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12 January 2005

Dear Justin,

Next Generation Networks – Future arrangements for access and interconnection

Centrica is a member of the United Kingdom Competitive Telecommunications Association (UKCTA) and fully supports the response to this Ofcom consultation which has been submitted by UKCTA. However, Centrica also wishes to respond to this consultation in its own right to highlight further those regulatory principles and network areas that we believe are extremely important in relation to BT's 21CN plans and which we believe will require high levels of regulatory scrutiny.

At the outset, we recognise that BT's 21CN plans for a new, single multi-service network should be welcomed and supported. It is clear to us that considerable industry and consumer benefits can be developed and delivered in a converged IP-based network environment. Additionally, 21CN provides a unique opportunity to ensure the future network infrastructure of BT fully incorporates the vital requirements of competition during the essential design, rollout and operational phases. This is an un-paralleled opportunity to secure a level playing field for competition, which Ofcom, BT and industry must embrace.

We agree with Ofcom that it has a key role to play in this area. Ofcom's role should not relate to involvement in the detailed design of BT's new network, but rather in ensuring that Ofcom's key regulatory principles are an intrinsic aspect of 21CN and thus truly support the development of competitive markets. However, we would expect Ofcom design involvement on occasions when any technical disagreements between BT and industry were likely to lead to dispute and uncertainty.

Whilst we recognise and will support the positive aspects of BT's 21CN plans, we also recognise the tensions that are already emerging regarding BT's development of 21CN, from the effectiveness of the BT-industry consultation process and information sharing to date, through to network transition arrangements and the future withdrawal of access and interconnection products. Centrica has acquired little information to date on BT's proposals for IP interconnection and we are aware of wider industry concerns regarding BT's provision of timely and meaningful technical information. We intend to approach 21CN discussions with BT in a positive manner, however, we urge Ofcom to be mindful and vigilant to any anti-competitive behaviour during the 21CN development process and to ensure that BT's competitors are not disadvantaged at any point during this time.

Centrica operates a small amount of network infrastructure and many of the detailed technical questions posed by Ofcom in this consultation are not directly relevant to us at this time and we currently possess insufficient information from BT on future interconnection arrangements from which to comment sensibly. We therefore provide comments to Ofcom using sub-headings below which focus more on the regulatory principles involved in the network development process, as well as identifying several areas of 21CN which we believe require particular regulatory oversight.

1. Ofcom's Key Regulatory Principles

1. Promote competition at the deepest levels of infrastructure where it will be effective and sustainable

Centrica supports access to the customer at the closest geographical point in the network, which under 21CN is the MSAN level. Whilst we believe this accords with BT's initial plans to offer access via physical unbundling at the MSAN nodes, it potentially creates an issue for interconnection. We understand that BT's initial plans are to offer bitstream interconnection (general conveyance) and service specific interconnection (voice call origination) at the metro node level only.

At this stage we do not know what BT's future interconnection charging arrangements will look like and importantly whether these will contain a distance based charging element. If they do then interconnection at the MSAN level is clearly the more desirable option. However, aside from these geographical implications, we firmly believe that where a communications provider has built out its network to the MSAN level for access/LLU purposes, it should also be able interconnect at the same MSAN site for non-LLU traffic streams rather than using a separate metro node interconnect. This is the most efficient access and interconnection solution, albeit one that will require further detailed dialogue with BT to consider the technical implications of interconnection at the MSAN and identifying additional costs that would be associated with making interconnection available at this geographic level.

2. Focus regulation to deliver equality of access beyond those levels

Centrica strongly supports the principle that the design of regulated access and interconnection products in markets where BT has SMP must support equality of access. This principle essentially translates into 'input' equivalence, in order to ensure that BT's retail business uses the same products, at the same price, and managed using the same systems, processes and service levels as its competitors. Equivalence must also embrace product development and the product in-life management cycle.

We recognise that achieving full equivalence will be difficult, but not insurmountable, in relation to PSTN services, network processes and systems already in place. However, equivalence should be easier to achieve for new network, products and systems introduced via 21CN. We welcome Ofcom's recognition that input equivalence should be adopted when the cost is proportionate and this would be highly likely to include any new 21CN services where BT has SMP.

We believe that equality of access is a key regulatory principle underpinning 21CN and the attainment of effective competition in downstream markets. It is vital that equality of access is deeply embedded in the new network from the start. Ofcom must ensure that BT designs and develops 21CN network products with a view that will be purchased identically by its retail business and competitors.

3. As soon as competitive conditions allow, withdraw from regulation at other levels.

We recognise that if real equivalence can be achieved, then this may create the conditions where BT's downstream services at the retail level could be deregulated. Centrica firmly believes that equivalence can deliver regulatory withdrawal from regulation at the retail level, which must be a key objective for Ofcom. If successful, then following any such withdrawal of retail regulation we would encourage and support appropriate consumer-focussed activities at the retail level, such as Comparative Performance Indicators and Quality of Service measures.

We also recognise that at the network level a key theme is convergence. If convergence is effective, then this should allow a reduction in service specific wholesale regulation and thus a greater regulatory focus on generic access and interconnection remedies.

4. Promote a favourable climate for efficient and timely investment and stimulate innovation, in particular by ensuring a consistent and transparent regulatory approach.

We agree that promoting a favourable investment climate for next generation networks for industry is important and can be achieved by Ofcom:

(i) providing regulatory clarity and certainty – this is vital as industry will need to make 21CN investment decisions against a clear and reliable regulatory framework. Ofcom must also be prepared to act quickly when industry issues emerge during the 21CN development path;

(ii) ensuring there is industry confidence in BT's regulated products – again this is vital and will only be achieved by embracing input and output equivalence;

(iii) setting appropriate regulatory returns for BT's regulated products, that take account of the commercial and technical risks associated with its investment in 21CN – we recognise that BT will make multi-million pound annual operational cost savings once 21CN is fully operational and that the role of regulation is not simply to carve up these savings and spread them across the industry. However, the Network Charge Controls through which Ofcom controls BT's returns will be key. The new set of controls to take effect from September 2005 must not allow BT to over-recover on its cost of capital or be set without a timely review against its returns from new 21CN investments and legacy network arrangements.

(iv) ensuring that migration to 21CN minimises the impact on existing investments whilst enabling BT to close its existing networks as soon as is reasonable – Ofcom must facilitate the migration from the existing set of regulated products to the new set of 21CN products and ensure that adverse impacts on existing investments are minimised and avoided wherever possible.

2. Transition and Migration

The transition from the current world to the new world of 21CN will necessarily involve complex issues around existing product migration and geographic rearrangements. It is vital that product migrations are carefully managed and follow detailed processes developed via cross-industry working groups. Moreover, it is essential that BT engages with and consults effectively with all communications providers to ensure that there is no service disruption to existing retail services during migration(s).

The continued regulatory requirement for Wholesale Line Rental and Carrier Pre-Selection (CPS) can be expected to diminish over time once effective competition develops via new access and interconnection arrangements at the deepest level within 21CN. However, we firmly believe that in the short- to medium-term there will be an important and continued need for these products.

We believe that a regulated 'next generation CPS' product will be required for delivery over 21CN IP infrastructure. It would undermine competition if BT were permitted to provide its competitors with a CPS product that emulated the PSTN original, whilst offering innovative alternative voice services via IP technology via its retail business, which offered new features and capabilities

which were not available to its competitors. It is unclear at this stage if BT will benefit from structural interconnect advantages under 21CN which it previously did for PSTN local call routing. A similar remedy to CPS Same- and Adjacent-DLE call routing may be required for a next generation CPS product. These requirements must be built into the 21CN CPS product at the outset, rather than requiring communications providers to lobby for change once BT's new retail voice services are launched.

3. 21CN and Operational Support Services (OSS)

The OSS provides the key interface through which communications providers contact BT regarding the provision and management of supplied products and services. A critical aspect of 21CN will be the evolution of BT's legacy OSS to a 'next generation' OSS. If equivalence of inputs is to be achieved to underpin the development of a competitive market, then the migration to an OSS based on distributed architecture and operating within a walled garden approach must be achieved. It is vital that BT's retail business and its competitors use the same systems for ordering and managing products. In addition, BT's retail business must not have access to OSS data sources, except where this is accessible by all communications providers using the same systems.

Ofcom advises that BT's plans for implementing a next generation OSS comprise a distributed OSS architecture, based on off-the-shelf commercial systems linked by standard industry interfaces. Whilst we welcome such a development we are concerned that the BT design and creation of a next generation OSS may involve new proprietary interfaces being introduced by BT without adequate industry discussion or appropriate involvement of the Network Interoperability Consultative Committee (NICC). We urge Ofcom to closely monitor BT's development of a next generation OSS to ensure it meets the key requirements of equivalence and thus involves the use of appropriate standards and interfaces in that context.

4. Next Steps

As mentioned previously, Centrica will engage with BT on 21CN in a positive manner. This will involve attendance at industry meetings and contribution to the BT Consult21 process. Centrica will also be representing the interests of service providers on the 21CN Steering Committee Board.

We urge Ofcom to ensure that BT's engagement with industry is kept under close scrutiny to ensure industry has the ability to respond effectively to BT on its 21CN plans, via the provision of timely information from BT, structured and appropriately disseminated meeting arrangements and clear visibility of BT's 21CN project plans and timings. It is critical that the engagement between BT and Ofcom / industry is meaningful and effective, in order to prevent BT rolling out a 21CN network that has not been developed via due process.

It is hoped the information supplied above will be of interest in your further deliberations on 21CN. Please do not hesitate to contact me if you require any additional information or clarification of any matter.

Yours sincerely,

Nick Turley
Regulatory Issues Manager