



VALUING COPPER ACCESS

Response to Ofcom's consultation on principles

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Valuing Copper Access – a consultation on principles

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Introduction

In September 2004, Caudwell Communications become the first company to launch retail fixed line rental services to UK residential customers utilising BT's Wholesale Access product (commonly known as Wholesale Line Rental – WLR). We are selling *Homecall Line Rental* to our existing base of CPS-based calls only customers as well as to new customers as part of a single-bill 'access and calls' service. We have submitted almost [...] orders to BT to transfer customers to the Homecall service with about [...] live customers to date. In February alone we are expecting to have submitted in excess of [...] orders to BT to transfer lines. [...]

Ofcom is fully aware of the commercial problems faced by WLR-based providers in competing against BT. The wholesale cost of each WLR line is £9.86, while BT's current ex-Vat BT Together Option 1 line rental charge is £8.93.

In this context, it is absolutely critical to ensure that BT's WLR charges are based on an appropriate set of costs. We therefore welcome this timely consultation.

UKCTA response

As an UKCTA member we have seen and fully support the detailed response to Ofcom's specific questions put forward by UKCTA.

Urgency of outputs from Ofcom's work

Given the significance of this consultation to our business plan, we would urge Ofcom to move forward promptly with its work to reassess the costs of BT's copper access network. We note that BT has flagged up the possibility of reducing WLR charges (or at least improving the margin available to WLR re-sellers) in its response to the Strategic Review Phase 2 consultation and accompanying PR. It has, however, stated that any movement would have to wait until after the conclusion of Ofcom's work on reassessing BT's cost of copper and cost of capital. This means Ofcom must draw conclusions on this work at the earliest opportunity and we would encourage Ofcom to dedicate the necessary resource needed to do this.

The HCA vs CCA debate

At the heart of Ofcom's consideration in valuing BT's cost of copper is the decision on whether to return to Historic Cost Accounting. This is linked to a view on whether competition to BT is likely to emerge in the near term in the supply of alternative fixed line access networks.

The Strategic Review recommendations to date are based on a view that such alternative networks are unlikely to emerge. As such, a new approach to regulation is suggested where increased focus is placed on regulating BT's supply of key access layer products to ensure there is genuine equivalence of access between BT and newer market entrants. Although there are costs to moving to this new approach, these are outweighed by the benefits of more effective competition downstream.

We believe the suggestion in the UKCTA response to move to the 'modified HCA' asset valuation used in the other regulated 'utility' businesses is consistent with Ofcom's findings

in the Strategic Review. Over time, a move to HCA valuations would be expected to result in increasingly lower asset costs and, consequently, lower regulated charges for key access layer products such as WLR and LLU. Together with the move to the equivalence of access approach to regulation, this will provide a stimulus to competition to the benefit of consumers. Given the absence of any imminent market entry in the access layer, the potential downside of such a move – ie discouraging otherwise efficient investment – is overstated.

If, however, Ofcom does decide to continue to use CCA valuations, we would support the observations made in the UKCTA response to the questions in the consultation. On a general level, visibility of BT's current valuation methodologies remains poor which generates low levels of confidence in the outputs upon which key product prices are based. The work to be conducted by WIK and Analysys should provide an interesting assessment of alternative valuation methodologies. Ofcom should strive to expose the findings of this work with industry stakeholders.

Shared duct

Ofcom should assess duct costs for copper access by identifying the incremental costs of the copper access network within the duct. All other methodologies risk apportioning costs of the potentially competitive core network to the monopoly access network with obvious benefits to BT.

Holding losses

We do not believe holding losses are a relevant issue. This exercise is aimed at ensuring that BT does not over-recover its costs of providing access layer products by inappropriately stating those costs. If costs are now considered inappropriate and therefore restated, there is no genuine loss for BT and this should not be recoverable from BT's competitors.

Once Ofcom has concluded its findings in this area, regulated wholesale prices for access layer products should be immediately reset.