



Delivering copper price stability & fibre pricing freedom

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To recap: why the copper price should not be reduced

- **Erroneous focus on copper return only** $\Rightarrow P_{Cu} \downarrow$ Investment \uparrow ; but
 - Assumes no copper-fibre price linkage (parallel running or anchor product)
 - Leaves aside consideration of investor expectations
- **With linkage** \Rightarrow **customer migration disincentive offsets return; &**
 - Pre-emption effect $P_{Cu} \downarrow$ Investment \downarrow
 - Platform competition & retention effect $P_{Cu} \downarrow$ Investment \downarrow
 - Balance sheet effect $P_{Cu} \downarrow$ Investment \downarrow
 - Investor expectations (time inconsistency) $P_{Cu} \downarrow$ Investment \downarrow
- **Equity markets looking for signal, if price not up why invest?**
- **Vice President Kroes (FT-ETNO conference, October 2012)**
 - *“...the regulated copper price can gradually converge and stabilise in real terms, around the current average”*

Need unambiguous approach which delivers real price stability from day one

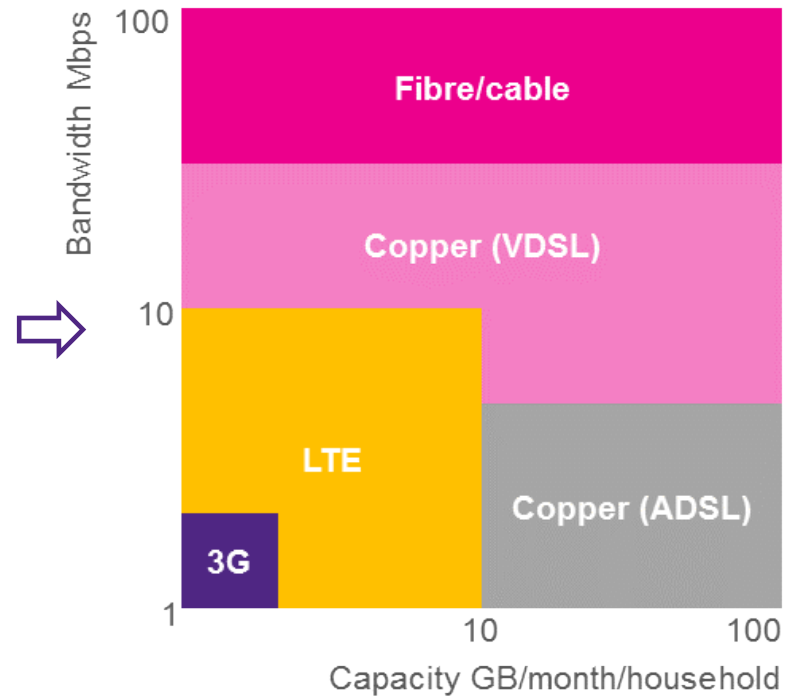
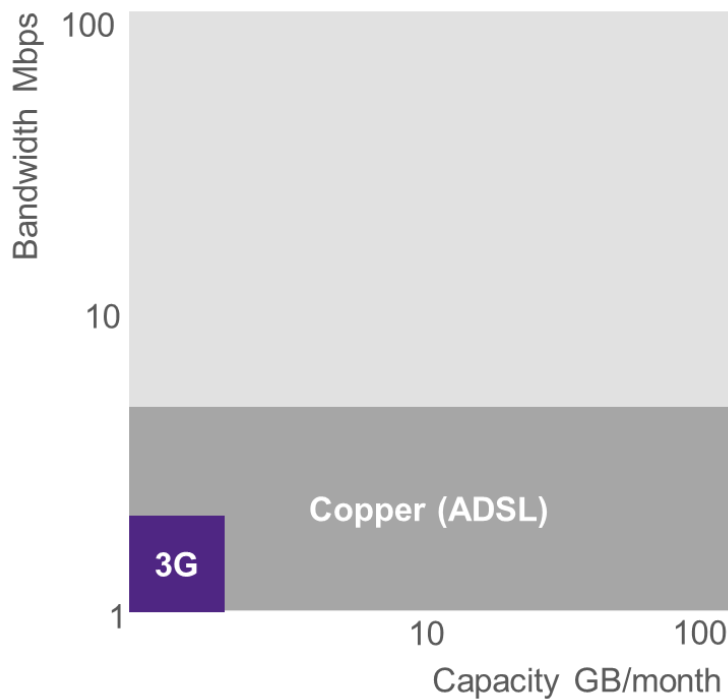
Overly complex approach likely to undermine copper price stability



- **Various ideas have been floated regarding cost-price of copper**
 - Differentiating approach for replicable and non-replicable assets
 - Utilising cost of fibre as modern equivalent asset (MEA) for copper
- **Change from predominant status quo (CCA) may involve delay, uncertainty and potentially price divergence**
 - *“...our current view is that it would not be appropriate to use FTTP as the MEA for setting prices for existing services... We consider that the scope for error in using FTTP to determine the cost of services delivered over the existing copper network would be considerable.”*
Ofcom, 9 November 2012, Fixed Access Market Reviews, Page 33
- **Nevertheless there is a desire for gradual price convergence & potentially concern regarding impact of falling volumes on prices**

Consider inflation adjusted safeguard price caps?

Transformation & copper anchor ⇒ increased platform competition



1/2 ⇒ 3/4 platforms ⇒ constraint on fibre pricing ⇒ no need for full set of remedies

Need stability and freedom now



Copper price stability



"...the regulated copper price can gradually converge and stabilise in real terms, around the current average"



Does not require new cost-price modelling approach which would be slow, uncertain & harmful



Indexed safeguard caps
(with desired degree of convergence)

Fibre pricing freedom



"...significant competitive constraint..."



Does not require SMP style test which would be slow, uncertain & harmful



Freedom
(subject to non-discrimination & anchor product and/or platform competition)