



# Copper pricing and “fibre” transition

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# Starting point for copper



- **European Commission Recommendation on accounting separation and cost accounting (2005/698/EC)**
  - Use CCA/LRIC approach
- **BEREC Regulatory Accounting in Practice, October 2011**
  - *“CCA is the preferred cost base combined with LRIC as the costing methodology and cost orientation as the price control method. This trend has been confirmed by the NGA recommendation adopted in September 2010.”*
  - *“...according to some observers, the use of CCA is likely to remain relevant in a time of roll-out of fibre access networks and could send better investment signals to promote infrastructure-based competition as well as investment in infrastructure.”*

Change in method to lower prices would negatively impact investor expectations

# Digital Agenda goals & investment



- **Ambitious targets**
- **Desirable to maximise commercial contribution**
  - *Technology neutral approach*
    - not just about fibre
  - *Investor neutral approach*
    - it doesn't matter who invests
- **Need to consider**
  - Investor perspective
  - Incentives to invest under range of circumstances

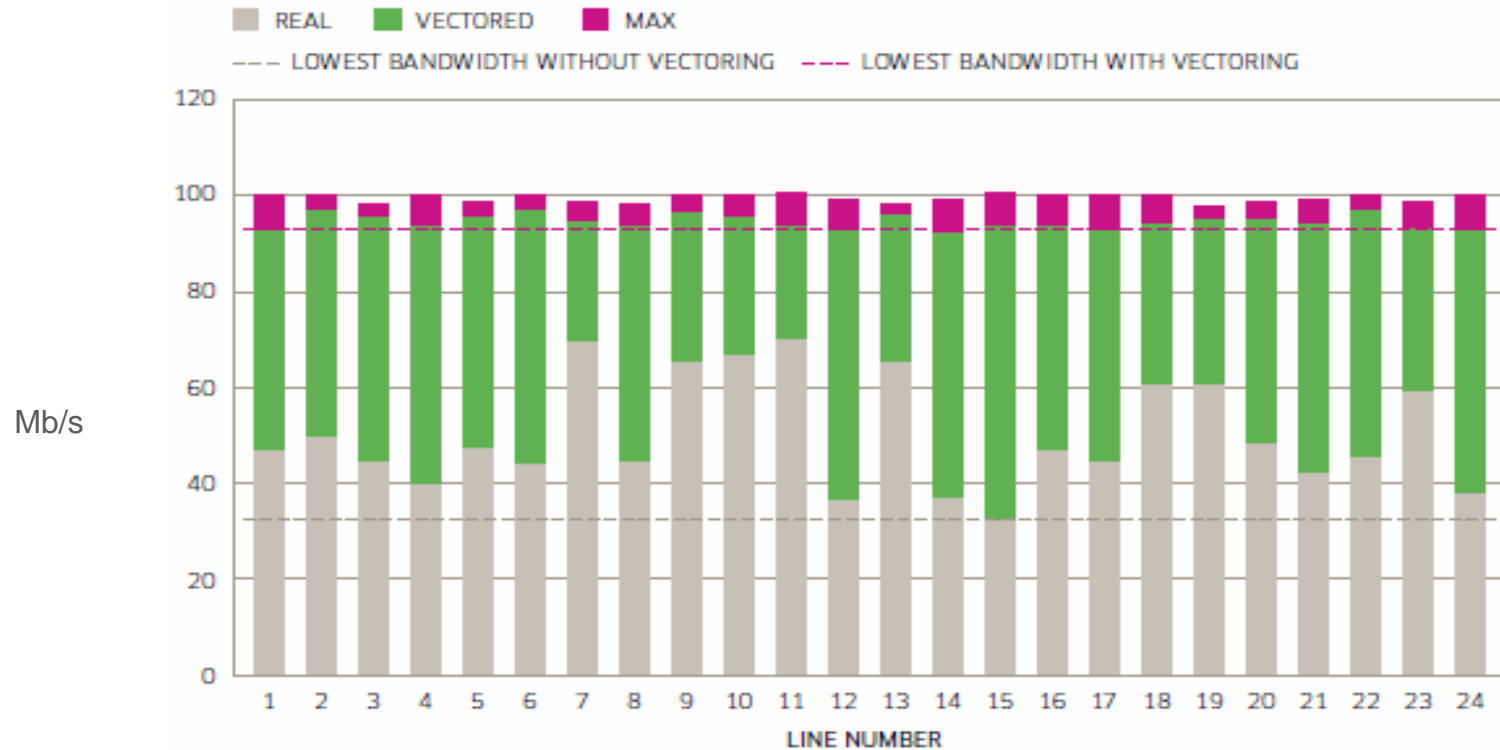
# Investor perspective



- **Long-term investment requires credible regulatory commitment**
- **Trends, cash flow and health of balance sheet matter**
- **Lowering price of copper would**
  - Undermine regulatory credibility – what will happen with fibre?
  - Reduce free cash flow – lower discretionary investment to maintain return
  - Increase debt/EBITDA ratio – potentially raising cost of capital

Investor perspective must be factored into analysis

# Not just about fibre e.g. VDSL



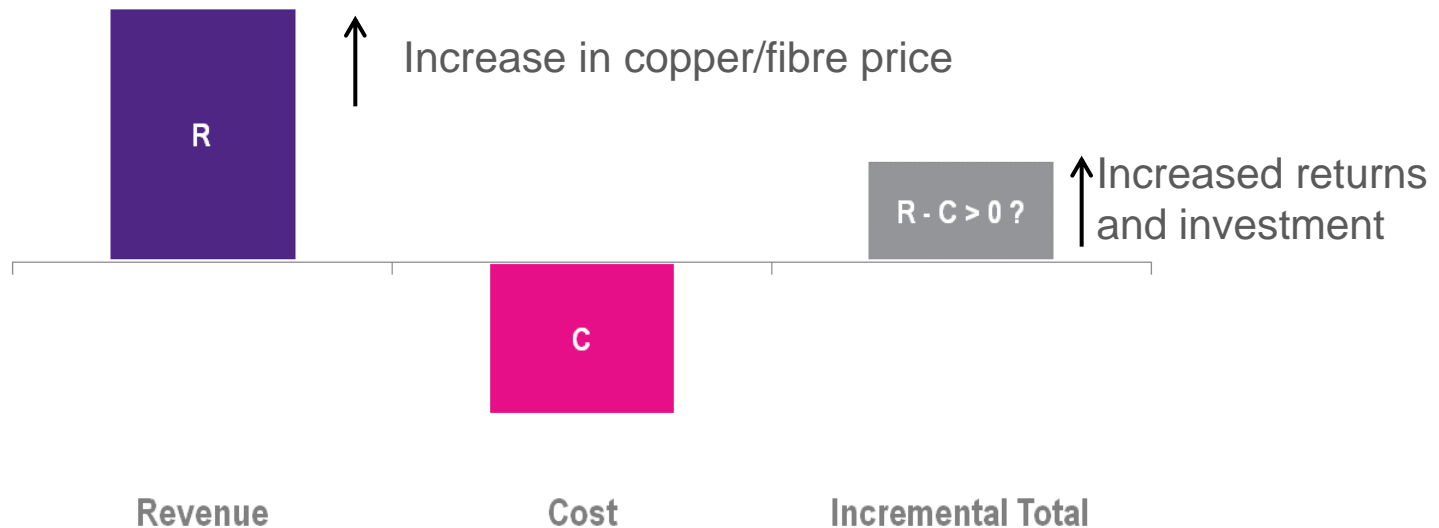
Source: Alcatel-Lucent

Copper may have a long life - implications for retirement, pricing, fibre linkage

# Entrant/platform competitor



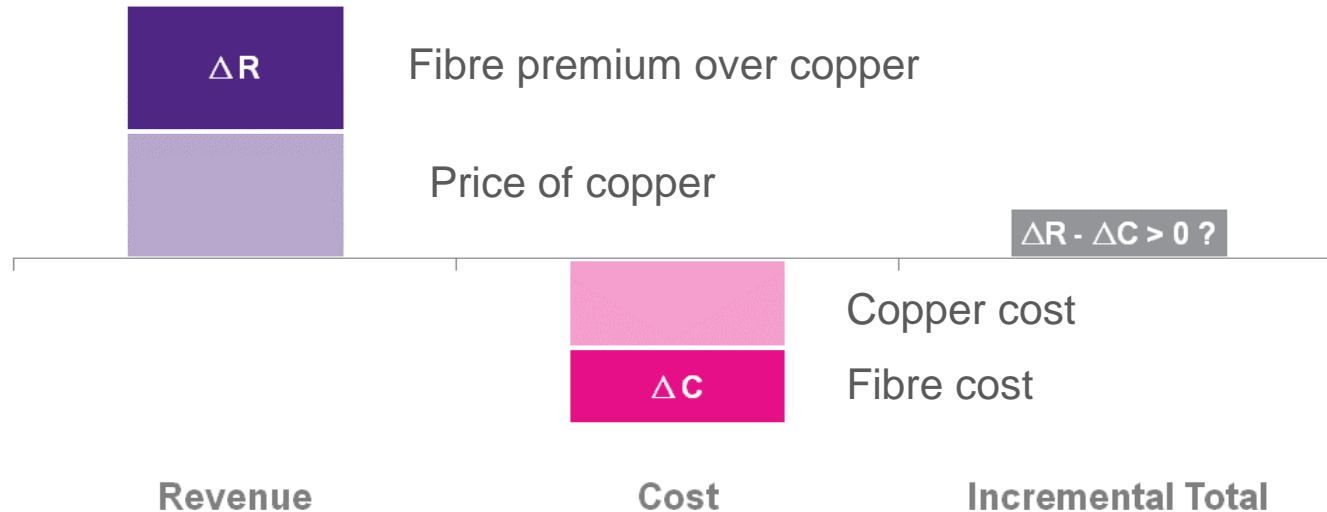
## Entrant's investment decision



Cu price↑ => NGA price↑ => entrant/platform competitor investment↑

# Incumbent - no platform competition

## Incumbent's investment decision without platform competition



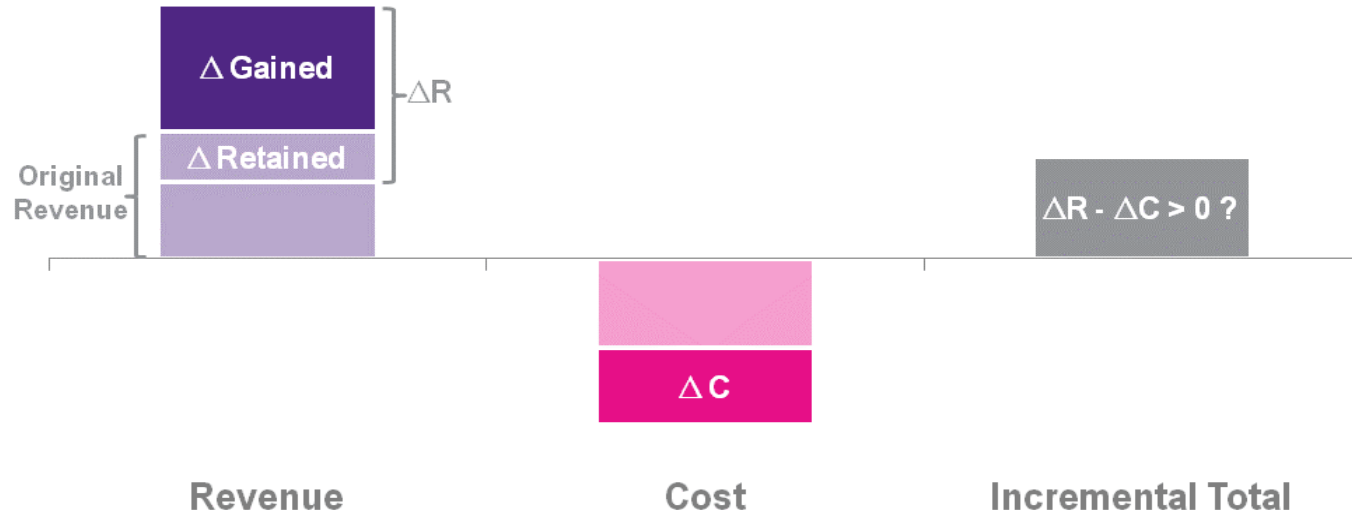
Simple and restricted analysis

Cu price  $\uparrow$   $\Rightarrow$   $\Delta R$  unchanged  $\Rightarrow$  Neutral (static view), harm (dynamic view)

# Incumbent + platform competition



## Incumbent's investment decision with platform competitor



Cu price ↑ ⇒ Gain from retaining customer ↑ ⇒ NGA investment ↑



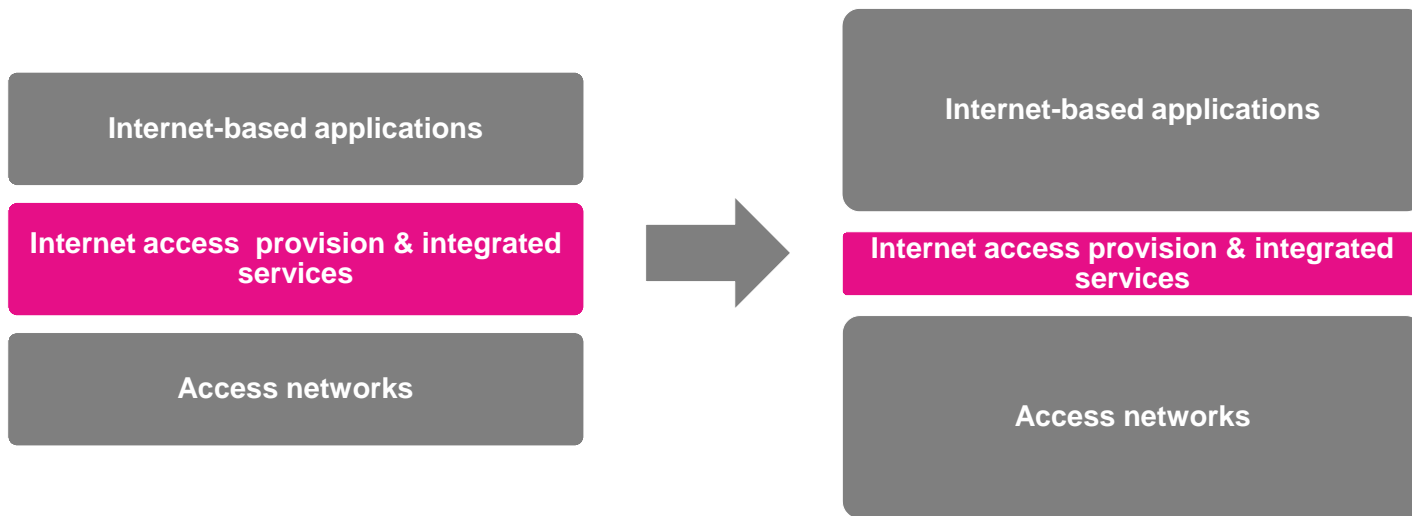


## We have concluded that lower Cu price would reduce investment

- **Do some (still) believe a lower copper price would support investment?**
- **What else might motivate advocacy of lower copper price?**
  - Increase margins for unbundlers?
    - Unlikely, expect retail competition to transfer to end consumers
  - Prevent migration of customers to competing platforms?
    - Maybe, but obstructing competition is not a European policy goal
  - Harm existing operator to gain relative advantage in market?
    - Maybe, but harming competitors is not European policy goal
  - Prevent migration to next generation access?
    - Likely given risk to some unbundler businesses, but policy goal is to facilitate not prevent migration

Plausible grounds for lower copper price are inconsistent with sound public policy

# Nature of competition is changing and intensifying

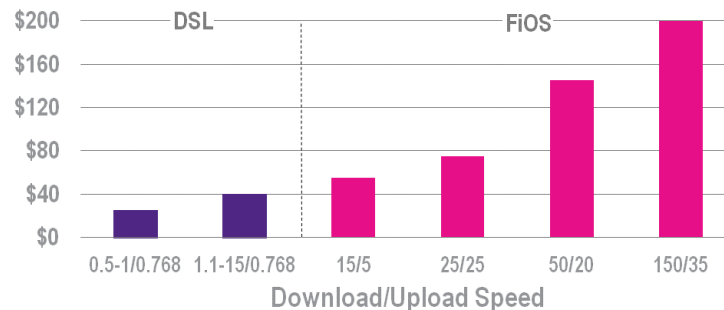


Should focus on competition, not protecting existing competitors *per se*

# Verizon invested in FTTH (FiOS) in absence of price control from 2006



Verizon broadband DSL and FiOS pricing  
Monthly charge (USD)



Source: Plum Consulting. Pricing for one-year contract with phone service.

- **No reduction of price of copper**
- **Freedom to experiment with price of fibre**
  - Increase overall demand
  - Helps business case and digital inclusion
- **No quick phase-out of copper**
  - Let lines lie fallow as customers switch
  - One exchange phased out this year (was 50%+ FTTH)

Grounds for different fibre remedy to support price differentiation & learning

# Conclusion



- **Proposals to change costing methodology and lower price of copper have harmed investor confidence in European regulation**
- **The copper pricing methodology should**
  - Support efficient investment
  - Help restore investor confidence
  - Protect consumers (not legacy unbundlers)

**=> Maintain predominant status quo – replacement cost**

**=> Revert to backstop RPI+ price cap at some point?**