

# Wholesale Fixed Telecoms Market Review Consultation Proposals

Ofcom

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# Summary

- ***Pro-investment, pro-competition strategy*** to support Ofcom and Government full-fibre ambitions
- Fibre ***build momentum maintained*** over past 18-months
- ***Significant departure*** in approach to support ***step-change in investment by all players*** and ***in all areas***
- ***Consistent approach*** from WLA 2018, PIMR 2019 and BCMR 2019 and build upon proposals laid out in July 2018 and March 2019
- Unrestricted access to Openreach ***ducts and poles***
- ***Variation of regulation by geography***
- Pricing proposals to promote ***investment across all of the UK*** backed up by public funding
- ***Full backing and support*** for retirement of legacy copper network
- ***Predictable long-term regulation***



# Current market review programme outline

Access to Physical Infrastructure Market (Upstream)



Duct Access Remedy for any fixed telecoms purpose

Provides support for investment and deregulation downstream

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Wholesale Local Access and Leased Lines Markets

Competitive Area

High prospective of network competition

Low prospect of material network competition

No Remedy

Selective Remedies

Full suite of Remedies

# Physical infrastructure market

## Provisional conclusions similar to 2019 PIMR Statement

- Product market: supply of wholesale access to telecoms physical infrastructure for deploying a telecoms network
- Geographic market: national
  - in 2019, we identified four separate geographic markets, but found BT to have SMP in all and imposed the same remedies
- SMP assessment: provisionally conclude BT has SMP
- Remedies: unrestricted duct and pole access remedy

# Downstream wholesale (network) markets

## Proposing three product markets:

Product market	Description	Notes
Supply of Wholesale Local Access (WLA) at a fixed location	access connections to residential and business premises over a local access network	Includes all fixed network technologies (copper, cable, fibre); all speeds (SBB, SFBB, UFBB); residential and business Excludes LL and wireless services
Supply of Leased Lines Access (LL Access)	access connections to business premises / mobile cell sites using dedicated fibre connections and other backhaul	Includes all wholesale ethernet / WDM services, and dark fibre Excludes broadband and wireless (microwave) links; IEC
Supply of Inter-Exchange Connectivity (IEC)	(trunk) connections carrying aggregated traffic between BT exchanges	Includes all active and dark fibre connections between BT exchanges

# Defining the Geographic Markets

- Past reviews focussed on existing competitive conditions for each market in isolation
- Now our forward looking view, across the different product markets:
  - Reflects expectation of much more new network build than in the past
  - Reflects expectation that much of the new build will be multi-service networks (MSNs) supplying full range of services, impacting on both WLA and LL Access (though still recognising some networks focus on providing only broadband, or only leased lines)
- Postcode sector level analysis

## Step 1 – Multi-Service Network assessment

- First, map presence of MSNs based on existing network presence and potential future presence – based on current and planned roll out. (Considered present if covers 50% of premises in postcode sector.) Propose three areas:
  - Area 3: all postcode sectors where there is unlikely to be material commercial deployment by rival MSNs (37% pcs; 30% UK premises)
  - Area 2: there is already some material commercial deployment by rival MSNs to BT or where MSNs have plans to build (63% pcs; 70% UK premises)
  - Area 1: postcode sectors where there are at least two established rival MSNs to BT (none)

# Geographic market definition

## Step 2 – Broadband only network assessment

- Does the presence of a broadband only network sufficiently alter the conditions of competition in an area such that it should not form part of the same market as the other postcode sectors in the geographic area to which it has been assigned (based on our MSN assessment)?
- None identified.

## Step 3 – Leased line only network assessment

- Same question in respect of leased line only networks.
- 2019 BCMR data and analysis identified cases where there were BT+2 operators providing leased lines (including MSNs and leased lines only networks): Central London Area (CLA) and High Network Reach Areas (HNRs). The CLA and HNRs included 579 postcode sectors.
  - Conditions of competition are likely to be different in these compared to where there is no competitor to BT or where there is only one. We propose separate geographic markets for LL Access in the CLA and HNR areas.
  - Outside the CLA and HNR areas, we do not consider that the presence of leased lines only networks sufficiently alters the conditions of competition in any area to warrant a separate geographic market

# Geographic Market Conclusions

WLA	LL Access
	CLA (275 postcodes ('psc'))
	HNR (excluding CLA) (304 pcs)
Area 2 (6,037 pcs, 21.3 million premises)	Area 2 (5,538 pcs)
Area 3 (3,521 pcs, 9.2 million premises)	Area 3 (3,515 pcs)

*Other than the postcode sectors allocated to the CLA and HNR markets, the WLA and LL Access Area 2 and Area 3 markets cover the same postcode sectors*

- BT has SMP in the following geographic markets:
  - WLA: Area 2 and Area 3.
  - LL Access: Area 2, Area 3 and HNR areas.
  - IEC services: BT Only and BT+1 exchanges
- BT does not have SMP in the CLA for LL Access services



# Approach to remedies

- **Area 2:** Support investment in fibre networks through network competition in areas where this is viable
  - Opening up BT's ducts and poles to reduce the cost of network roll out by competitors
  - Capping existing charge controls to CPI rather which should provide a stable environment for investment while allowing scope for profitable entry, while protecting consumer from excessive pricing and loss of competition in the short term
    - no controls on higher speed services above 40/10
  - Prohibiting anti-competitive behaviour by Openreach (selective discounting, loyalty schemes)
- **Area 3:** Encourage Openreach to invest in parts of the UK where large scale network competition is unlikely, while retaining entry protection
  - Incentivise investment in very high-speed networks through setting appropriate investment incentives for Openreach – allow them to spread investment in FTTP across all lines.
    - **Excludes capital deployed in public funded schemes**
  - Dark fibre obligation to support alternative network deployment
  - Prohibition on FTTC selective discounting
- **High Network Reach areas:** competition already more developed and we wish to encourage this with very limited interventions simply to maintain access to Openreach services
- Support transition of Openreach's customer base from copper to fibre so that it can retire its old copper network.

## RAB model proposed for Area 3

- Despite DPA remedy, c.30% of the UK is unlikely to see competitive build → **regulation to incentivise Openreach to build**
- Proposed **Regulated Asset Base (RAB)** model:



- **Commitment to build** → include costs in prices upfront
- **Inflation adjusted** leased lines charge controls as in majority of Area 2
- Cost-based **dark fibre access** remedy proposed for **leased lines Area 3 only**
- **Capital deployed in public funded schemes excluded**



# Copper retirement

- **Balanced approach** recognises need to incentivise network build and protect customers
- Proposals **support** Openreach in migrating customers to new fibre network and subsequent retirement of copper network
- **Shift focus of regulation** from copper to fibre on an exchange-by-exchange basis as network builds
- Propose to apply a **two-year transition period** once an exchange hits 75% ultrafast coverage
- After which **remove copper charge controls** when coverage is complete and where fibre is available
- Allow Openreach to **charge a 'fibre premium'** for products on its new network to reflect additional value – proposed at £1.50-1.85/month/line
- Working with Openreach on **trials** across Salisbury and Mildenhall

