

Annex A International benchmarking of MPF charges

The Consultation contains international benchmarking data in Figures 6.6 and 6.7 from the *Progress Report on the Single European Electronic Communications Market 2007 (13th Report)*, published by the European Commission (“EC”) in March 2008.

Figure 6.7 of the Consultation suggests that the “total cost” of fully unbundled loops in the UK is the fifth highest of the 27 European countries analysed. We have assessed the source data from the EC and would highlight the following:

- The report considers all European Union (“EU”) Member States, even though in many of them the volumes of MPF provided are negligible.
- The figures are based on the new connection charge for the UK which has been applied to only 4% of MPF lines provided – the line migration charge is a more appropriate measure of the one-off upfront costs charged to CPs in the UK.
- The data covers the costs of accessing the copper line only and does not take account of the space and power charges a CP will also face in utilising unbundled loops.

This Annex A sets out details of the analysis we have conducted to make appropriate adjustments to the EC data in order to reach what we believe is a more accurate view of price comparisons.

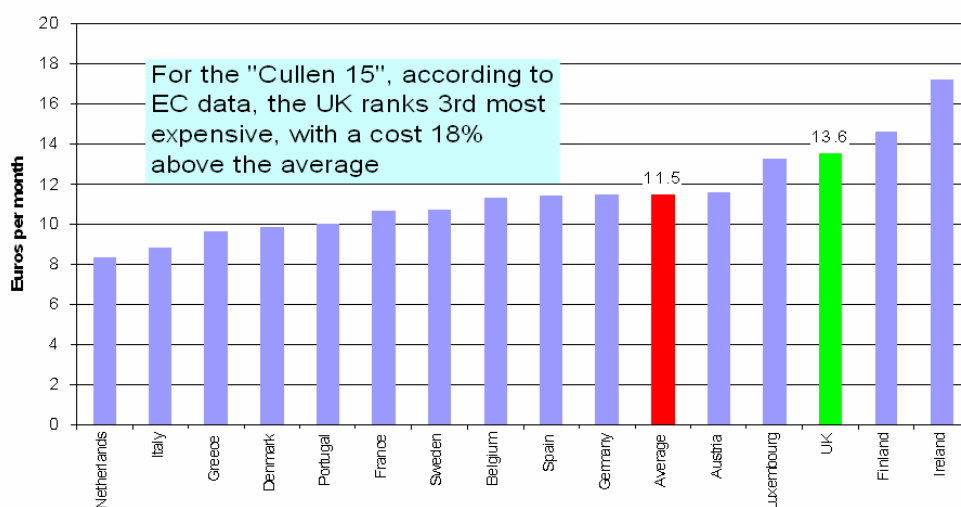
A.1 Adjustments required to the EC data to reflect appropriate one-off charges

Given our concerns with the EC data, we have used data on rental and connection charges for unbundled loops which is published by Cullen International for 15 member states every two months.

As well as providing what we consider to be a consistent and reliable source of data for comparative purposes, we would note that, according to data from the *ECTA Broadband Scorecard* for the end of September 2007, these 15 countries account for 96% of MPF lines in Europe.

In order to illustrate more clearly the impact of the adjustments we would suggest are necessary to make to the EC data, the chart below presents the EC data used in Figure 6.7 of the Consultation showing the 15 countries included in the Cullen International report only.

Figure A1: Lifetime MPF prices (copper only), October 2008¹



A comparison between the EC data for connection and line rental charges for MPF at 1 October 2007 with that from Cullen International showed that, whilst rental charges were consistent, the connection charge used differed in nine cases, including the UK.

Further analysis showed that whilst the EC used the connection fee for active connections for the majority of these 15 Member States, in the case of the UK it used the one-off connection fee for a new connection, of £99.95.

This charge has only been applied to 4% of MPF connections to date, rather than the single migration charge of £34.86 that has been applied to the majority.

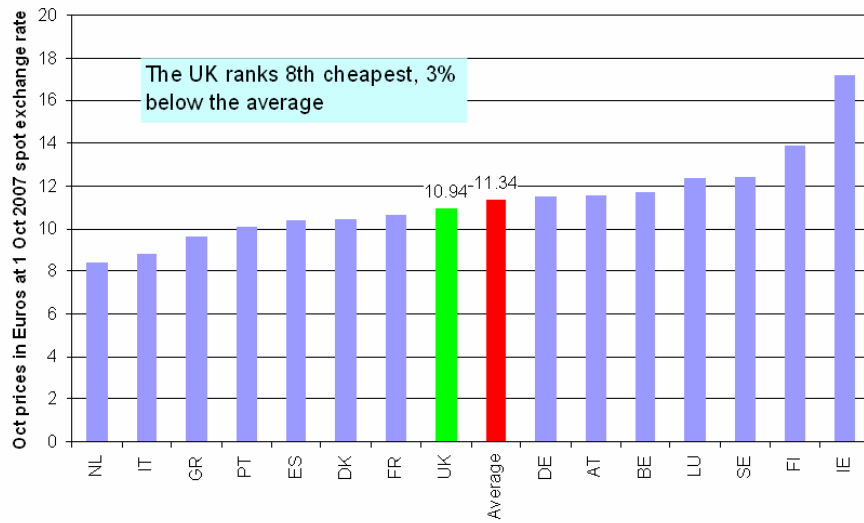
**All MPF lines,
to date**

New Provides	4.3%
Single Migrations	77.2%
Mass Migrations	18.6%

The effect of using the single migration charge, instead of the new line connection charge for the UK is shown in Figure A2 below:

¹ Source: European Commission

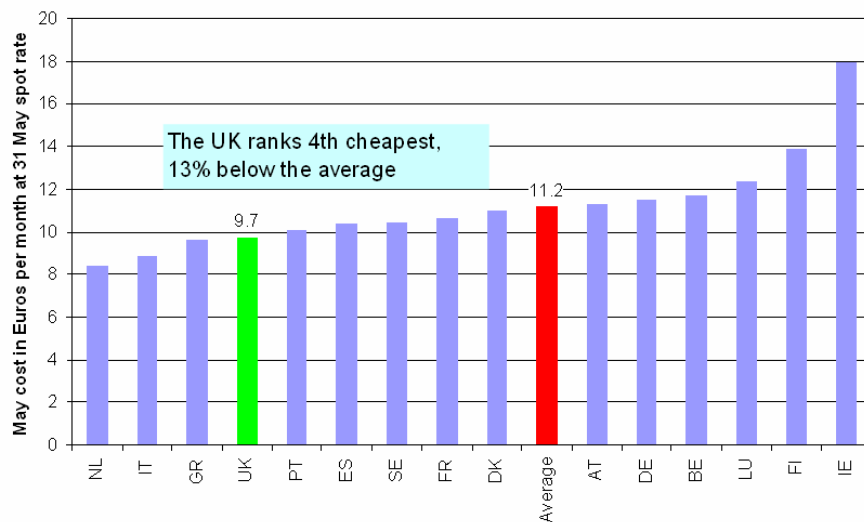
Figure A2: Lifetime MPF prices (copper only), October 2008, using single migrations charge²



A.2 The impact of Exchange Rates

Using more recent data from Cullen International, we have updated the MPF pricing data to May 2008, converting into Euros, where relevant at the 31 May 2008 spot exchange rate. On this basis, the UK's MPF total charge is 13% below the average, and the 4th lowest out of the 15 countries.

Figure A3: Lifetime MPF prices (copper only), May 2008 spot exchange rates, using single migrations charge³

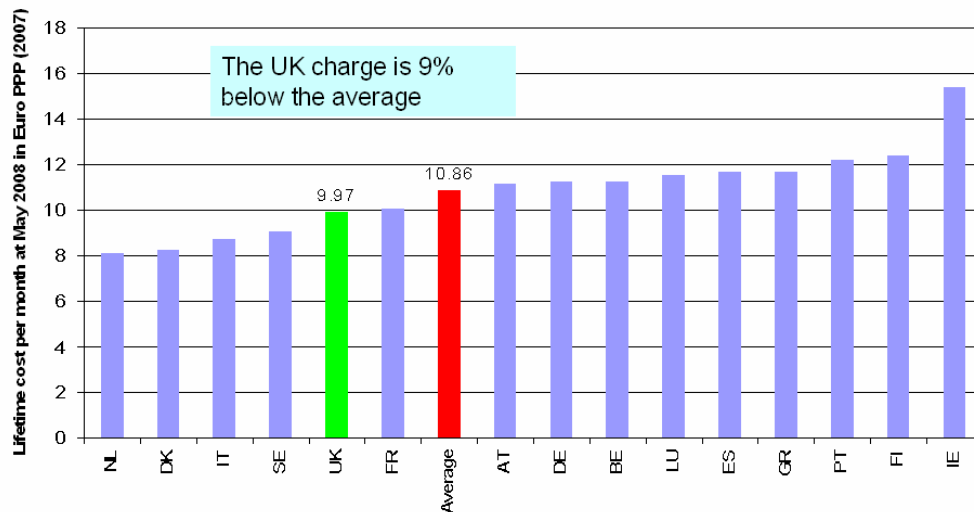


² Source: Cullen International

³ Source: Cullen International

It is recognised that this comparison is heavily impacted by recent exchange rate movements. Furthermore, the purchasing power of national currencies differs across borders because of differences in price levels. To correct for this, comparisons of international LLU prices can be made at a common price level. This is done using Purchasing Power Parity (“PPP”) exchange rates. In general, this adjustment makes the apparently low price Mediterranean countries of Spain, Portugal and Greece relatively more expensive and the seemingly high-price Scandinavian countries of Norway, Sweden and Denmark less expensive.

Figure A4: Lifetime MPF prices (copper only), May 2008 at 2007 PPP exchange rates, using single migrations charge⁴



A.3 Inclusion of Space and Power costs

In order to consider the impact of other key costs CPs would face in using MPF, we commissioned the Yankee Group to develop a flexible model to take account of space and power, as well as copper, costs in comparing per line MPF prices. This analysis has focussed on a group of 8 countries.

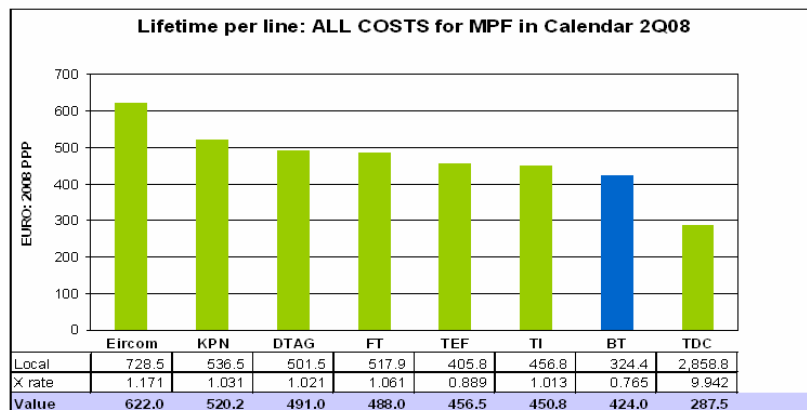
These 8 countries are a subset the 15 countries included within the Cullen International analysis and account for 88% of EU MPF supply, with an average MPF price that is close to that for the EU 27. These countries have a higher average broadband penetration level than the EU 27 or the 15 countries included within Cullen International’s report and we therefore believe they provide an appropriate view of comparable prices.

The Yankee Group model can be flexed to incorporate several different assumptions around exchange rates and a CP’s penetration rate at an exchange. We would welcome the opportunity to share further details of this model with Ofcom. Figure A5 shows per line price comparisons across the 8

⁴ Source: Cullen International

countries using PPP exchange rates assuming the CP provisions 500 subscribers per exchange. This shows that UK prices are the second lowest out of the 8 countries analysed.

Figure A5: Lifetime MPF prices (including space and power assuming 500 subscribers per exchange), May 2008 prices at PPP exchange rates, using single migrations charge⁵



⁵ Source: Yankee Group