

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title: Valuing copper Access.

To (Ofcom contact): Graeme Hodgson

Name of respondent: John Morgan

Representing (self or organisation/s): Video Networks Ltd

Address (if not received by email):

CONFIDENTIALITY

What do you want Ofcom to keep confidential?

Nothing Name/contact details/
job title

Whole response Organisation

Part of the response

If there is no separate annex, which parts?

If you want part of your response, your name or your organisation to be confidential, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)? **N/A**

Yes No

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response. It can be published in full on Ofcom's website, unless otherwise specified on this cover sheet. If I have sent my response by email, Ofcom can disregard any standard email text about not disclosing email contents and attachments.

Name **John Morgan** Signed (if hard copy)

HOMECHOICE 



Valuing Copper Access

Response to the consultation document issued by Ofcom

Video Networks Limited, 2005

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1. BACKGROUND

Video Networks (VNL) has been offering services over ADSL in the UK since 1996, initially in the Hull area with Kingston Communications, and, since 1998, in London using BT's network. Following extensive trials VNL launched its HomeChoice service on a commercial basis in late 2000. At that time this comprised video-on-demand services to the television and broadband internet service to the PC using BT's Videostream wholesale product in the London area. The launch was curtailed within a few months, first due to problems with customer provisioning process capacity and quality, and later with network cost, functionality and coverage..

Extensive work with BT over the period 1996 to 2003 failed to produce a wholesale network access product meeting Video Networks' required functionality and coverage, and the network propositions examined were never cost effective. .

In 2002, following significant changes in local loop unbundling prices and products, VNL decided to run its service using BT's Local Loop Unbundling products and associated services. This provided an economic delivery platform, using components similar to those used by BT to provide Videostream and provided VNL with a cost-effective network solution with considerable flexibility in bandwidth, quality of service and functional capability. This enabled VNL to re-launch the HomeChoice service in the London area in February 2004. The service now includes broadcast television channels and video-on-demand services delivered to the television, and broadband Internet access delivered to the PC.

Although network technology has changed over the period 1996 to 2004 no fundamental enabling changes have taken place in the network infrastructure required to provide VNL's HomeChoice service. However, VNL has had to change its business model from that of a pure service provider into that of a facilities-based infrastructure provider to enable cost-effective delivery of its service.

VNL uses or is planning to use products whose prices would be directly impacted by the value of BT's copper and so the subsequent impact on BT's product portfolio. It is critical that these price impacts maintain a level playing field between BT and its competitors.

In this response to Ofcom's consultation VNL has restricted its answers to matters affecting its market and the consumers of its service, and has not commented on matters outside its core market.

2. ANSWERS TO THE QUESTIONS RAISED IN THE REVIEW

Section 2

Question 1: Should this consultation be extended to cover the copper access network operated in the Hull area by Kingston Communications? If you think it should then please explain why.

No.

Section 3

Question 2: What is your opinion of a return to HCA?

VNL agrees with Ofcom's belief that the CCA approach is the appropriate methodology, for many of the reasons given. Using historical costs would massively distort costs and pricing and lead to significantly reduced incentives for competition and provide less choice for consumers.

Question 3: Do you believe that the overall regulatory approach described in this section is complete and appropriate? If not then please explain how the proposed approach should be changed.

Yes.

Section 5

Question 4: What do you believe the useful economic life, i.e. book life, and the service life, i.e. actual usable life before replacement is required, of a copper access cable should be?

Both the economic and service life of copper access cable should be extended from the current 15 years by 5-10 years, given advancements which have been implemented (i.e. DSL) as well as those anticipated to come which have effectively extended both the economic life of the asset as well as the service life of the cable, enabling enhanced services to continue to be delivered over copper for longer than 15 years.

Question 5: Do you believe that a rolling treatment of the economic life for duct is appropriate? If not, how do you believe duct should be treated?

No, VNL believes it is inappropriate as for existing ducts most of these assets are now sunk costs, and should have been fully written down. As it relates to ducts, new investments should have an economic life of 30-40 years, with an allocation made for ongoing repair and maintenance of these ducts to reflect spend incurred.

Question 6: What level of spare capacity do you believe is appropriate for a copper access network?

An abatement should be made for surplus assets to ensure that GCR does not inflate due to unutilised or underutilised assets.

Question 7: What is your opinion on the option of keeping the current methodology and then moving to a valuation based on PIPeR when it becomes possible (expected in 2006/7)?

VNL believes the best option is an optimised approach which assumes an efficient entrant without considering modern technology.

Question 8: What is your opinion of using an optimised approach to estimate the value of BT's copper access network?

VNL believes an optimised approach is much more appropriate, given that it does not include costs driven by historical and legacy inefficiencies in BT's operations and network, which in any case were incurred many years/decades ago.

Question 9: Do you believe it would be possible to discount the new technology solution for additional functionality and, if so, how?

VNL has no authoritative view.

Question 10: What alternative architectures to the active PCP architecture studied by Ofcom do you believe would be viable options for a modern equivalent asset to BT's copper access network?

VNL has no authoritative view.

Question 11: What is your opinion of using an optimised approach which takes advantage of modern technology to estimate the value of BT's copper access network?

While VNL believes the most appropriate replacement cost methodology would be to use such an optimised approach using modern technology, we are concerned that the time required to develop and agree the approach together with the potential scaling issues could lead to a long delay in the revision of the GRC, and therefore a long delay in the revision of uncompetitive pricing in WLR and FMPF services. It may be preferable to implement as an interim option the optimised approach without modern technology more rapidly while continuing to evaluate this approach with a view to potentially shifting to this approach in the longer term.

Question 12: How do you believe the labour rate should be set?

VNL has no authoritative view.

Question 13: How do you believe the issue of unavailability of asset types used in the network should be accounted for in the valuation?

VNL believes that an abatement should be applied to account for unavailable asset types, to avoid any inflation of GRC due simply to a change of materials.

Section 6

Question 14: What is your opinion of using cross-sectional area to attribute the cost of shared duct?

VNL has no authoritative view.

Question 15: What is your opinion of using bandwidth to attribute the cost of shared duct?

VNL has no authoritative view.

Question 16: What is your opinion of using incremental cost as the basis to attribute the cost of shared duct?

VNL believes using incremental cost to attribute the cost of shared duct is the most appropriate methodology, as the core network is effectively a sunk asset which would have been built irrespective of the need for access duct.

Question 17: What other methods of attribution for the cost of shared duct might be appropriate?

VNL has no authoritative view.

Section 7

Question 18: Over what timeframe do you think it is appropriate to recognise the impact of any change in valuation of the copper access network in relation to setting prices?

VNL believes that in relation to setting new wholesale pricing, the changes should happen as quickly as practicable in order to facilitate greater competition over the local loop. In relation to setting new retail pricing to compensate BT for the holding loss, this may need to be addressed over a period of several years in order to spread the impact to consumers.

Question 19: Over what range of products and services do you believe it would be appropriate to recover any potential holding loss?

VNL has no authoritative view.

Question 20: What do you believe would be the most appropriate way to implement changes relating to pricing of specific products? What timeframe do you believe would be appropriate for such implementation?

VNL has no authoritative view.