

## Verizon Non-domestic rates and the price for regulated Dark Fibre Consultation Response

### Introduction

1. Verizon Enterprise Solutions (“Verizon”) welcomes the opportunity to respond to Ofcom’s Non-domestic rates and the price for regulated Dark Fibre Consultation.<sup>1</sup>
2. Verizon is the global IT solutions partner to business and government. As part of Verizon Communications – a company with nearly \$131 billion in annual revenue – Verizon serves 98 per cent of the Fortune 500. Verizon caters to large and medium business and government agencies and is connecting systems, machines, ideas and people around the world for altogether better outcomes.
3. Please note the views expressed in this response are specific to the UK market environment and regulatory regime and should not be taken as expressing Verizon’s views in other jurisdictions where the regulatory and market environments could differ from that in the UK.

### Consultation Response

4. [✂]
5. Verizon is concerned that, as a result of the change in methodology for calculating the non-domestic rates (NDRs) for dark fibre, Ofcom has proposed a relaxation of the leased lines charge control of such Ethernet services in 2018/19.<sup>2</sup>
6. In the consultation we do not see any evidence that this adjustment to the charge control is necessary or justified. This short response therefore focuses on our overriding concern with Ofcom’s proposal in this respect, which we consider is not only unsupported by evidence, but indeed will merely serve to *increase* BT over-recovery in regulated markets.
7. In short, we do not agree with Ofcom’s reason for making the charge control adjustment, i.e. that the resulting increase in the active differential due to the change in NDRs calculation will mean that BT loses revenue as providers move to dark fibre, which in turn would put BT at risk of not being able to fully recover its efficiently incurred costs.<sup>3</sup> Ofcom simply does not explain why BT will not be able to recover its costs; it just provides an unjustified statement that there is a

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<sup>1</sup> [https://www.ofcom.org.uk/\\_data/assets/pdf\\_file/0024/100698/non-domestic-rates-dark-fibre-consultation.pdf](https://www.ofcom.org.uk/_data/assets/pdf_file/0024/100698/non-domestic-rates-dark-fibre-consultation.pdf)

<sup>2</sup> As discussed in the consultation at paragraphs 2.43 to 2.51.

<sup>3</sup> See paragraph 2.43 of the consultation.

“risk” that this might be the case. Even if this risk was genuine (and we strongly believe it is not), this unsupported assertion by Ofcom is no basis for making a material adjustment to a charge control.

8. We understand that Ofcom is suggesting BT’s “lost revenue” due to the reduction in the dark fibre price will be greater than the costs avoided by providing dark fibre rather than an equivalent active product. We disagree that this is the case.
9. Further, it is clear that BT has been consistently over-recovering in regulated markets for many years. Therefore even in the absence of the proposed charge control adjustment it is simply not the case that it would under-recover in the business connectivity market either. According to Frontier Economics, BT has made excess profits in regulated markets of around £9.7 billion since 2005.<sup>4</sup> In the business connectivity market in particular, ample evidence exists that BT will still make returns well in excess of its cost of capital until 2019. This alone should remove any doubt that BT will under-recover its costs, and that the charge control should remain as is.
10. In addition, given that Ofcom has not fully updated its analysis, including the volume forecasts on which it bases the revenue impact calculations, we do not think it is appropriate to make an adjustment to the charge control at this time. Ofcom should consider this issue and all of the assumptions in the charge control fully in its next review of the market. To do so add unwarranted regulatory uncertainty into the market and, as highlighted above, will have a detrimental impact on competition and customers.

Verizon Enterprise Services  
19 May 2017

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<sup>4</sup> See the Frontier Economics report produced for Vodafone, available at: <https://mediacentre.vodafone.co.uk/pressrelease/planned-reforms-openreach-required-new-report-highlights-bt-excess-profits-increased/>