



Vodafone's response to Ofcom's consultation

Excess construction charges for Openreach Ethernet Access Direct

March 2014



VODAFONE

Headquartered in the UK, Vodafone is a global business investing and innovating in all the markets we serve to deliver for our customers. Our home market is no exception and Vodafone in the UK has now successfully integrated the former fixed line business of Cable&Wireless Worldwide resulting in the creation of a genuinely unique converged communications provider. With £2.5M being invested each day in our UK network, we remain committed to delivering the very best for our customers.

SUMMARY

We support the concept of flat rate charging and agree that it will be beneficial for provisioning processes.

As it stands the proposed move to flat rate charging will result in an overall increase in EAD ECC cost to us.

We consider the cost increase is as a result of BT proposing a 29% cost reduction to create the flat rate. Our own numbers show that a 33% cost reduction occurred and therefore 33% should be factor used to create the charge.

Cost data for ECC installations must remain available for CP bills despite the move to flat rate charging.

INTRODUCTION

As of April 2013, in conclusion to the BCMR, we saw a significant decrease in BT's charges for excess construction. Ofcom headlined that on average charges fell by 29%.

Excess construction charges have been subject of industry concern due to:

- a) the complexity they bring to the provisioning process;
- b) that they result in CPs paying outright and upfront for BT's network extension
- c) that different services can incur subsequent / duplicate ECCs for access to the same location;
and
- d) that ECC planning is not efficient with insufficient thought given to future demand.

The flat rate proposal addresses one of these important concerns but does not deal with the remainder. We request that Ofcom turns to the additional concerns during the forthcoming BCMR.

ANSWER TO QUESTIONS

Do you agree with the assessment of Openreach's proposal set out in this document, and do you agree with the Directions we propose to issue as set out in Annex 4.

Price level of the flat rate charge

Paragraphs 4.12 to 4.17 of the consultation document set out how the flat rate charge has been calculated.

Ofcom looks at FY2012/13 total ECC revenues and reduces these by 29% to take account of the price changes that came into effect on the 1st April 2014. We consider that this approach under-estimates the reduction in revenues for ECCs that came about due to the new pricing. Although Ofcom headlined that



on average charges fell by 29%, actual ECC charges fell with considerable variance. We consider that in calculating an average flat rate ECC charge it is not correct to simply apply the average reduction in headline charge. Instead it is appropriate to reflect the usage of the ECC components and calculate the average bill reduction. Our internal data reflects that the 2013 fall in ECC charges results in an overall cost reduction of circa 33%. The data to support this is provided in a confidential annex.

We calculate this by looking at our 2012/13 data for PPCs. We have used PPC data because our PPC invoices clearly show the ECCs type and cost, whereas our Ethernet invoice does not provide the necessary granularity of detail. The PPC data shows that our costs over the equivalent period would have been 33% lower following Ofcom's 2013 ECC decision.

We therefore consider that the flat rate (following the proposed methodology) should be some 4% lower than proposed at circa £526.08. Calculating the flat rate using 29% rather than 33% will result in BT achieving higher revenues for ECCs as a result of the flat rate cancelling out some 4% of the price reductions put in place by Ofcom.

In addition the proposed methodology does not consider whether the move to the flat rate method would lead to additional cost savings for BT. We consider that it would not be unreasonable for a further percentage reduction in costs to arise due to the savings from administering the liaison between CPs and agreeing the go ahead for ECCs or otherwise. We propose that such efficiency gains are also factored into the new flat rate charge lowering further our calculated charge of £526.08.

Cost transparency

We understand from our bilateral conversations with BT, that BT expects that simplification and wider distribution of ECCs will drive an increase in the level of orders that are provisioned with ECCs. Today we believe the industry average is for 30% of orders to require additional ECC charges. 22% of these cost are proposed to be spread across the totality of orders. There is a large risk that if costs and charges are not provided with sufficient transparency that BT will be seeking significant uplifts to the flat rate charge in the future as more ECCs are undertaken and the average number of connections with ECCs increase. CPs should be able to effectively monitor the occasions under which ECCs arise. This is important information for our build or buy decision making processes. This is important information in relation to projecting likely future costs.

General ECC policy

We recognise that the general ECC policy is not part of this consultation. However we consider it important for all parties to understand that there are wider policy issues within the ECC topic. We do not consider that these issues have been sufficiently discussed and that the remaining issues should be part of Ofcom's upcoming BCMR project.

The BCMR should consider the policy behind the appropriateness of CPs funding BT's network extension – essentially the CP / customer pays the direct costs of the network extension via the ECC charge yet BT benefits from the life time of rental of services across that network connection.

The BCMR should consider how efficient BT's network planning and construction is and whether it is appropriate for 100% of costs to be passed on via ECCs. It is the case that CPs will face ECCs to the same location for the purchase of different Openreach products. This should not happen. If appropriately and



adequately planned once accessed a given location at a customer site should not require repeat ECC charges.

The BCMR should evaluate the success of the flat rate regime.

Long term ECC charges

In the longer term – post 2016 we consider that ECC charges where (if) applicable should be based upon efficiently incurred costs. It must be impossible for BT to levy ECCs for sites to which access already exists or where existing locations have been poorly / inefficiently planned thus requiring supplementary ECCs.