

Representing the Communication Services Industry



Costing Methodologies for key wholesale access prices in
electronic communications
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Introduction

The [Federation of Communication Services](#) represents over 300 businesses delivering products and services in the UK via wireless, copper and fibre technology. This response has been prepared on behalf of the Fixed Service Providers Group within the Federation. More than 150 FCS members consume WLR and related wholesale products to deliver services to end user customers. A list of FCS members can be found on the FCS website.

Response

We welcome the opportunity of providing a brief response to this consultation on costing methodologies for key wholesale access prices in electronic communications. We have restricted our response to those questions which are most relevant to the concerns of our members.

Our members providing fixed telephony services, who currently use regulated WLR wholesale access products on copper infrastructure, are concerned about developments in wholesale access in the transition period from copper to fibre infrastructure. While the price of products is certainly a concern, a more fundamental issue is to what extent WLR users will have any suitable wholesale products available to them on fibre networks.

III. LEGAL CONTEXT AND SCOPE

III. 2 Key access products

Question 2: Would the above proposed list of access products to be covered by the Recommendation be appropriate? Should WLR and/or other(s) access product(s) also be part of this list? If yes please specify them and briefly explain why.

We believe that WLR should continue to be seen as part of the standard mix of access remedies and included within the scope of the Commission's detailed consideration of wholesale pricing and are unclear why the Commission proposes not to consider WLR services as part of its recommendation on costing methodologies. In the UK, there are almost as many WLR lines as unbundled copper (LLU) lines and hundreds of retail suppliers use this product to provide voice services to their customer base.

This is especially true in the small business sector. An independent survey¹ carried out for FCS in October 2010 demonstrated the importance of independent telecoms service providers in serving UK SMEs and clearly showed that these independent service providers and resellers are meeting the needs of these companies better when compared with their national rivals.

The survey, which was carried out by YouGov on behalf of FCS, showed that 27% of the companies surveyed were supplied by independent service providers and resellers demonstrating that they form a significant part of the market.

Customer responses showed that the qualities most valued by all SMEs in their telecom suppliers were responsiveness, flexibility and being sympathetic to the needs of small businesses; this applies to the whole sample regardless of whether their existing supplier is an

¹ [FCS commissioned YouGov survey](#)

independent or national provider. In each of these key areas the independent resellers were more highly rated by their SME customers.

The survey also demonstrated that a high proportion of SMEs (76% of all respondents) are aware of the roll out of fibre networks and nearly two thirds consider the opportunities which the new technology offers to be important to their companies. Increased bandwidth, higher data carrying capacity and higher speed video conferencing were specifically cited as potential benefits.

It is also worth noting that, while Voice over Broadband (VoB) is a potential substitute for public switched telephone network (PSTN) services, it does not provide the same assured and resilient voice service. In the UK, regulatory action¹ has been taken to seek to ensure that customers are aware of the difference between certain types of VoB service and the 'normal' PSTN service. End customers value the stand-alone PSTN voice product. The FCS survey cited above also revealed that traditional voice services remain very important to the SME sector. Although 56% of respondents expressed themselves willing to use IP based services, 87% still rate access to traditional voice services as important or very important compared with 34% for VoIP.

We do not believe the Commission is justified in pre-judging to what extent demand for WLR services might fall in individual countries. On the contrary, we believe it is healthy for competition and innovation for there to be a multitude of suppliers of communications services, as exists currently in the UK. This will only continue to be possible if a high level active wholesale product (like WLR in functionality) is made available – preferably through regulation – on each mass market fibre infrastructure that is rolled out. The alternative is a restricted level of competition based only on relatively few vertically integrated operators and the extent to which they wish to roll out competing infrastructures.

V. ACCESS PRICES FOSTERING INVESTMENT IN NGA NETWORKS

V.1 Copper access prices and the incentives to invest in NGA networks

We recognise the arguments between incumbents and alternative operators that are described in this section. There does not seem to be disagreement that copper access products provide good returns to incumbents. In order to achieve an orderly transition from the use of copper to the use of fibre in the public communications access networks, we believe there is a case for using the good returns on copper to finance the development of wholesale fibre access products that can be used by all those Communications Providers (CPs) using the current generation copper access products. From our perspective, we believe that incumbents should already be developing active wholesale products to support the transition of their WLR customers to a similar fibre-based wholesale product. If they do not do this, the scenario is raised that WLR users are contributing heavily to the profitability of incumbents, whose development resource is being used extensively on passive access products that WLR users cannot use. Thus, WLR users would face being excluded from the fibre-based market while paying heavily for the developments that will allow this to take place.

There is another sense in which WLR follow-on products can assist with the transition to the fibre-based communications infrastructure. If these are developed early in the transition, they would be available equally to vertically integrated CPs while they develop and finalise their retail products that use more passive wholesale products such as VULA. The WLR follow-on products

¹ See <http://stakeholders.ofcom.org.uk/consultations/voipregulation/statement/> published 29 March 2006

would also allow these CPs to serve customers outside the geographic area of their own network infrastructure, as this is rolled out. Today, in the UK, we believe that most of the vertically integrated users of the copper unbundling remedy (LLU) also serve customers using WLR in some locations. Thus the WLR follow-on product would be used by different types of CP in the transition and also in the longer term.

V.2.3 Appropriateness of copper switch-off

In considering the desirability of the above measure, we would like the interests of the WLR wholesale users to be taken into account as well as those using LLU.

Question 24: With regard to copper switch-off, how could those consumers be served which would also, post-migration, demand fixed narrowband telephony services at a rate comparable to today's rates? Do you consider that the benefits associated with the provision of higher quality services could outweigh the associated potential price increase of basic internet and telephony services?

We think it is reasonable that end customers only expect to pay a similar amount for a similar telephony service, even if it is provided over fibre instead of copper. The whole transition from copper to fibre in the access networks should be as seamless and invisible to the customer as possible: their existing supplier (including all the resellers) should be able to provide a familiar telephony service to them over the new infrastructure. Over time and with the development of appropriate new services, end customers may well be prepared to pay more for additional services available over the fibre link.

Question 28: Could current copper based alternative operators adapt smoothly to the new NGA environment and continue running their business over the new fibre networks?

Resellers are alternative service providers, bringing competition and innovation to the retail markets based on high-level active wholesale products such as WLR. In both the UK and in the views set out in the Commission's consultation paper, there seems to be no thought taken or action contemplated to assist resellers in adapting their business to continue running in any form over the new fibre networks. On the other hand, a great deal of effort is being made to accommodate the needs of the vertically integrated competitors to resellers.