



Commission for
Communications Regulation

Draft cost ranges for next generation access ('NGA') services

Information Notice

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An Coimisiún um Rialáil Cumarsáide
Commission for Communications Regulation

Abbey Court Irish Life Centre Lower Abbey Street Dublin 1 Ireland
Telephone +353 1 804 9600 Fax +353 1 804 9680 Email info@comreg.ie Web www.comreg.ie

1. ComReg recently published a consultation document on the review of the wholesale access markets¹ in ComReg Document 16/96² (referred to as '**Consultation 16/96**'). In Consultation 16/96 we proposed that Eircom has significant market power ('**SMP**') in two markets; the wholesale local access ('**WLA**') market at a fixed location (referred to as the '**WLA Market**') and in the regional wholesale central access ('**WCA**') market at a fixed location for mass market products (referred to as the '**Regional WCA Market**'). Consultation 16/96 also proposed a number of remedies to address the competition problems identified.
2. Among these remedies was a proposal to impose price controls on wholesale services in the WLA Market and in the Regional WCA Market. The high level price control obligations were described in Consultation 16/96 and we committed to issuing a separate consultation on the detail of those price control obligations. That consultation is now likely to happen early in 2017. See also paragraph 4 below.
3. In Consultation 16/96, we proposed that the price control obligation for fibre to the cabinet ('**FTTC**') based next generation access ('**NGA**') services should be based on a cost orientation obligation.³ For fibre to the home ('**FTTH**') based NGA services we proposed to continue with a margin squeeze obligation given the uncertainty around demand and cost information.
4. We plan to consult on the detail of the cost orientation obligation for FTTC based NGA services, both in terms of the appropriate costing methodology and the resulting output prices. The views of interested parties as well as the views of the European Commission will be considered before any final decision is taken on the appropriate cost oriented prices for FTTC based NGA services.
5. In parallel, we have been working with our advisors, TERA Consultants ('**TERA**'), in developing certain new cost models to help inform our deliberations. While our cost models in respect of current generation services in these markets are mature and have been consulted on in the past i.e., in ComReg Decision D03/16⁴ and in ComReg Decision D11/14⁵, we have not previously published the level of cost that might be attributable to NGA services.

¹ Market for wholesale local access at a fixed location and the market for wholesale central access provided at a fixed location for mass market products.

² Consultation and Draft Decision: Market Reviews – Wholesale Local Access (WLA) provided at a Fixed Location and Wholesale Central Access (WCA) provided at a fixed location for Mass Market Products; dated 11 November 2016.

³ In addition, a retail margin squeeze obligation is also proposed with regard to FTTC based NGA services.

⁴ ComReg Document No. 16/39, ComReg Decision D03/16, "Pricing of Eir's Wholesale Fixed Access Services: Response to Consultation Document 15/67 and Final Decision", dated 18 May 2016.

⁵ ComReg Document No 14/73R: 'Wholesale Broadband Access: Price Control obligation in relation to current generation Bitstream'; dated 9 July 2014.

6. We are aware of the level of interest from industry in relation to the determination of cost based prices for NGA services. We are also conscious of its likely relevance to the National Broadband Plan ('**NBP**')⁶ given that it is possible that the level of regulated wholesale prices may play a part in determining the relevant wholesale prices in the NBP.
7. While we are not yet in a position to issue the planned consultation document on pricing proposals, we are in a position to provide initial indicative estimates of what the outputs of the NGA modelling work might be when it is complete. We, and our consultants TERA, have derived a first draft of the cost ranges for the provision of FTTC based NGA services from the NGA cost model, which we may use to inform our view as to the appropriate price control in the upcoming consultation.
8. Important caveats apply with regards to the outputs of the NGA cost model. Firstly, we have not made a decision as to whether or what type of price control might ultimately apply. We have not made a decision as to the particular assumption(s) within the NGA cost model and we strictly reserve our right to alter any and all aspects of the model prior to finalising it. We also noted that the publication of indicative costs is being done as an exceptional measure and does not create any precedent. We have not yet shared the NGA cost model with any industry player, including Eircom. We intend to engage in an appropriate degree of consultation with both Eircom and interested parties which may result in changes to the NGA cost model and its output. We take no responsibility for the effect of any commercial decision made on foot of the information presented in this document. Inappropriate reliance ought not therefore to be placed on the contents of this document.
9. The draft cost ranges are based on a proposed bottom-up long run average incremental costs plus a mark-up for common costs ('**BU-LRAIC+**') costing approach while taking account of Eircom's historic data⁷ for those assets that can be reused by Eircom e.g., poles and ducts, for the provision of NGA services.
10. The draft outputs of the NGA cost model are shown in the Annex. Parties interested in 'current generation' pricing should refer to ComReg Decision D03/16 and ComReg Decision D11/14. The outputs in the Annex relate to FTTC services only. We have not modelled FTTH based services because of the

⁶ The National Broadband Plan ('**NBP**') is the Irish Government's plan to provide for high speed broadband in areas not served by commercial operators. It is the responsibility of the Department of Communications, Climate Action and Environment ("**DCCA**E"). DCCA E is now engaged in a process of competitive dialogue with prospective bidders.

⁷ Reusable assets (poles and ducts) are based on a regulatory asset base (RAB) approach derived from Eircom's accounts. Please see Chapter 4 of ComReg Document 16/39 (ComReg Decision D03/16) for further details.

forecasting difficulties involved and our current thinking is not to propose a cost orientation obligation on these services at this time.

11. In the Annex we have presented two scenarios for the cost of each of VUA and NGA Bitstream services together with the major assumptions underlying each scenario. For the avoidance of doubt the Annex concerns the draft costs, rather than prices, associated with FTTC based VUA and Bitstream. Our current view is that these draft costs represent the most likely range of ultimate model outputs, although as noted above it cannot be assumed that our view will not change. All assumptions, with proposed prices, will be consulted on.
12. In developing the draft BU-LRAIC+ NGA cost model ComReg and TERA have used data provided by Eircom and implemented a modified scorched node⁸ methodology. This modelling approach is consistent with that adopted by ComReg in the past for setting cost oriented prices. It allows for the modelling of efficient costs and scale, whilst at the same time enabling costs and technology assumptions to be closely aligned with those actually faced by the regulated operator, Eircom. We believe that the proposed approach is consistent with the European Commission Recommendation in 2013⁹ on non-discrimination and costing methodologies.
13. ComReg will initially share the draft BU-LRAIC+ NGA cost model with Eircom to review the modelling assumptions and to ensure that the data provided by Eircom has been correctly incorporated in the NGA cost model. The aim of this further review is to verify that the NGA cost model is a reasonable reflection of the NGA design, cost and demand parameters, and can be used to establish the costs associated with FTTC based NGA services in Ireland. As a result of this review process, modifications to key modelling assumptions or parameters may be required. This in turn could impact the cost outputs of the NGA cost model, including the level of costs for FTTC based NGA services and resultant prices.
14. We will consider any requests for access to non-confidential versions of the models associated with this work stream as part of the upcoming public consultation process in early 2017.

⁸ A model that takes as its starting point the existing network topology of the operator.

⁹ Commission Recommendation dated 11 September 2013 on 'Consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment'.

Annex: Indicative ranges for cost of FTTC based NGA services

	Scenario 1		Scenario 2	
	FTTC VUA	FTTC Bitstream	FTTC VUA	FTTC Bitstream
Draft Cost Ranges	14.50*	19.50*	18.50*	24*
Major Model Assumptions:				
Opex Estimate	Low		High	
Take-up Scenario	Faster take-up		Slower take-up	
Common costs (as % of the annual cost)	10%		20%	
Indirect Capex Mark-up (as % of the GRC)	0%		10%	
Sub-loop Length	<2.5 km		<3 km	

*Based on current DSLAM/OLT regulated asset life of 8 years.

Additional POTS based costs **	€4 - €5	€4 - €5
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** For the plain old telephony service ('POTS') based NGA service, the additional cost required to support a POTS based service is estimated to be between €4 and €5 based on the initial draft modelling work. This cost relates to the line card in the exchange as well as the E-side copper cable and is in addition to the estimated cost for FTTC/EVDSL based VUA and NGA Bitstream in the table above. The level of incremental costs is influenced by a number of factors, including the relative proportion of FTTC and EVDSL based NGA services that are supplied to customers, as an EVDSL based NGA service already includes the cost of an E-Side copper connection while an FTTC based service does not.¹⁰

¹⁰ This excludes the double count of costs relating to the e-side duct for the fibre and the copper part of the network and it includes a share of fault repair costs for E-side fibre.