

Business Connectivity Market Review Call for Inputs

Response by KCOM

15 June 2011

KCOM welcomes the opportunity to provide Ofcom with initial input on the Business Connectivity Review. Business connectivity services are a key part of the portfolio of services we offer to customers and we see the market review as being an important exercise which provides not only an assessment of competition in the market but also valuable insight into customer requirements.

Although we do offer services outside of the Hull area through our businesses Kcom and Eclipse, our response to the Call for Inputs is focused on the services provided by KC in the Hull area.

Question 1: Do you agree with our “no material change” considerations as set out above? In particular, do you agree with Ofcom that:

1.1 The characteristics of Traditional and Alternative Interface products are such that separate markets continue to exist for TI and AI products?

KCOM agrees that the characteristics of Traditional and Alternative Interface products are such that separate markets continue to exist for TI and AI products. Ofcom notes some substitution trends with the growth of ethernet services but sees a core of retail customers who continue to operate legacy services which rely on SDH and PDH products. This equates with KCOM's experience of the market. We would characterise demand for TI circuits as being static with a base of customers who continue to utilise those products, with customers more likely to consider AI services to meet new demand. A key issue is the cost to customers of switching with the need to invest in new CPE which means the decision to move to AI services is not simply about substituting.

There are also a number of important functional differences between TI and AI products which support the view that there continues to be separate markets for TI and AI products. While both TI and AI circuits offer dedicated capacity between two points and are uncontended, the fact that use of “Layer 2” AI circuits largely utilises packet or frame-oriented network technologies for routing, QoS, resilience etc can lead to end to end application latency issues which SDH/PDH technologies typically do not encounter. This in turn results in a need for differential SLA/SLGs to be offered recognising the service implications inherent



in the way in which AI services are delivered. Our experience is that service levels are a key differentiator for customers, both in terms of provider and the service being purchased.

Other key functional differences include accurate synchronisation as part of SDH TISBO bearers that can be used by customers to derive network wide application synchronisation. This has typically been used for SCADA control networks, particularly in the utility industry and incapable of being emulated using AISBO bearers.

1.2 We should retain the main bandwidth breaks for traditional interface products but combine 34/45 Mbit/s and 155 Mbit/s services?

In the TISBO market KCOM sees a marked difference in volumes of circuits of up to 8 Mbit/s and circuits above 8 Mbit/s with the demand being driven by different customer needs. For circuits above 8 Mbit/s and up to 155 Mbit/s we have seen static demand and do not believe that combining the services in the market analysis will have a great impact on the outcome of the market review. Rather we believe that demand for higher bandwidths is increasingly being met by the provision of 1 Gbit/s services. We therefore agree that there is scope for Ofcom to carry out its SMP assessment based on a combined high bandwidth market for TISBOs above 8 Mbit/s up to and including 155 Mbit/s.

1.3 VPNs continue to be outside the business connectivity markets? Please explain why.

KCOM agrees with the view that VPNs continue to be outside of the business connectivity markets. Leased lines provide a basic level of access and connectivity. VPNs however provide a significant degree of “added value” which distinguishes them from leased lines. This added value comes primarily from the provision of a managed service which forms part of the public network infrastructure as opposed to the customer using CPE to build an entirely “private” network.

We believe that Ofcom’s approach of taking demand for leased lines from VPNs into account in considering the overall size of the leased lines market, with regulation of wholesale leased line inputs required to build VPNs with no specific regulation of retail or wholesale VPNs continues to be appropriate.

Question 2: What are your views on the extent to which broadband products can be used effectively for the delivery of business connectivity? How do you think this might change over the next 3 to 4 years?

While broadband products can offer an effective means of providing business connectivity for very small business customers, the requirements of SMEs and



large business customers are such that existing broadband services generally do not suffice. This may change in the future as the deployment of NGA accelerates, however we do not believe that this will be a significant factor during the period to be covered by the forthcoming market review.

Our experience shows that SMEs and large business customers value certain characteristics of leased line services which ADSL broadband services cannot deliver. These include the provision of a symmetric service, uncontended bandwidth, resilience and higher level SLAs/SLGs. Additionally, distance limitations inherent in ADSL and impacting on attainable speeds are a key issue which limits its ability to deliver the functionality required by business customers. As we have noted above, beyond the period covered by the forthcoming review NGA may change this as higher bandwidths will become available allowing a Layer 2 bitstream product to be configured to provide relatively high bandwidth symmetrical services, with little or no contention and acceptable latency, etc attributes.

Question 3: What are your views on the existence of a break in the market for Ethernet services provided at speeds above 1 Gbit/s; and the extent to which WDM-based products are part of the business connectivity market? If you consider they are, do you think they are part of the Traditional Interface market, the Alternative Interface market, or constitute a separate market within the business connectivity market? How do you think this might change over the next 3 to 4 years, given the rate of growth in bandwidth demand?

KCOM currently provides no circuits above 1Gbit/s in the Hull area nor do we provide WDM-based services. We therefore have no comment on these issues.

Question 4: Do you consider that:

- 4.1 There is still a separate market for trunk segments provided with a Traditional Interface which warrants SMP assessment for the purpose of considering ex-ante regulation;***
- 4.2 The trunk routes identified in the last market review are still relevant to inform the definition of the trunk market; and***
- 4.3 The analysis and identification of Trunk Aggregation Nodes carried out in the last BCMR are still relevant for competition and market entry. Please explain why.***

We make no comment on these issues. We note that in previous market reviews Ofcom has confirmed that there is no trunk market in the Hull area. This continues to be the case.



Question 5: Do you think that separate markets could now exist for access and backhaul products? If you do, please explain why.

Please see our comments in response to question 6.

Question 6: Do you think that separate markets could now exist for broadband backhaul products and, separately, for mobile backhaul products? If so, please explain your reasons.

KCOM believes that separate markets may well now exist for both broadband and mobile backhaul products. In particular we have seen increased deployment of radio backhaul solutions for both broadband and mobile. We are aware of one instance in Hull where backhaul for mobile services is provided completely independently of the KCOM network with indications that we are facing competition in the provision of backhaul services to at least one other mobile provider. In the broadband market, a number of alternative providers are now offering both SDSL and leased line connectivity using wireless access solutions which also use radio backhaul.

This increase in the use of alternatives is largely driven by ease of deployment and cost. The costs of providing a combined access and backhaul service are driven by the access element with the costs of provision for different providers being closely aligned. Backhaul however is more contestable with alternative solutions providing a means of reducing costs and encouraging self-provision. Deployment is also made easier by the fact that the connectivity required is between some form of access node (radio base station, FTTC street cabinet, PON splitter etc) and first aggregation point on a core network, where it might be connected to either a trunk segment of another CPs own facilities.

Question 7: Do you think there are other sources of demand for symmetric broadband origination outside the services mentioned above which are relevant to our assessment? If so, please explain your reasons.

No.

Question 8: Do you agree that the three parts of our analytical approach discussed in paragraph 1.31 are still relevant and continue to provide an effective tool for assessing competitive conditions and for considering regulatory obligations? In particular, do you agree with Ofcom that:

8.1 the approach to identifying geographic markets used in the last BCMR is still appropriate, or is there any additional perspective that we should appraise to inform our competition assessment?



**8.2 the definition of the CELA from the last BCMR is still relevant? and
8.3 there continues to be a trunk market which is national in scope? Please explain why.**

No comment.

Question 9: Do you think that Ofcom should consider the extent to which other local geographic markets exist in the UK outside the CELA, and excluding Kingston upon Hull? Please explain the reasons for your answer.

No comment.

Question 10: In the last BCMR, we found no SMP provider in the market for high bandwidth 622 Mbit/s TISBO and high bandwidth AISBO provided at speeds above 1 Gbit/s in the UK and, separately, in Kingston upon Hull. Do you consider that deregulation has worked well in these markets? Do you think that the competitive conditions in these markets have improved, or do you consider they have deteriorated? Please explain, providing examples where appropriate, based on your company's first-hand experience.

In some respects it is difficult to comment on the impact of deregulation in respect of high bandwidth 622Mbit/s TISBO and high bandwidth AISBO circuits provided at speeds above 1Gbit/s in the Hull area. KCOM continues to see no demand for these circuits at either a retail or wholesale level. Additionally, we would anticipate that if other CPs were providing these circuits to customers in Hull then self-provision would provide an economically viable option, particularly for those who already have infrastructure in place supporting lower bandwidth TISBOs.

Question 11: In the last BCMR, we also found that BT had no SMP in the CELA for the provision of wholesale leased lines (PPCs) at speeds above 2 and 8 Mbit/s and up to, and including, 155 Mbit/s. Do you consider that deregulation has worked well in these markets? Do you think that the competitive conditions in these markets have improved, or do you consider they have deteriorated? Please explain, providing examples where appropriate, based on your company's first-hand experience.

No comment.

Question 12: In the last BCMR, we found that BT had SMP in the market for analogue and low bandwidth digital retail leased lines and imposed SMP obligations on BT as a result. The remedies were designed to ensure the continued availability of these legacy products at reasonable prices as well



as to provide transparency and regulatory certainty to BT's competitors in this market. Do you have a view as to how these remedies have worked? Do you consider that we should continue to impose regulatory obligations on BT in this market if we were to find SMP or we should rely on wholesale remedies alone? Please explain your answer.

No comment.

Question 13: What are your views on how the current remedies have worked in promoting downstream competition?

Since the last market review interest in the provision of business services by alternative providers in the Hull area has increased markedly. We have seen the entry of providers using KCOM services to offer voice and broadband to business customers, experiencing substantial growth. With regard to leased lines, while the market for lower bandwidth services has been subdued over the past couple of years there has been increased interest in higher bandwidth ethernet. This is reflective of both changing customer needs and pricing changes in wholesale provision. In combination these have made the Hull market very much more competitive than it was at the last review with KCOM coming under considerable pressure in the pricing of its retail services.

Question 14: How effective have the current remedies been in addressing the market failures identified in the last BCMR and in supporting competition and market entry? Please elaborate with some examples.

In the last market review KCOM provided Ofcom with voluntary undertakings relating to the pricing of business connectivity services. Wholesale ethernet pricing has fallen substantially below the level of those commitments with higher bandwidth services demonstrating the most significant reductions. This has been in response to market pressure, notably increased dialogue with carriers and resellers, and the growth of radio bypass both actual, via radio backhaul to PoPs outside Hull and prospective, specifically relating to radio transmission of mobile backhaul services. As a result, the ability of other operators to profitably utilise the Hull network has been demonstrably raised in the intervening period.

Question 15: How effective have the regulated access products been from an operational perspective? Please provide examples where appropriate to illustrate your answer.

No comment.



Question 16: Do you consider that the current set of remedies should be simplified? If so, how?

KCOM believes that there is scope to simplify the current remedies. We welcomed the approach taken by Ofcom in the previous market review where voluntary undertakings were provided in lieu of specific cost orientation and accounting separate provision. Given we have now had time to assess the impact of those voluntary undertakings in practice we intend to discuss the future approach with Ofcom as part of the forthcoming market review.

Question 17: Do you consider that the scope of the charge control was correct in terms of the products and services subject to the control? Has the charge control been effective? Looking ahead, what changes, if any, do you consider would be appropriate for any future charge control(s)?

No comment.

Question 18: What are your views on the role that passive remedies could play in this market for the promotion of downstream competition? In your view, what implications might adoption of passive remedies have on the provision of active remedies?

KCOM does not see a role for passive remedies in promoting downstream competition in the market for business connectivity services. There is no evidence of demand that cannot be satisfied by existing remedies, nor that existing remedies are insufficient to meet demand for business connectivity services. Indeed, there is a risk that a requirement to provide passive remedies could well undermine the investment in leased line services which has already taken place.

We believe that the issues in the business connectivity market are very different to those in the wholesale local access market which the introduction of passive remedies are designed to address, i.e. the roll-out of NGA. The deployment of NGA has very specific commercial and geographic challenges which passive remedies may be better suited to address. Not least is the fact that the aim is for ubiquitous coverage for residential customers, a very different market to that served by business connectivity services.



Question 19: Have business connectivity markets changed since the last review? If so, how? How might business connectivity markets develop during the next four years?

As we highlighted in response to question 6, since the last market review was concluded we have seen increased deployment of radio backhaul solutions for both broadband and mobile in the Hull area. A number of alternative providers are now also offering both SDSL and leased line connectivity using wireless access solutions which has increased the competitive pressure on our services.

Given their increased use and the constraints we see them placing on our business we would urge Ofcom to reconsider their impact on the market in the context of the forthcoming market review.

Question 20: Do you have any comments about arrangements for withdrawing regulations as TI services reach the end of their lives?

KCOM is supportive of withdrawing regulatory requirements relating to TI services as they reach the end of their useful life, in particular obligations to supply. We believe that at some point the cost of maintaining obsolescent network elements will become prohibitive and therefore it is likely that providers will look to withdraw services. The removal of regulatory requirements is likely to significantly ease migration subject of course to careful management with customers.

Question 21: Are there any other issues or views you would like to put forward that are not mentioned in this paper?

KCOM sees considerable scope for Ofcom to simplify its analysis of retail markets for business connectivity. We note that retail leased lines are no longer specified by the EU as a market susceptible to regulation and KCOM was not found to have SMP in the provision of any retail leased lines in the last market review. We do not believe there has been a change in that position since the last market review.

We therefore believe that in the Hull area the approach taken to analysing markets for retail leased lines should be to undertake analysis with the primary aim of assisting in the definition of wholesale markets which might attract regulation rather than additionally considering whether it is appropriate to apply regulation to retail leased lines.

