

## **Verizon Business response to Ofcom consultation:**

### **Wholesale ISDN30 price control – Further consultation**

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.

Verizon welcomes the opportunity to respond to Ofcom’s Wholesale ISDN30 price control consultation (the ‘Consultation’). As stated in our response to the April 2011 consultation, ISDN30 remains a core product offering for many businesses in the UK despite the newer technologies that are becoming increasingly available. However, until such time as these newer technologies are fully embraced by customers, it remains vital that the regulatory conditions continue to promote and support fair and effective competition in this market.

#### Summary

In summary, as stated in our response to the April 2011 consultation, Verizon agrees with Ofcom that there is a need to impose a price control on BT Openreach for wholesale ISDN30 services. This as it remains the case that there is little, if any, substantive competitive pressure on Openreach to reduce wholesale ISDN30 prices towards a competitive level and that a cost orientation obligation, on its own, would not achieve the objective of reducing the excessive wholesale prices for ISDN30. As such, a cost orientation obligation, in association with a price control would represent an appropriate remedy.

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 a significant demand for ISDN30 services from businesses at the end of the next charge control period.

As for the proposed reduced duration of the price control period, Verizon considers that Ofcom’s proposal for a three year charge control period was appropriate. We are therefore concerned about the potential impact that a significantly reduced price control period, and the corresponding steeper price reductions, will have on competition. As Ofcom note, such a change will reduce the incentive on Openreach to make efficiency gains on the one hand, whilst on the other, rapid price erosion caused by a much shortened charge control period, in isolation, has the potential to drive customers back to BT’s network. We remain concerned

that significantly steeper price decreases than originally intended will cause unnecessary detriment to competition at the wholesale level, and will ultimately favour BT over its competitors. This could be avoided simply if Ofcom continued with its original intention of setting a three year glide path.

We consider that the advantages of setting a three year charge control outweigh the more “administrative” benefits that might be realised from aligning the regulation of all related access exchange line products supplied by Openreach.

So whilst, in general, Verizon is supportive of Ofcom’s intentions as outlined in this consultation, we would urge Ofcom to be vigilant in their efforts to ensure Openreach is sufficiently constrained so as to ensure alternative providers can compete on fair terms.

The following section addresses the specific questions tabled by Ofcom.

*Q2.1 Do you agree that we should adopt a price control based on a 2 year period and align the prices of ISDN30 core services with their underlying costs of provision?*

Whilst Verizon indicated its general support for both Ofcom’s proposed 3 year price control period and the aligning of ISDN30 prices with costs when responding to the April 2011 consultation, we have significant concerns over the revised proposal to introduce a 2 year price control period.

It is regrettable that the new price control has been subject to delay and that it will now not be implemented until after April 2012. Regardless of whether Openreach is under a regulatory obligation to formally prepare or audit ISDN30 wholesale data for reporting purposes, it is a matter of significant concern that it is apparently unable to provide reliable robust data to the regulator. Ofcom’s summary suggests that each time Ofcom has asked for data from BT in this regard, it has produced something different. This suggests that it would be very difficult to base any decisions or proposals on BT data, which should be a matter of grave concern to Ofcom.

Whilst Verizon can see the merits of aligning the regulation for all related access exchange line products supplied by Openreach, we consider there are significant risks associated with the adoption of a two year price control. A two year price control will result in a rapid price reduction (11% to 17%) on WLR ISDN30 over that short period, which in the absence of similar corresponding reductions for 2M Leased Lines or PPC’s, is likely to result in customers moving back to the BT network. Accordingly, Verizon does not support the adoption of a two year price control period and would urge Ofcom to maintain its original intention of setting a three year price control period.

Whilst it is accepted that customer demand for ISDN30 will continue to decline as customers choose IP based alternatives, ISDN30 will, in our view, remain an important offering beyond March 2014. We set out our reasoning for this view in our response to the April 2011 consultation. As such an extended price control could be considered appropriate.

As for the proposal to align the prices of ISDN30 core services with their underlying cost of provision, in principle, Verizon totally agrees with such an aim. However, given the above comments, Verizon considers competition will be distorted if large reductions are mandated too quickly as a result of a glide path that is overly short and steep. Ofcom’s aim should be pursued but in conjunction with a longer glide path.

*Q2.2 Do you agree that in this case Option 3 should be preferred to Option 2?*

In line with our comments above, Verizon considers that option 1, coupled with an extended price control period would be the preferred outcome.

However, if after taking account of all of the responses to this consultation Ofcom decides to continue with its proposal to introduce a two year price control period, then Verizon accepts that option 3 is preferable to option 2.

*Q4.1 Do you agree with our assessment that there has been no material change in the wholesale ISDN30 exchange lines market since our determination that Openreach had SMP in the MR statement? If not, please explain why.*

Verizon does agree with Ofcom that there has been no material change in this market and that a charge control and a cost orientation obligation should be imposed on Openreach.

We would further take this opportunity to reiterate the argument we made in our previous response that an IP-based access service should be introduced by BT, which provides 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.

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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