

# Telecommunications: A new regulatory approach

23 June 2005

## The Background

- Strategic Review 20 years after privatisation of BT and introduction of competition; key technology transition from PSTN to IP-based networks
- State of market: mobile competitive but limited substitution for fixed  
Fixed market – a web of detailed regulation; some consumer benefits but absence of sustainable competition
- A new regulatory approach thus needed. 3 options posed in November 2004:
  - 1) Remove all ex ante regulation
  - 2) Make a reference immediately to Competition Commission under Enterprise Act
  - 3) Secure real equality of access to bottleneck products/services and operational separation of BT business unit managing them
- Majority industry support for (3) if real and enforceable
- BT initial proposals February 2005; parallel / related regulatory policy initiatives

## The aims of the new regulatory approach

- Forward-looking regulation to cover transition from PSTN to IP
- Certainty for the market
- Clarity for operators / investors about direction of future investment
- Focused regulation with effective sanctions to ensure delivery; allowing for:
- Deregulation where regulator is a substitute for market competitiveness; = less, focused, tougher
- Which supports competition to drive down prices for consumers / businesses
- And supports innovation and competitive new products / services (eg next generation broadband, IPTV, VOIP)
- Ensure strong communications sector able to underpin UK competitiveness

## BT's Key Undertakings

- Equality of input: same products, process, price for key access / backhaul products
- Effective operational separation
  - Incentives
  - Products
  - Branding / location
- Governance / compliance
  - Equality of Access Board: majority independent, Chaired by Carl Symon (BT Group plc Board non executive director); real powers / teeth
- Key principles for competitive Next Generation Networks
- Enforceability
  - Enterprise Act
  - Existing powers under EU framework / Communications Act and Competition Act
  - Financial incentives for delivery

## Equivalence of Input

Product	Ready for Service Date	Migration Complete Date#
LLU	June 2006	-
WLR on PSTN	June 2007*	June 2010
WLR on ISDN2	September 2007	March 2009
WLR on ISDN30	December 2007	December 2009
IPStream	December 2005	December 2006
WES and BES	September 2006	March 2007

\* Voluntary undertaking supported by financial incentives for delivery for RFS December 2006; financial incentives also apply to any LLU RFS date after June 2006

# also range of intermediate milestones in undertakings

## Effective Operational Separation

- New business unit operationally separate from BT
- 30,000 staff
- Separate HQ location
- Separate operating / trading systems
- Separate branding / livery
- Remuneration / incentives based solely on Access Service's performance
- Product set in Access Services
  - All forms of WLR
  - LLU full and shared
  - Fibre access including WES and PPC access products
  - Ethernet and SDH and sub-loop specific wholesale backhaul services
- Compliance overseen by EAB

## Next Generation Networks: Key Principles

- BT to ensure 21CN design allows other operators unbundled access to key bottlenecks
- BT to design 21CN to support Equivalence of Input
- BT's charges to reflect efficiently designed network
- BT to launch retail products only when equivalent wholesale products available
- Transparent and multilateral process to manage transition to NGNs; new adjudication process



## TSR2 (February) → Undertakings (June)

- The proposals go further, are deeper, are legally binding and offer a greater degree of separation.
- Five key differences:
  1. The proposed undertakings are legally binding in lieu of EA Act reference and are enforceable through the High Court
  2. February proposal focused on 1 product (LLU); these proposals address 5 products.
  3. Distinct and separate compliance Board structure with majority of non-independents and BT Group Non-Exec in the Chair
  4. Specific timetable for product and service availability which is earlier than proposed, and with incentives attached
  5. Organisationally separate new business unit, with separate and distinct brand, separate headquarters, separate incentive plans, separate operating and trading systems.



## Related Policy Initiatives

- Revised assessment of cost of capital (revised betas: group 1.1; access 0.9; other 1.2) and of cost of copper network major inputs to WLR and LLU pricing
- Voluntary price reductions by BT: to £80 p.a. for full LLU, 50p a month off WLR. Consultation on WLR charge (summer) likely to lead to further reduction
- Price stability between LLU and IP Stream. IP Stream Connection Charge down £10. BT commitment to no further changes until 1.5m LLU lines installed and then <75p per month reduction until April 2007
- New and tougher non-discrimination guidelines (30 June)
- NGN outcome (30 June); Greater detail on process
- Deregulation
  - Large business pricing: consider in July
  - Leased lines: consider in July
  - Retail price controls: move to safeguard regime following review of fit for purpose WLR product. Consider entire removal when current price control expires

## Benefits

### **OLOs / Investors / SPs**

- Certainty
- Margin
- Investment encouragement
- Progressive equivalence
- Process compliance

### **Consumers / businesses**

- Increased competition
- Greater choice of line providers
- Faster roll out of faster broadband
- Simpler customer offerings – single provider
- Benefits of technology capability from NGNs

## What happens next?

- Full text of undertakings published on 30 June
- 6 week consultation
- Clear timetable for BT to implement detail of undertakings
- Also on 30 June:
  - Non-discrimination guidelines
  - Broadband regulation: plans for reviewing WBA market: regulatory framework after end of BT's pricing commitment
  - Next generation networks statement
  - Universal service statement (existing services)
- In August:
  - Cost of Capital and Cost of Copper statements
  - Network Charge Control
  - Consultation on regulatory pricing for full LLU and WLR
- Rolling quarterly programme of reports on BT's delivery