

Ofcom's approach to future regulation

Sharon White, Ofcom Chief Executive

24 July 2018

Our future plans to support full fibre

- **Pro-investment, pro-competition strategy.** Strategic Review of Digital Communications in 2016 set out our commitment to ultrafast networks, supporting investment and promoting competition
- **Continuing on that path today.** Drawing on feedback from industry and investor community. Providing a future road-map to offer more certainty on long-term regulation, and further clarity on areas such as pricing and geographic regulation
- **In-depth policy** (e.g. charge controls) will follow in consultations and market reviews
- **Working with Government.** Goals and ambitions shared with Government's Future Telecoms Infrastructure Review (FITR) and NIC's National Infrastructure Assessment. We welcome Government view that competition is best way to drive investment, complemented by public intervention in non-competitive areas.

Ofcom's priority: supporting investment in full fibre

Action so far

- **Legal separation of Openreach from BT.** Changes include consultation by Openreach on investment plans, and confidential discussions with providers on products
- **Transforming the economics of laying fibre.** Openreach required to offer duct and pole access, making it quicker and cheaper to lay fibre, with upfront costs potentially halved
- **Pricing freedom for higher-speed products.** Ensured affordable superfast broadband, but pricing freedom for Openreach services above 40 Mbit/s, to protect investment incentives
- **Industry summit in April** between Ofcom, Government and industry leaders

Momentum is building

- Providers have committed to combined **six million** premises by 2020
- Government target of **15 million** premises by 2025
- Full-fibre operators attracting new investors, including institutions focused on infrastructure

Our long-term policy

Clear, consistent, predictable, long-term regulation

- 1 Holistic approach to business and residential markets at the network level
- 2 Plans to consult on unrestricted duct and pole access
- 3 Targeted approach to service regulation by geography
- 4 Longer market review cycles, from three to five+ years
- 5 Supporting a smooth transition from copper to full-fibre networks
- 6 Clarity around fair-bet; preservation of investment incentives

Holistic approach to business and residential networks

- **Regulation evolving** to reflect that full-fibre networks will support different services across different sectors – including residential, SME, leased lines and mobile backhaul
- **Access to Openreach's ducts and poles** becomes even more important with the focus on network infrastructure. Current mixed-use provisions leave Openreach with an advantage
- **Autumn consultation** on granting rival network builders unrestricted access to Openreach's ducts and poles, with potential remedy by early 2020
- **Residential and business** wholesale access markets to be considered holistically, with new regulatory period beginning April 2021 and running for at least five years

Targeted service regulation by geography

- Prospects for network competition will vary across UK due to population density and build costs
- Intend to vary regulation of Openreach in three broad geographic areas:

	Regulatory approach	Potential policy
Competitive areas	Deregulation as areas become effectively competitive	<ul style="list-style-type: none"> • Continued duct and pole access and consumer protection, but no access regulation
Potentially competitive areas	Build on existing WLA approach supporting network investment	<ul style="list-style-type: none"> • Anchor regulation considers competitor fibre builds costs and fibre value premium • Continued pricing flexibility for higher value services
Non-competitive areas	Focus on most upstream remedy available and effective that supports investment	<ul style="list-style-type: none"> • Potential for dark fibre access • Wholesale access regulation

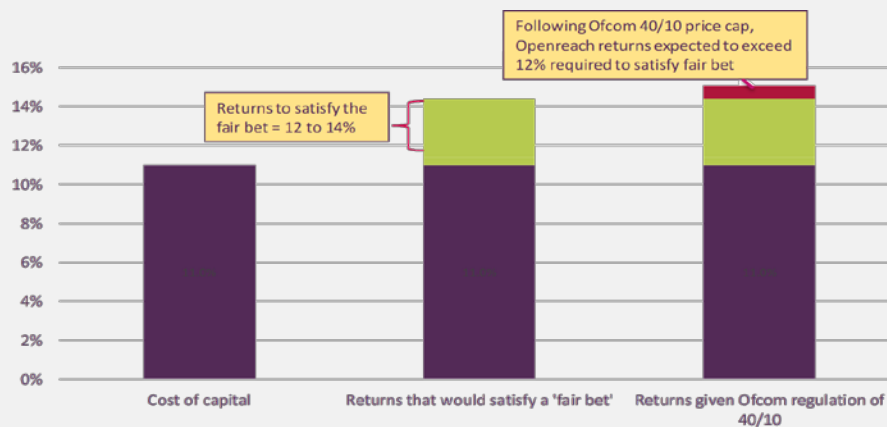
- Public intervention also likely to be required in non-competitive areas

Full-fibre investment must be a fair bet

- We remain committed to 'fair bet' principle – opportunity to make higher returns on successful investments, to compensate for risk

Openreach's 2008/09 FTTC investment

- Clear example of how fair-bet works
- 10-year period of pricing flexibility
- Ability to earn cumulative returns of **12-14%**
- Estimated actual return will be c. **15%**
- Full-fibre investment will face different risks, but principle remains consistent



- Application of fair bet cannot be prescriptive, but we are considering extra clarity on:
 - Appropriate cost of capital
 - Evaluation of up-front risks faced by Openreach on full-fibre investments
 - Possibility of specifying long-run period over which Openreach would have pricing flexibility
 - Next steps include further information from, and engagement with, Openreach on risks it faces

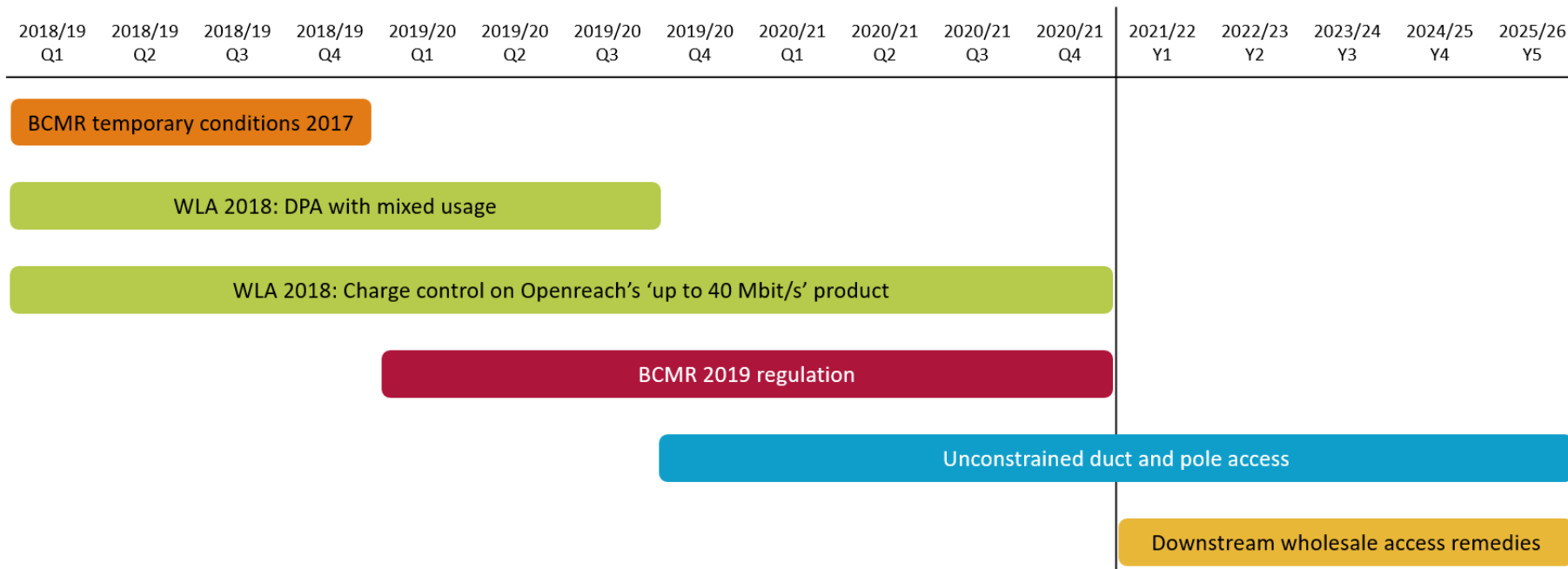
Copper to fibre switchover

- **We support copper to fibre transition.** Important aspect of full-fibre business case
- **Copper network decommissioned** after migration to full fibre
- **Managed transition** led by Openreach and industry
- Ensure our policies through this process promote investment and protect consumers. Areas may include:
 - **Quality of service:** ensuring no degradation in copper services through transition
 - **'Stranded' assets:** considering approach to cost recovery of such Openreach assets
 - **Pricing consistency:** we see value in broadly stable pricing through transition
 - **Migration process:** consider effect on all Openreach's wholesale customers
- **Additional protections** required for vulnerable consumers to help avoid disruption

Pro-competition approach: investment by all

- Our approach of driving investment through competition means we expect and hope for investment by all parties, including Openreach, Virgin and new entrants
- Rival networks are in the early stages of network planning or builds
- Openreach could act in a way that has effect of deterring other operators from deploying full-fibre networks
- Wholesale Local Access review 2018 placed restrictions on Openreach discounting FTTC by geographic areas
- We will take action as necessary to support competitive network deployment, including enforcement to address any anti-competitive behaviour

Roadmap for regulation



We welcome your feedback

Q&A