

Narrowband Market Review

Call for inputs workshop

UKCTA

3 May 2012

Agenda

- Introductions, background & objective of this meeting
- Fixed Narrowband Market Review – Overview and milestones
- Ofcom approach, scope and previous reviews
- Structure and detail of the Call For Inputs (CFI)
- Next steps

Meeting objectives

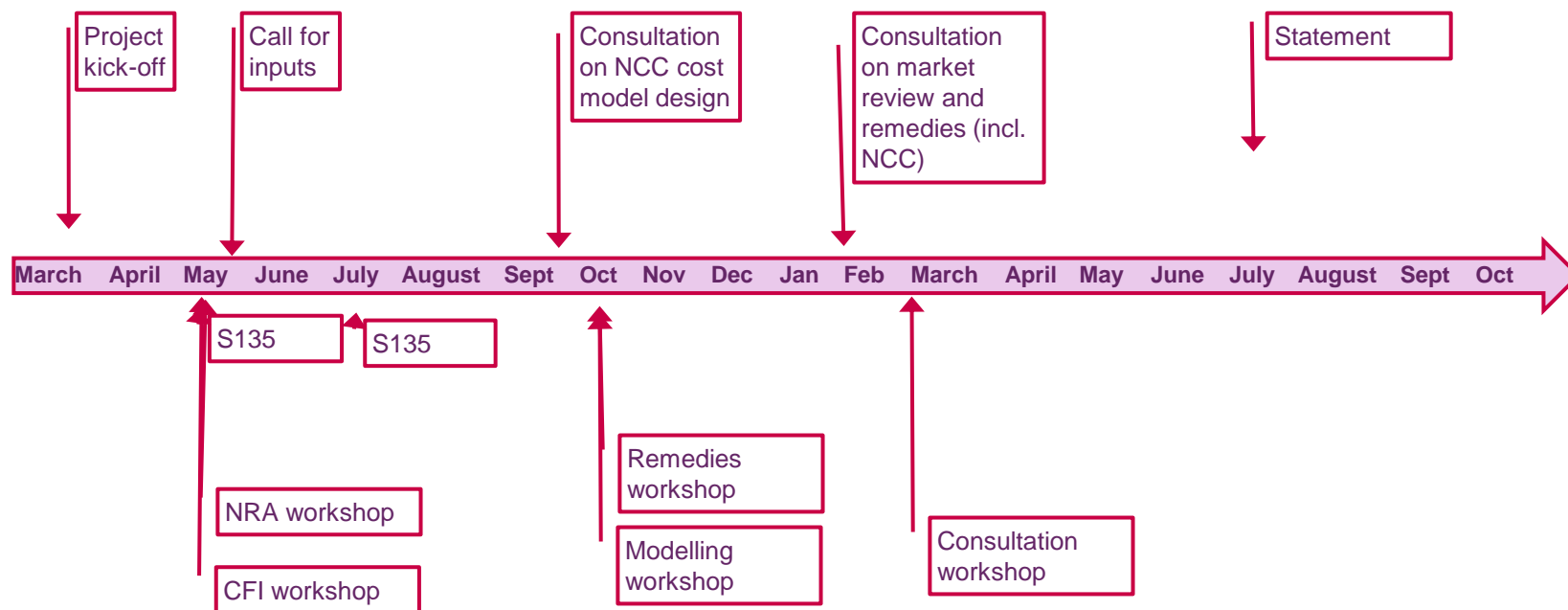
Introduce team and project approach to stakeholders

- Project milestones including publications and information requests
- Discuss ways of working, lead contacts, and points of escalation

Explore the issues to be included in the CFI

- The CFI allows us to test points where we may rely on previous findings and others which will require more scrutiny
- Ensure review is proportionate and use resources efficiently

Proposed Narrowband timeline



Ofcom Approach

Focus on the issues that matter

- Focus resources and analysis on most important issues
- We aim to identify the relevant issues to stakeholders through the CFI
- We are also seeking to identify areas where there has been no material change since the last review

S135s will still be important but focused

- Aim to only request information directly relevant to the issues
- We propose to send smaller, more focused requests wherever possible, rather than gathering all requirements into a single large request
- This may result in more requests but we expect this will make the process more manageable by spreading the load and will lead to less wasted effort

Scope of the narrowband project

This review considers markets for calls

Retail

- Review impact of previous de-regulation
- Assess change in competitive conditions as an input into the assessment of wholesale markets

Wholesale

- Call origination
- Fixed geographic call termination
- Single Transit
- Local-tandem Conveyance/Transit

- Also include technical areas – Interconnection and PPP

- Review of the Network Charge Control (NCC), where charge control continues to be appropriate

Exclusion of wholesale access and ISDN30

- Since 2009 review we have re-reviewed access markets (analogue exchange lines and ISDN30) and set charge controls in these markets

- Analogue exchange lines (e.g. WLR) and ISDN30 charge controls run in parallel with Wholesale Local Access (e.g. LLU) charge controls, until March 2014

- Access markets and WLA/WBA planned to be reviewed in late 2012 (complete by March 2014)

Approach to the Call for Inputs

Questions grouped into themes reflecting the structure of the review

- **Competition in retail markets** (state of competition, importance of effective substitutes, impact of wholesale price rises on retail prices)
- **Wholesale market definition and analysis of competition** (Change in competitive conditions, e.g., impact of LLU on SMP in call origination, changes in single transit and LTC/LTT markets, SMP in fixed call termination);
- **Next-generation networks** (Impact of NGNs, IP interconnection and related cost and modelling)
- **Wholesale (non-price) remedies** – e.g., whether CPS/IA remains appropriate, NTS call origination, whether non-discrimination remedies remain appropriate for single transit
- **Wholesale (price) remedies** – e.g., need for a charge control, symmetric regulation of fixed termination rates, need to maintain a time of day gradient or introduce a maximum charge ceiling
- **Cost recovery** (taking utmost account of the EC Recommendation, use of pure LRIC, treatment of common costs)

We will encourage stakeholders to focus their responses

Which questions matter most to you?

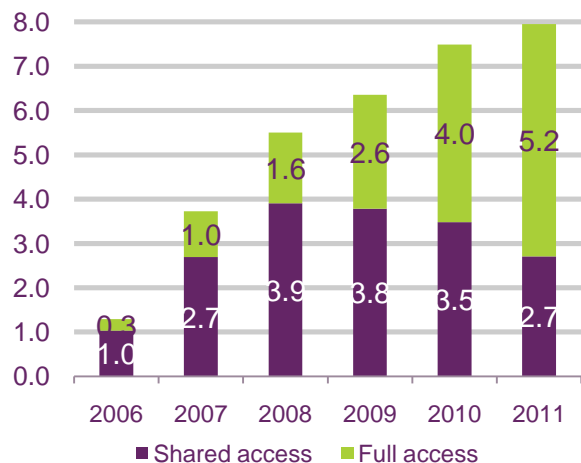
- The questions cover all the issues we are considering – we do not expect all stakeholders to address all questions
- We also want to know if there are any issues outside the proposed scope that we need to consider
- What are stakeholders' views on whether there has been material change in the market definition and SMP assessment?
- What are stakeholders' views on their overall experience with regulated fixed narrowband services, market entry and competition?
- Plan to publish in mid-May, with 6 weeks to respond (end of June 2012)

Current state of retail competition

- Retail markets in UK, excluding Hull, were found competitive and effectively de-regulated. Since 2009:

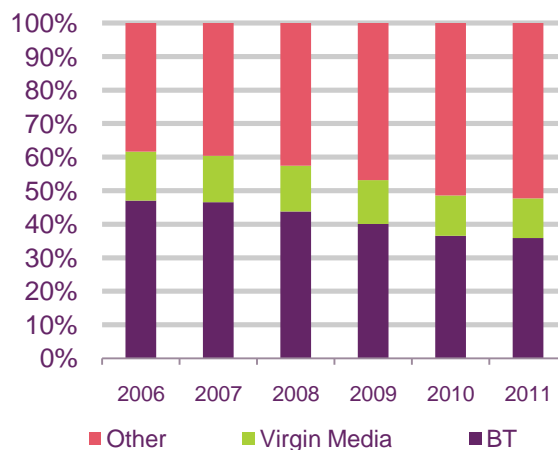
The number of full LLU lines has increased

Number of LLU lines (millions)



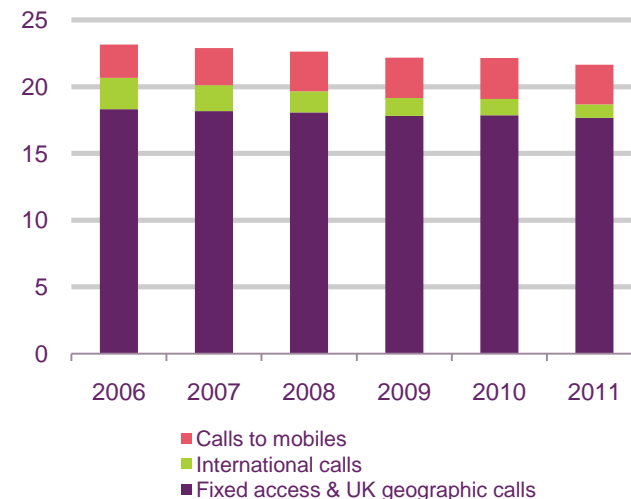
BT's share of call volumes has continued to decline

Total market share of fixed call volumes¹



The real cost of a basket of residential fixed voice services has fallen

£ per month (2011 prices)



¹ Excludes NTS voice calls

Substitution in retail markets

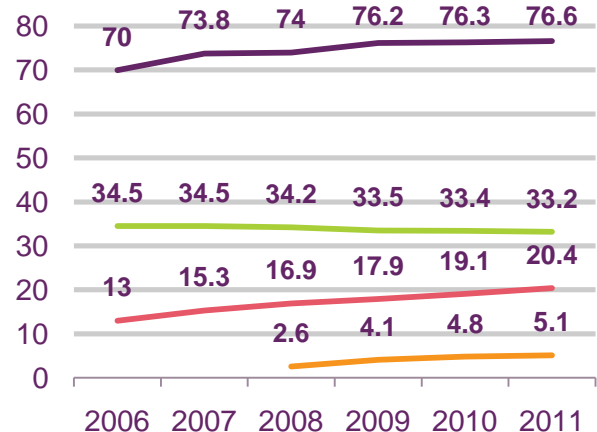
- Build on previous approach to retail market definition
- Vital to understand substitution in retail markets to assess competitive constraints on wholesale call origination
- Wholesale call origination prices may be constrained by switching to mobile or VoIP at the retail level if:
 - (a) Charge increases are passed onto consumers
 - (b) Consumers are willing to switch to these alternatives following an increase in fixed line prices
 - (c) CPs supplying business users adjust bundle composition in response to higher wholesale fixed call origination costs

Fixed-mobile and fixed-VoIP substitution

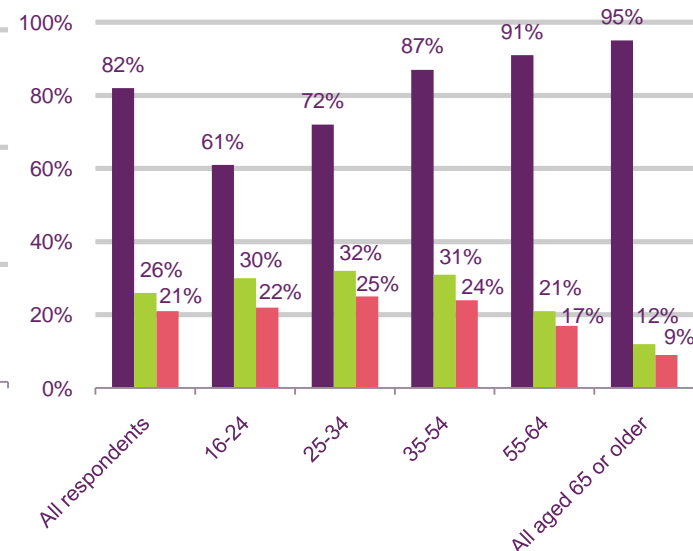
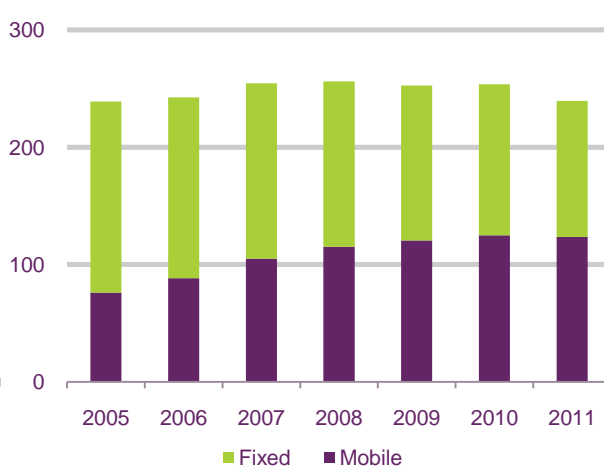
Mobile usage has continued to grow relative to fixed

1 in 5 adults now regularly use VoIP

Total telecoms connections



Minutes (billions)



Mobile and VoIP potentially growing constraints on fixed line services

Pass-through of wholesale call origination

- Strength of indirect constraint from mobile/VoIP depends on how the price of wholesale call origination affects retail prices as well as consumer preferences
- Charge control of RPI+2.5% applied to call origination in September 2009
- What has happened to residential retail packages?
 - Call prices
 - Line rental
 - Other components of bundle (broadband access)
- What has happened to composition of business packages?

Wholesale markets definition and SMP

- Call origination market
 - Constraints from mobile and VoIP
 - Impact of LLU on origination markets
 - Geographic dimensions and issues
- Fixed call termination market
- NGNs
- Other markets
 - Single Transit
 - LTC/LTT

Call origination (CPS, IA)

- We will consider both direct and indirect constraints from mobile, VoIP and alternate networks (particularly LLU)
- Indirect constraints
 - As discussed at retail level, consumers increasingly use mobile and VoIP and have increasing choice due to LLU, but does this constrain the wholesale level?
- Direct constraints
 - Does the ability of CPs to avoid purchasing call origination (from BT) provide a constraint
 - For example, use of VoIP to replace existing service rather than as a complement
 - Increasing use of full LLU versus shared LLU, extended LLU footprint
- LLU may also impact the geographic market definition
 - Does the presence of full LLU in some but not all of the country lead to different geographic markets?
- Based on understanding the above constraints we will consider whether BT still has SMP in the provision of call origination

Fixed geographic call termination

- Market definition
 - Last time we defined a separate market for each CP that provides fixed geographic call termination
 - In the mobile call termination (MCT) market review we found that:
 - *A separate market exists for each provider that has been allocated a mobile number range for which it sets the mobile termination rate*
 - This approach reflected market evidence about the nature of price-setting for MCT
 - It is technology-neutral and de-couples the provision of the access network from the control over call termination
 - Is a similar approach appropriate for fixed geographic call termination?
- SMP analysis
 - Have there been any changes in the markets for fixed geographic call termination that would lead us to reconsider our approach which led to all CPs having SMP?

Next Generation Networks (NGNs)

- Propose to consider whether NGN is the efficient technology on which to base our ex ante regulation
- Last review we considered NGNs mainly in the context of BT's 21CN
- Now need to consider co-existence of NGN and TDM networks
- In terms of market definition, should we take more specific account of NGNs
 - For example, in terms of the number of points of interconnection at which an efficient network would offer call origination, call termination
- Will also consider in terms of remedies (we will come on to this later)

Conveyance/transit markets

Single Transit

- In last review, we found BT had SMP due to concern about ability to terminate traffic to very small CPs in the absence of regulation and use of BT transit for number translation services (NTS)
- Has there been any change in the market to indicate that competitive conditions are materially different?
- We also need to consider that single transit is not on list of the European Commission's markets susceptible to ex ante regulation

Local-Tandem Conveyance/Transit (LTC/LTT)

- Based on extent of DLE interconnection, we de-regulated LTC/LTT in the last review
- Has there been any change in the market to indicate that competitive conditions are materially different?

Remedies

- **Notice periods**

- 90 days was set in the last review for call origination and call termination
- Under the SIA, the notice period for BT for other services is typically 28 days, for other CPs 56 days
- What is the appropriate notice period for SMP markets going forward?

- **CPS/IA**

- Historically, CPS and IA were important drivers of competition in calls
- In the last 5 years LLU has grown significantly, as has use of mobile services
- Even if SMP in call origination were maintained, in light of the above do CPS and IA obligations remain necessary or appropriate?

Remedies

- **NTS call origination obligation**
 - Current obligation requires BT to retail NTS services provided by other CPs
 - NTS call origination obligation caps BT's charges for this service: i.e. call origination charge control + retail uplift (+ PRS bad debt surcharge where applicable)
- **Changes to NTS regime**
 - “Simplifying non-geographic numbers consultation” is consulting on retail unbundling of the tariff for calls to NTS
 - Specifically, we have proposed to set an “Access Charge” to recover the costs of conveyance to the assumed hand-over point (with the NTS provider)
 - Even if SMP in call origination were maintained, in light of the above do we need an NTS call origination remedy?

Remedies

- **IP interconnection**

- In the 2011 guidance on fair and reasonable fixed termination rates (FTRs) we considered whether:

- 1) IP networks providing termination could charge more for the provision of IP interconnection; and
- 2) if an IP network requested IP interconnection from a TDM network such as BT, whether that would constitute a F&R request for access in the termination market

- Re (1) we presumed that this would not result in a fair and reasonable FTR – unless it was justified by efficiently incurred costs and offsetting consumer benefits
- Re (2) we concluded that this would not amount to a F&R request in the termination market where it involved routing from a limited number of interconnection points to multiple DLEs – since this would go beyond a termination service
- We propose to revisit issues regarding IP interconnection in this market review

Remedies

- **Charge control**

- In which markets is a charge control an appropriate remedy?
 - Call origination? Even if we still find SMP is a charge control still appropriate?
 - Call termination? Important developments come not from changes in competitive conditions but from: 2009 EC Recommendation; 2011 MCT Statement and 2012 CC determination (NB: CAT judgment on JR of CC determination pending).

- **Pure LRIC for call termination**

- 2009 EC Recommendation sees pure LRIC as the efficient basis for setting termination rates
- 2011 MCT Statement and 2012 CC determination set pure LRIC for MTRs

Remedies

- **Other cost modelling issues:**
 - Previous model was TDM based.
 - EC Recommendation involves building an NGN “in principle”
 - Previous model was based on CCA straight line depreciation
 - The EC Recommendation involves economic depreciation “wherever feasible”
 - Common cost recovery:
 - with pure LRIC FTRs should common costs be recovered from unregulated services or also from other regulated wholesale services (e.g. call origination or WLR?) as done by other NRAs

Remedies

- **Call termination provided by other CPs**
 - 2011 fair and reasonable guidance on FTRs presumed that symmetry would be fair and reasonable
 - EC Recommendation also presupposes symmetry in termination rates
 - How should we implement symmetry: continue with a fair and reasonable condition (+ guidance) or charge control?
- **Time of day gradient**
 - Do rates differentiated by time of day remain necessary for efficient charge setting?
 - Should we instead set a simpler pricing rule (as in MCT) – i.e. set a cap applicable for all time of day periods, rather than a cap averaged across all charging periods?

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