



Commission for
Communications Regulation

Decision Notice

Price Cap on eircom 2002

**Compliance Statement in accordance with the
Telecommunication Tariff Regulation (Modification)
Order, 1999 (Statutory Instrument No. 438 of 1999)**

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1 Background

1.1 Legislation

The Telecommunications Tariff Regulation Order, 1996 (S.I. No. 393 of 1996) was made by the Minister for Transport, Energy and Communications (the Minister), under section 7 of the Telecommunications (Miscellaneous Provisions) Act, 1996. It came into operation on the first day of January, 1997.

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

In December 1999, the Director of Telecommunications Regulation ("the Director") signed the Telecommunications Tariff Regulation (Modification) Order, 1999, (S.I. No. 438 of 1999) which amended the 1996 order.

The 1999 Modified Order ('the order') applies to a basket of telecommunications services provided by *eircom*. These services are as follows:

- The provision of telephone exchange lines and Integrated Services Digital Network lines (Rental)
- Telephone exchange lines and Integrated Services Digital Network connection and take-over (Connection)
- Local dialled calls
- Trunk dialled calls
- Operator calls
- Directory enquiry calls
- Payphone calls

The order placed a price cap on *eircom*'s tariffs requiring an overall downward movement in tariffs which was required, as a minimum, to equal the annual percentage change in the Consumer Price Index for the year preceding the relevant year ("ΔCPI") minus 8%.

Within this overall price cap, *eircom* had some flexibility to adjust and rebalance its tariffs within specified parameters. The annual allowable tariff increase for any service within the basket could not exceed the annual percentage change in the Consumer Price Index plus 2%, with the exception of the directory enquiry service on which no price ceiling was imposed. In addition, the average bill of the low quartile user was not allowed to increase by more than the annual percentage change in the consumer price index.

Under the 1999 order, carryover, from 1999 or previous years, of reductions or increases which were greater or less than those allowed under the 1996 order, was not permitted.

1.2 Price Cap Methodology

The formula for the calculation of the price cap in respect of the total basket of telecommunications services, where the price cap is $\Delta\text{CPI} - 8\%$, is:

$$\Sigma^n = \Delta P_i * (R_i / R_t)$$

where,

- n is the total number of services in the basket of telecommunications services;
- ΔP_i is the percentage change in tariff (before discounts, except for any light user scheme) for telecommunications service "i" calculated from either:
- (i) the base of the tariff pertaining at the end of the year preceding the relevant year, or
 - (ii) on the basis of a representative sample (approved of by the Director after consultation with the company) of call records for the service "i" provided by the company;
- R_i is the total audited revenue before discounts for the telecommunications service "i" in the financial year ending on or about 31 March in the relevant year;
- R_t is the overall total revenue before discounts in the financial year ending on or about 31 March in the relevant year for all telecommunications services in the basket.

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

2 Price Cap Obligations

This is the report on the third year of operation of the 1999 price cap order, from the 1st January 2002 to the 31st December of 2002.

2.1 Report on Compliance for 2002

With respect to its obligations under the price cap for 2002, *eircom* were permitted to increase the price for the overall basket of services by no more than 0.85%. This figure is calculated as follows:

$$\begin{aligned} A & \quad \Delta\text{CPI} - X = -3.8\%^1 \\ B & \quad \textit{plus} \text{ Carryover granted from excess reductions}^2 \text{ in 2001} = 4.65\% \\ A+B & \quad 0.85\% = \text{Allowable increase in 2002} \end{aligned}$$

eircom supplied information showing an aggregate increase in the tariffs charged for the basket of services totalling **0.83%** in 2002. *eircom* also confirmed that there were no increases in the tariffs charged for any individual items within the basket of telecommunications services which exceeded the permitted levels under the Telecommunications Tariff Regulation (Modification) Order 1999. Tariffs for line rental, payphone calls and directory enquires increased, tariffs for connections and national calls decreased, while no tariff changes were made to local or operator assisted calls.

ComReg has reviewed the information supplied by *eircom* to ensure their compliance with the price cap in 2002. The result of this review is that the Commission is satisfied that *eircom* complied with the Telecommunications Tariff Regulation (Modification) Order, 1999 during 2002.

2.2 Price Cap 2003

Following a review of the Price Cap in 2002, a new Tariff Regulation Order³ came into effect on 4th February 2003. The cap on the basket of services is now $\Delta\text{CPI} - 0\%$. Directory Enquiry calls have been removed from the basket of services and fixed to mobile calls have been introduced. All sub-caps on main basket services have been removed.

ΔCPI for the year February 2003 to February 2004 which *eircom* are required to use is calculated using the change in the CPI index for the period December 2001 to December 2002 which has been confirmed at 5.0%⁴.

¹ Change in CPI in 2001 was 4.2%, minus 8% = -3.8%

² See D7/02, Document 02/42

³ See D3/03, Document 03/14 Review of the Price Cap on Certain Telecommunications Services

⁴ Change in CPI from December 2001 to December 2002 = $(124.1 - 118.2) / 118.2 = 5.0\%$