

JERSEY COMPETITION REGULATORY AUTHORITY

INITIAL NOTICE TO JERSEY TELECOM LIMITED

Under Article 11 of the Telecommunications (Jersey) Law 2002

Regarding Condition 33.2 of Jersey Telecom Limited's Licence

The JCRA is issuing this Initial Notice to Jersey Telecom Limited ('JT') under Article 11(1) of the Telecommunications (Jersey) Law 2002 (the 'Law') concerning a proposed Decision and Determination to apply a Price Control to certain of JT's telecommunications products.

In 2004 the JCRA applied a Price Control to certain telecommunications products offered by JT in its Direction 2004-2. In October 2007 the JCRA consulted on the terms of any further Price Control. Arising from the responses to that consultation the JCRA appointed consultants Frontier Economics to review the business and accounts of JT in order to determine the terms of any new price control. Frontier Economics produced a report on which JT was invited to comment. As a consequence of the consultation and the Frontier Economics Report the JCRA has determined the terms of the next Price Control.

The JCRA has defined five retail markets in the fixed-line telecommunications sector in Jersey in which the JCRA believes JT to be dominant: connection of fixed subscribers, rental of subscriber lines, local calls from fixed-line telephones, calls to the UK from fixed-line telephones, and international calls from fixed-line telephones. The JCRA proposes to place a Price Control equivalent to the Jersey Retail Price Index (RPI) minus 3% (RPI-3) to local call, calls to the UK and international call charges and a sub-cap of RPI-1% on subscriber line rental and subscriber line connection charges. This will be done pursuant to Condition 33.2 of JT's Licence dated 1st July 2003. The JCRA also proposes to set the level of Weighted Average Cost of Capital for the period of this price control at 11.6%.

The Law requires the JCRA to perform its functions in a manner consistent with the considerations set forth in Articles 7(1) and 7(2). The JCRA's consideration of these factors is detailed below.

I. Considerations under Article 7(1) of the Law

A. Considerations under Article 7(1)

1. The JCRA has a primary duty under Article 7(1) of the Law to perform its functions in such manner best calculated to ensure that (so far as reasonably practicable) telecommunication services are provided, both within Jersey and between Jersey and the rest of the world, as satisfy all current and prospective demands for them, wherever arising. In considering whether telecommunication services satisfy reasonable demands under Article 7(1), under Article 7(3)(a) the JCRA may have regard to whether the services provided are affordable by and accessible to the highest number practicable of

business and domestic users. By limiting JT's ability to increase prices for fixed-line telecommunication services for which it holds a dominant position, the proposed Price Control direction helps to ensure that fixed-line telecommunication services, both within Jersey and between Jersey and the rest of the world, are delivered to users at affordable prices.

II. Considerations under Article 7(2) of the Law

3. Article 7(2) of the Law specifies additional considerations to which the JCRA must have regard, although only in so far as is consistent with its primary duty under Article 7(1). The JCRA's consideration of these Article 7(2) duties is set forth below.

A. Article 7(2)(a)

4. The JCRA has a duty under Article 7(2)(a) to perform its functions in such manner as it considers best calculated to protect and further the short term and long term interests of users within Jersey of telecommunication services. The introduction of the Price Control should protect and further the short term and long term interests of users of telecommunication services by ensuring that prices are not excessive for the services provided, where competition is not in a position to effectively limit this risk. Thus, the JCRA has concluded that the proposed Price Control is consistent with Article 7(2)(a).

B. Article 7(2)(b)

5. The JCRA has a duty under Article 7(2)(b) to perform its functions in such manner as it considers best calculated to promote efficiency, economy and effectiveness in commercial activities connected with telecommunication services in Jersey. In introducing this new price control, the JCRA anticipates that JT will be motivated to make efficiency savings in markets where it faces competition and thus pass the benefits to consumers over the period of operation.

C. Article 7(2)(c)

6. The JCRA has a duty under Article 7(2)(c) to perform its functions in such manner as it considers is best calculated to further Jersey's economic interests. By protecting users of fixed-line telecommunication services from excessive prices in areas where JT is dominant, the proposed Price Control furthers this interest.

D. Article 7(2)(d)

7. The JCRA has a duty under Article 7(2)(d) to perform its functions as it considers is best calculated to impose a minimum of restriction on persons engaged in commercial activities connected with telecommunication services in Jersey. The JCRA proposes limiting Price Control to areas where it is necessary due to a lack of effective competition, which is as narrowly focussed as possible. The proposed price control allows JT the commercial freedom to

adjust the prices of individual products as long as the overall cap is not exceeded.

E. Article 7(2)(e)

8. The JCRA has a duty under Article 7(2)(e) to have regard to the need to ensure that telecommunication service providers have sufficient financial and other resources to conduct those activities. JT has demonstrated under the previous price cap that it is able to increase its efficiency in order to face competition whether from competitors or imposed regulatory surrogate competition.

III. Date when the Proposed Price Control would take Effect

The proposed price cap Decision and Determination will take effect on <> 2008 and run for a period of three years from that date, unless the JCRA receives representations or objections about the proposal prior to that date, in which case the effective date will be specified in any Final Notice issued by the JCRA under Article 11(4) of the Law.

IV. Document Giving Effect to the Proposed Price Control

The documents that would give effect to the proposed price control are Annex 1 (the JCRA Decision and Determination) and Annex 2 (a copy of the final report on price control from Frontier Economics) to this Notice. These documents have been provided to JT and also are available for inspection at the JCRA's offices and on its website (www.jcra.je).

V. Period for Written Representations or Objections

Any written representations or objections in respect of this matter may be made by **midnight on 17 October 2008** to the JCRA at:

Jersey Competition Regulatory Authority
2nd Floor, Salisbury House
1-9 Union Street
St Helier, Jersey JE2 4JD

or by email to enquiries@jcra.je, or by fax to +44 (0) 1534 514991.

15 September 2008

By Order of the Board of the JCRA