poles in the access network is 15 years. An investigation of Eircoms fixed asset register would indicate the presence of poles which were installed pre 1993, are now fully depreciated but are still recorded. ComReg is of the opinion that the current assumed useful economic life of 15 years is too short.

4.19.8 ComReg’s preliminary conclusion recommends a regulatory asset life of 30 years for poles, a doubling of the length of the current regulatory asset life. As described above timber poles can have a useful life in excess of 50 years. ComReg is of the opinion that given Ireland’s climatic conditions that 50 years would be excessive. It is of the view that 30 years strikes an appropriate balance between the existing regulatory life of 15 years and 50 years.”

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