

NextGen 11 Conference, Bristol, 15-16 November

# UK Broadband Regulatory Framework

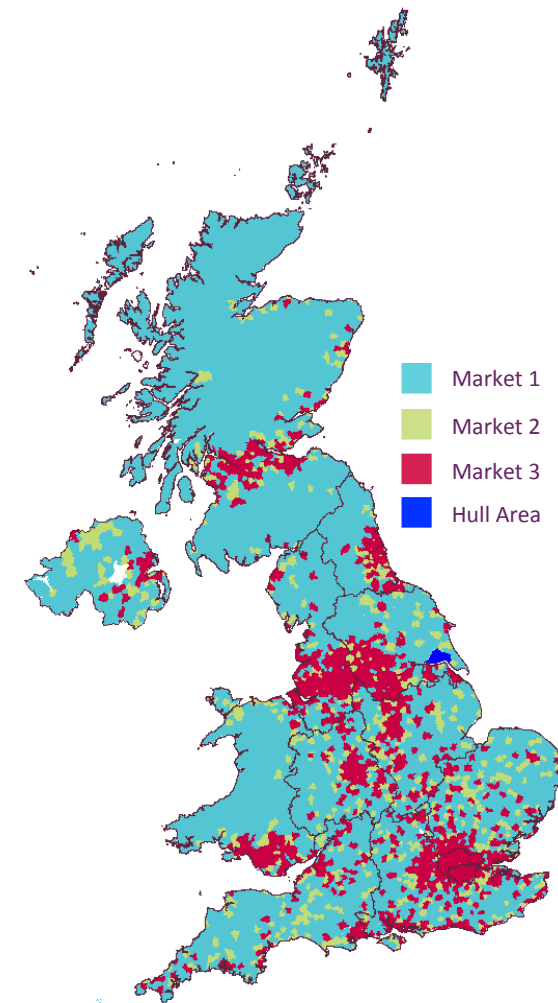
David Clarkson  
16<sup>th</sup> November 2011

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## Current generation broadband

- LLU and cable both provide strong competition to BT in the UK – but only in certain areas
  - Cable coverage c.50%
  - LLU coverage c.89%
- This has resulted in the development of sub-national markets and geographic regulation
  - Market 1 (11.7%), BT only - access regulation, cost orientation and proposed charge control (still to be finalised)
  - Market 2 (10%), 2/3 operators - access regulation and cost orientation
  - Market 3 (77.6%), 4 or more operators – no regulation
- Current generation broadband will continue to have a significant role over the next few years
  - Regulatory framework has to continue to support current generation broadband whilst allowing a transition to NGA



## NGA/Super-fast broadband public deployment plans

### BT

- Plans to deploy NGA to 66% of UK by 2014
- Mix of FTTC and FTTH planned, 75% FTTC / 25% FTTH expected
- Areas covered expected to largely overlap existing cable and LLU deployments

### Virgin Media

- Completed upgrade to DOCSIS 3.0 in mid 2009 across entire network (c.50% of UK)
- Started offering 50Mbit/s services in Dec 2008
- Started offering 100Mbit/s services in Oct 2010
- Has been trailing 200Mbit/s and testing network up to 1.5 Gbit/s
- Has been incrementally extending footprint of its cable network

### Others

- Majority of new builds now install FTTH
- Increasing number of local initiatives, both private and public

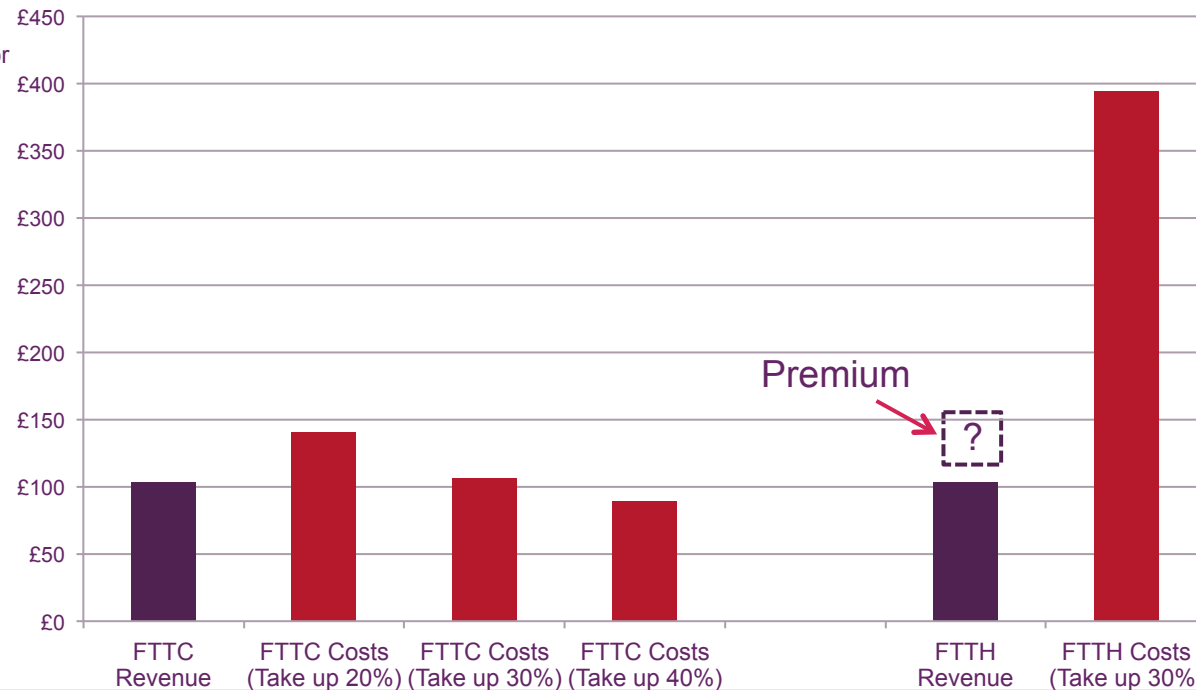
# NGA investment challenge

- High capital costs and limited incremental revenue make the investment case for FTTC look marginal
- Despite the longer investment horizon for FTTH costs, annual costs per line for FTTH are still approx 3-4 times higher than FTTC, and the revenue premium is uncertain

**FTTC and FTTH revenues and costs per subscriber per year**

**Notes and assumptions**

1. Source of data: Analysys Mason for BSG, 2008
2. FTTH GPON topology
3. Cost of capital 12%
4. Only access included



## Regulatory framework - promoting investment and competition

### Promoting investment – SLU and PIA

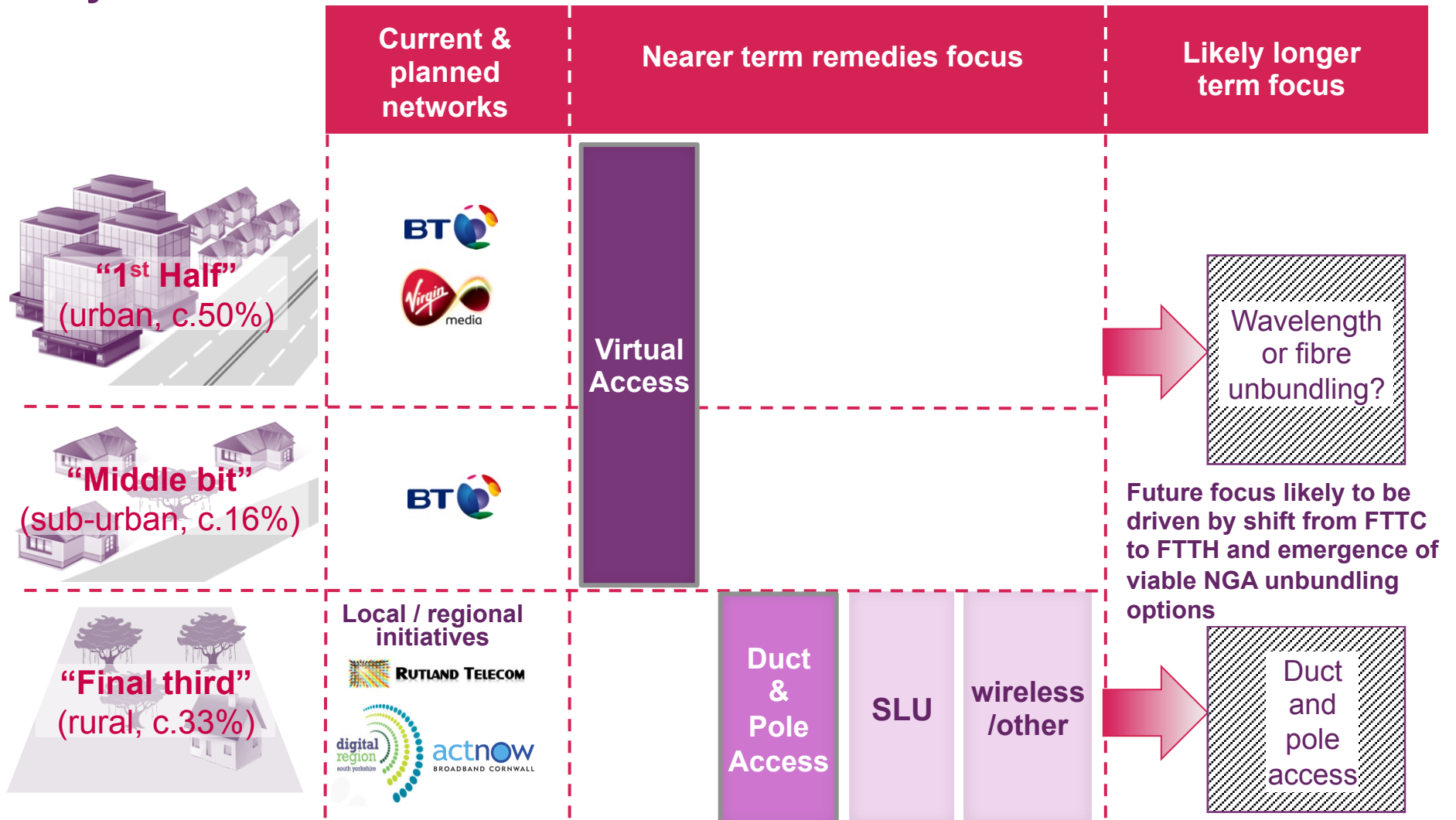
- We primarily see Sub-Loop Unbundling (SLU) and Passive Infrastructure Access (PIA) as a means to promote investment in NGA. The intention is to make such investment contestable by operators other than BT
- But the investment case is challenging. It is unlikely that we will see the deployment of multiple NGA networks based on SLU/PIA in the same area in the next few years. These remedies are therefore unlikely to be the basis for competition in the next few years

### Promoting competition – LLU and VULA

- In areas where BT has deployed NGA, we expect competition to be based on access to BT's network using Virtual Unbundled Local Access (VULA)
  - BT is required to provide wholesale access to its NGA network (FTTC and FTTH) on an equivalent basis, however we have not required cost orientation or set a charge control
- We believe that Local Loop Unbundling will continue to be the primary basis for competition in current generation services over the next few years

PIA = duct and pole access

# The implications and use of our remedies are likely to vary in different locations



## Current situation

### Competition (areas where BT has deployed NGA)

- Many providers have now signed up to use VULA (aka Generic Ethernet Access)
- Take-up of BT's NGA products stood at c.300k at end September 2011 (coverage at that time was about 6m homes – all FTTC)
- BT Retail is by far the biggest user of VULA/GEA

### Investment (areas where no NGA exists)

- At the current time, apart from a couple of very small schemes, there is little interest in the commercial deployment of NGA based on SLU and/or PIA

### State funding (the 'Final Third')

- The UK government has set aside £530m to support the deployment of NGA in the Final Third in the period to 2015 – four pilot trials are currently under way
- Several separate state-funded schemes also in development – South Yorkshire, Cornwall
- Currently, the only real interest in SLU and PIA is to enable competitive providers to bid for state funded schemes (potentially makes state funds more contestable) - e.g. Fujitsu

# Questions