



Office of the Director of
**Telecommunications
Regulation**

PRICE CAP ON TELECOM EIREANN

Compliance with the Telecommunications Tariff Regulation Order 1996 (Statutory Instrument No. 393 of 1996)

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Oifig an Stiúirthóra Rialála Teileachumarsáide
Office of the Director of Telecommunications Regulation
Abbey Court, Irish Life Centre Lower Abbey Street, Dublin 1.
Telephone +353-1-804 9600 *Fax* +353-1-804 968 *Web* <http://www.odtr.ie>

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

Introduction

The order was made by the Minister for Transport, Energy and Communications under section 7 of the Telecommunications (Miscellaneous Provisions) Act, 1996 and came into operation on 1st January, 1997.

This order provides a new framework for future changes in Telecom Eireann's telecommunications tariffs. Previously Telecom Eireann's tariffs were controlled under Section 90 of the Postal and Telecommunications Services Act 1983 which required the consent of the Minister for increases in prices.

The order covers telecommunications services provided by Telecom Eireann for which there is no competition and for which Telecom Eireann holds a dominant position in the relevant market. These services are grouped into a basket of telecommunications services and are as follows;

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

The order places a price cap on Telecom Eireann's tariffs such that there will be an overall downward movement in tariffs which should at least equal to the annual percentage change in the Consumer Price Index - 6%.

Within this overall cap Telecom Eireann has flexibility to adjust tariffs although each individual telecommunications service within the basket cannot increase by more than annual percentage change in Consumer Price Index plus 2%. Increases in tariffs are also restricted by the requirement that the average bill of the low volume user and the provision of telephone exchange lines cannot increase by more than the annual percentage change in the consumer price index.

The order also allows for the carryover of the reductions/increases which are greater/less than those allowed under the order. This price cap applies on an annual basis commencing on 1 January 1997.

Price Cap Methodology

The change in tariffs charged must be analysed and compared with the CPI index. The formula for the total basket of telecommunications services, where the price cap is CPI - 6%, is as follows:

$$\sum_{i=1}^n \Delta P_i * (R_i / R_t)$$

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"
- R_i is the total 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 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 is divided by the total revenue for the complete basket of telecommunications services. This figure is then multiplied by the tariff change for the individual telecommunication service. This is done for all individual components. Once this has been completed, the answers are added to obtain the price change for the basket of telecommunications services.

Compliance 1997

The CPI for 1997 was 1.7%, the minimum amount by which Telecom Eireann had to adjust its tariffs by was therefore (1.7% - 6.0%) 4.3%.

Telecom Eireann has supplied information showing reductions of 8.8%. It also confirmed that there have been no increases on any individual items within the basket of telecommunications services during the 1997 year.

The ODTR carried out an appropriate review of the information supplied by Telecom Eireann to confirm its compliance with the price cap in 1997.

Approval has been given by the Director of Telecommunications Regulation to allow the carryover of the excess reductions from 1997 to 1998.