



Office of the Director of  
**Telecommunications  
Regulation**

**DECISION NOTICE**

## Price Cap on eircom 2001

Compliance Statement in accordance with  
the Telecommunications 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 proceeding the relevant year (" $\Delta$ CPI") 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  $\Delta$ 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;

$\Delta P_i$  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 service in the basket.

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

## 2 Price Cap Obligations

This is the report on the second year of operation of the 1999 price cap order, from the 1<sup>st</sup> January 2001 to the 31<sup>st</sup> December of 2001.

### 2.1 Report on Compliance for 2001

With respect to its obligations under the price cap for 2001, eircom were permitted to increase the price for the overall basket of services by no more than 8.79%. This figure is calculated as follows:

A  $\Delta\text{CPI} - X = -2.1\%$ <sup>1</sup>

B *plus* Carryover granted from excess reductions<sup>2</sup> in 2000 = 10.89%

A+B **8.79%** = Allowable increase in 2001

*eircom* supplied information showing an aggregate increase in the tariffs charged for the basket of services totalling 4.14% in 2001. *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, connections, payphone calls and directory enquires all increased, while no tariff changes were made to local, national or operator calls.

**The ODTR has carried out a review of information supplied by *eircom* to confirm *eircom*'s compliance with the price cap in 2001. The result of this review is that the Director is satisfied that *eircom* complied with the Telecommunications Tariff Regulation (Modification) Order, 1999 during 2001.**

### 2.2 Price Cap 2002

In relation to compliance with the price cap in 2002,  $\Delta\text{CPI}$  for 2001 (the relevant year for the 2002 price cap) has been confirmed at 4.2%.

<sup>1</sup> Change in CPI in 2001 was 5.9%, minus 8% = -2.1%

<sup>2</sup> *eircom*'s obligation in 2000 was to reduce prices by 4.6%, where total reductions were 15.5% see D4/01, Document 01/20