



“Triggering fibre” by aligning interests

Brian Williamson

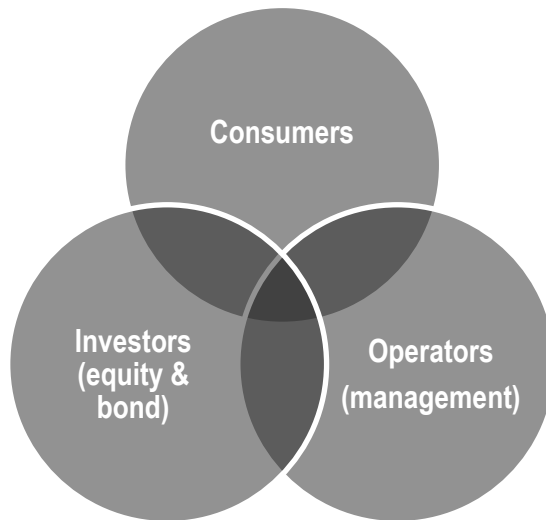
29 June 2011

ECTA conference, Brussels

Overview

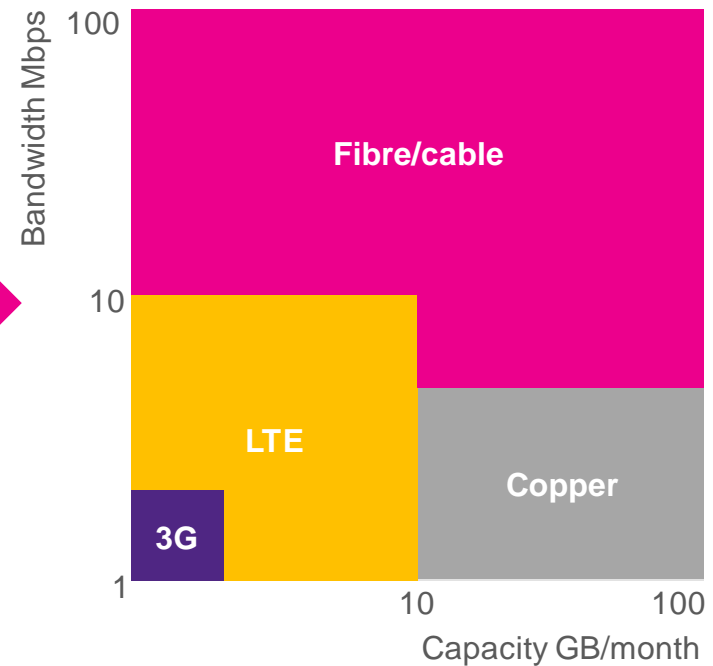
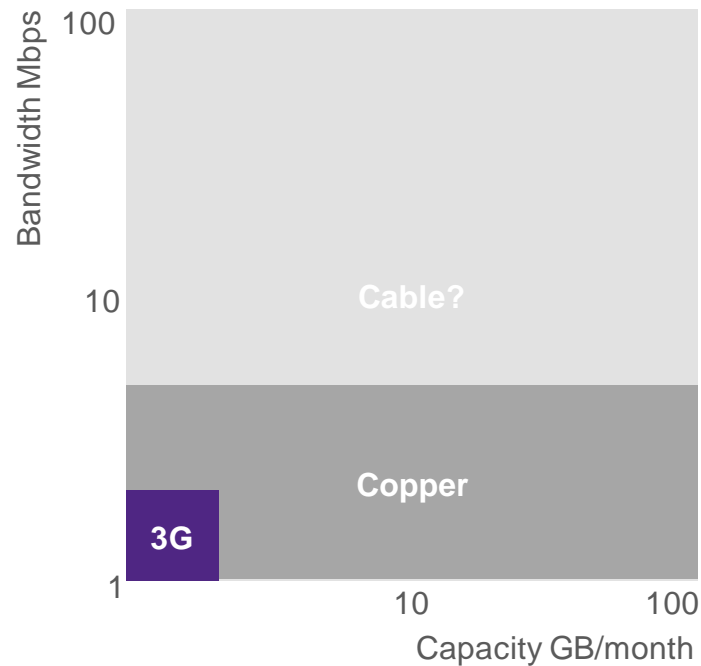


- How can interests be aligned with Digital Agenda?



- Consider transitions – supply side, demand side & competition
- Consider policy – creation, transition & destruction

Supply side transition



More choice, more competition, more uncertainty during transition

Demand side transition



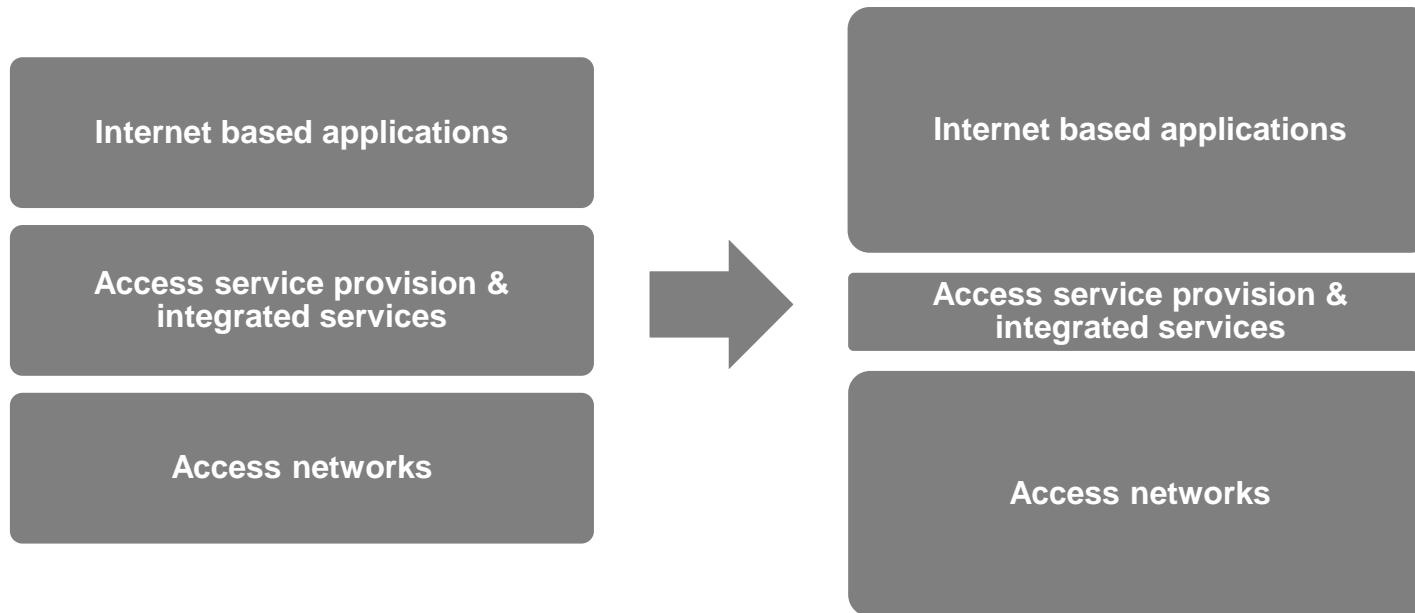
- **Neilsen's & Edholm's law - geometric growth in bandwidth, but**



- » Video/audio streaming at modest Mbps, high demand
- » No need to wait for download
- » 'iTunes Match' - no upload of music required
- » 'Newsstand' - automatic background updates
- » Google "Instant Pages" pre-loading likely search result
- » Smaller screen – lower bit rate requirement
- » You carry it - nomadic bandwidth option
- » The next billion will be connected by wireless
- » Applications will be designed accordingly
- » Compression will get better

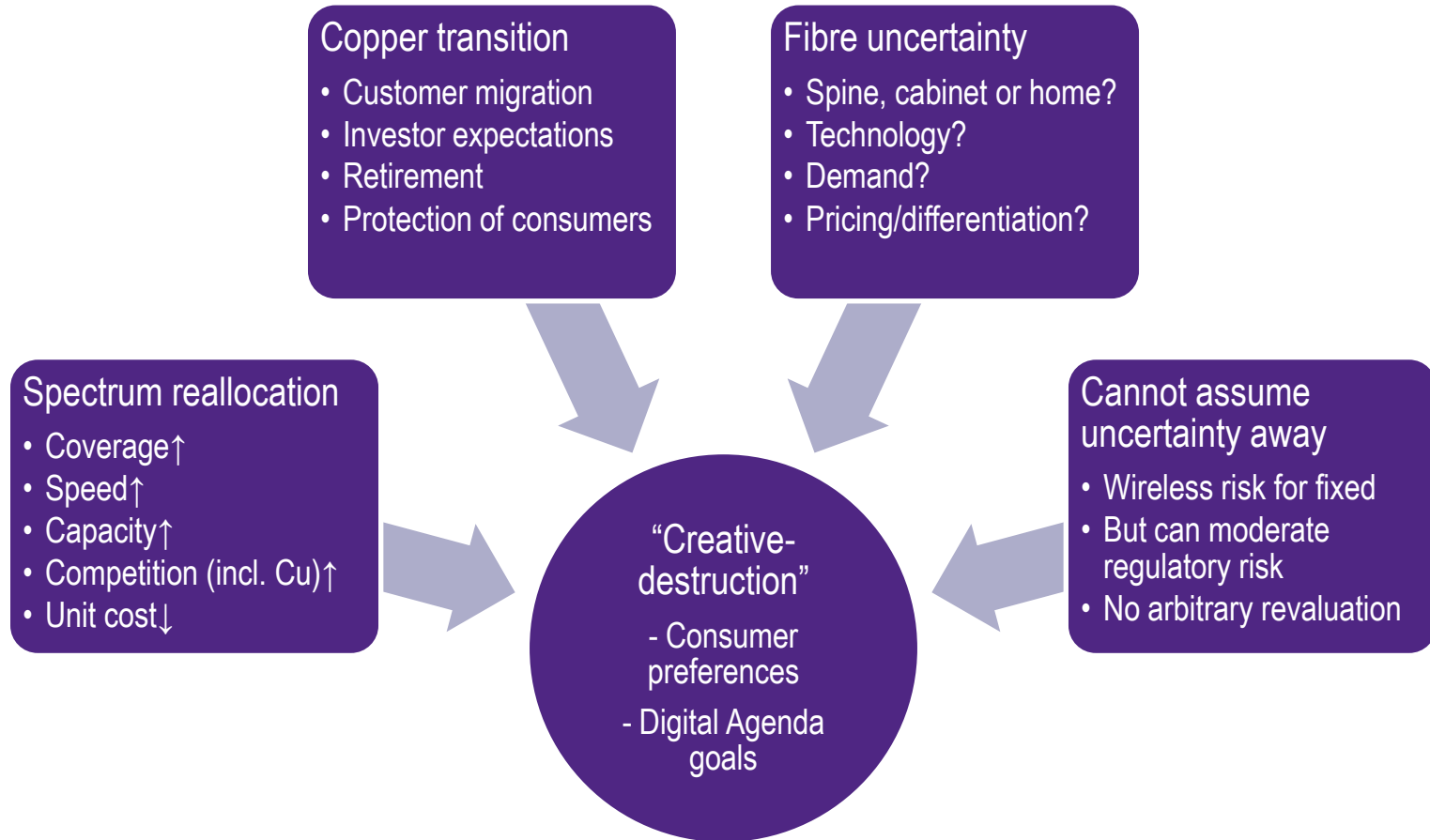
Bandwidth demand more uncertain, point of inflection?

Competition transition



Tension over squeezed middle?

Role of policy

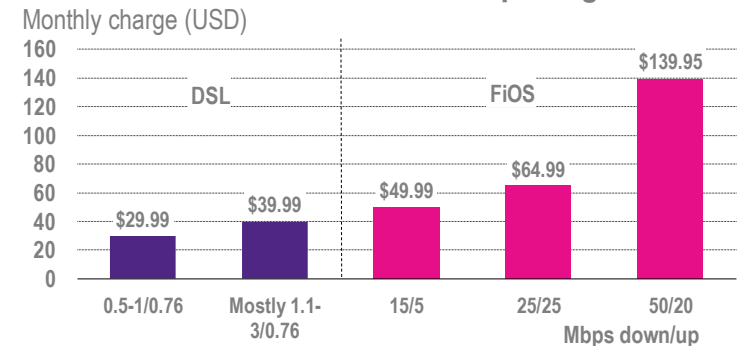


Creation



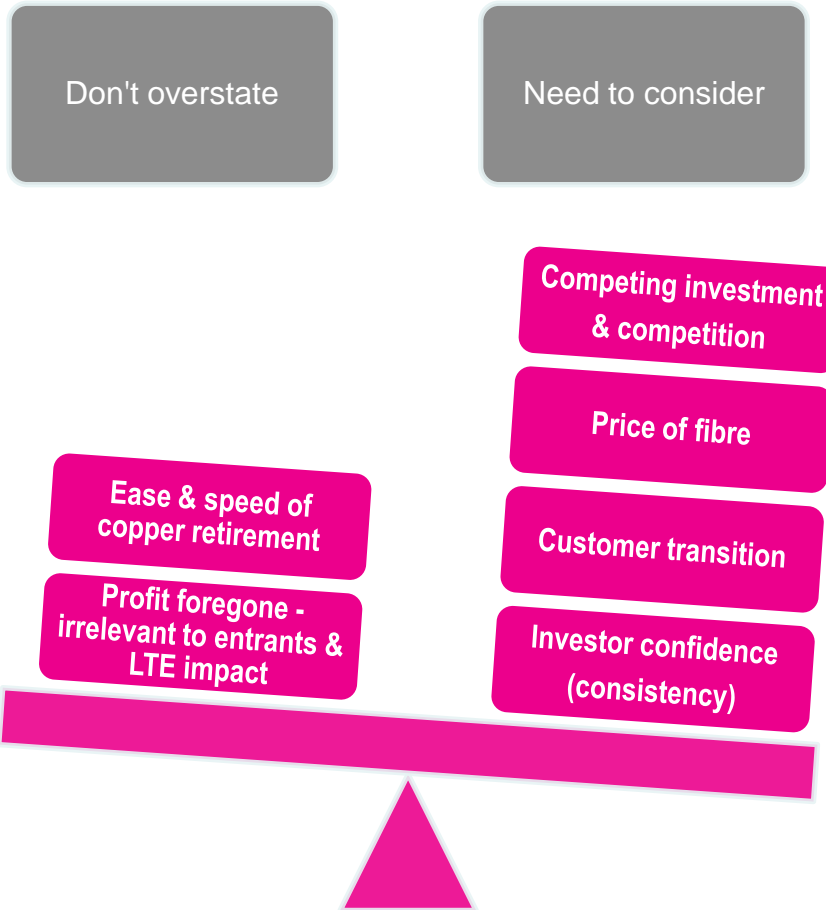
- Progress spectrum reallocation
- Take account of enhanced competition (in addition to cable)
 - From copper “anchor product”
 - From enhanced wireless
- Allow fibre price differentiation
 - Unbundling prevents differentiation
 - Differentiation supports inclusion
 - Differentiation smoothes transition
 - Differentiation facilitates competition
- Any *ex ante* fibre price control must
 - Provide for long-term price path and consider NPV return over life
 - Address demand uncertainty (which higher WACC cannot address fully)

Verizon broadband DSL and FiOS pricing



Source: Plum Consulting. Pricing for one-year contract with phone service.
Also 150/35 Mbps FiOS for \$194.99/month

Is cheap copper the answer?



Transition



- **Efficient transition will be phased & multifaceted**
 - Will involve mix of technologies
 - Will involve different solutions in different circumstances at different times
- **Option but not obligation to retire copper**
 - Verizon free to switch off but gave first notice in April of planned retirement of copper in Texas on or after August (five years after FTTH offered)
 - A rapid forced migration would risk raising transition costs and potentially
 - Harming consumers & digital inclusion
 - Reducing revenues if forced early given LTE option
- **Consumer protection via “anchor product”**
 - Real copper anchor product prior to retirement
 - Virtual anchor product alongside retirement?
- **Is price regulation of fibre justified given intensified competition?**

Destruction



- **Is Europe too protective of legacy interests?**
 - Lack of clarity regarding elimination of legacy universal service requirements
 - Five years notice for copper retirement
 - Unease about internet based applications
- **We need to talk about consumers interests & investors needs**

