

Verizon Business response to Ofcom consultation:

Price controls for wholesale ISDN30 services

1. Verizon Business (“Verizon”) is the global IT solutions partner to business and government. As part of Verizon Communications – a company with nearly \$108 billion in annual revenue – Verizon serves 98 percent 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.
2. Verizon welcomes the opportunity to respond to Ofcom’s ‘Price controls for wholesale ISDN30 services’ consultation (the ‘Consultation’). ISDN30 has been and remains a core product offering for many businesses in the UK, despite the newer technologies that now exist. It is therefore important to ensure that the regulatory conditions foster healthy competition in this market which allow and encourage alternative operators to compete effectively.

Summary

3. In summary Verizon agrees with Ofcom’s conclusion that there is a need to introduce pricing controls on BT Openreach (‘Openreach’) for wholesale ISDN30 services. It is clear from Ofcom’s analysis that Openreach faces little if any substantive competitive pressure to reduce wholesale ISDN30 prices towards a competitive level, and that a cost orientation obligation rather than a charge control would not achieve the objective of reducing the excessive wholesale prices for ISDN30.
4. Verizon also considers that a duration of three years for the charge control is appropriate given the changes introduced by the revised European regulatory framework to the duration of market reviews (now every three years).

Level of the charge control

5. Verizon considers that the key issue for Ofcom is how to ensure that the charge controls are set at the correct level; at a level that recognises the sustained ongoing business consumer demand for ISDN30 and the industry requirement to constrain Openreach to ensure there is fair competition. In particular Ofcom must recognise that, as indicated below, there is still likely to be significant use of ISDN30 services by businesses at the end of the charge control period.

Demand for ISDN30

6. Verizon agrees with Ofcom that over the period of the charge control, ISDN30 demand will continue to decrease as customers increasingly choose IP based alternatives. However, from our perspective, although we have seen an increase in requests for alternative IP products in the last year, the majority of these requests come from new business opportunities rather than existing customers, with the majority of this new business being large multinational corporations.
7. Verizon would urge caution in any forecasting of the decline in ISDN30 volumes due to migration to IP based alternatives. While the volumes of ISDN30 may fall, the speed of the decline is not necessarily clear-cut. For example it may be the case that the sales of IP-PBX's now surpass the sale of traditional PBX's, but this may be due to the fact that vendors no longer sell or manufacture traditional PBX's but rather are selling IP-PBXs with a traditional ISDN30 interface card / platform based solution. This would suggest that whilst on the surface IP-PBX's are out-pacing traditional PBX's, the demand for ISDN30 could remain constant or show only an incremental decrease. Indeed for most of our line rental customers a migration to a VoIP solution doesn't reduce costs; especially because the highest cost components (line rental / access costs) remain. They can reduce usage costs slightly, but this may be offset by higher CPE costs. Therefore, at least as far as existing business is concerned, we are not seeing a significant reduction in use of ISDN30 services.
8. In addition, we would point out that it is not a straightforward exercise to compare the cost of traditional WLR and equivalent IP based services. There is no simple "like for like" comparison that shows that VoIP is cheaper than TDM Voice; there are many cost elements that need to be taken into account for a proper ROI calculation. In the US the pricing model is much more in favour of VoIP, hence the faster take up. A straight cost comparison between ISDN30 and an equivalent VoIP service will rarely conclude unequivocally that VoIP is the cheapest option. Verizon considers that the take up and current growth of VoIP is based more upon the collaborative, productivity and enterprise equipment cost gains that VoIP technology promises (whether these be real or perceived).

Migration and alternatives to ISDN30

9. Verizon considers that currently there is no fit for purpose IP alternative to migrate customers onto. From Verizon's perspective, one of the key questions that will have a significant impact on the competitive nature of this market will be whether Openreach will, either voluntarily or otherwise, develop a wholesale IP access service to replace ISDN30. Industry has been requesting such a product for some time but as yet Openreach have not responded positively. Verizon would welcome Ofcom's engagement in this issue.
10. Verizon therefore considers that it is critical, if the ISDN30 product is eventually discontinued, that there is a high quality IP based equivalent which customers can be migrated onto. Without this, it would be very difficult, if not impossible, for Verizon (or any other industry competitor) to service customers with premises located more than circa 20 miles from our core network.
11. Verizon considers that an IP-based access service should be introduced by BT Openreach, which gives all operators the opportunity to run a high-quality IP access service. This would open up the market to allow additional operators to run VoIP applications over this access service. Without some kind of universal access service, operators like Verizon are limited to serving their "on-net" customers, which limits our

ability to only serve large multinationals with big sites and ultimately reduces customer choice.

12. Verizon would urge Ofcom to consider this as part of its wider policy remit, as it will have a significant bearing on the ability of industry to compete effectively with BT as services become increasingly IP based.

Verizon Business

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