Unbundling in an NGN world

Christa Cramer

Head Broadband & Broadcasting, OPTA

March 8, 2007

OPTA

Agenda

1. The competitive broadband arena in the Netherlands

2. Migration to next generation networks in the Netherlands

3. Challenges for regulators and telco's

The competitive broadband arena in the Netherlands

High network density

- Cable networks cover 94% of households, suitable for TV, broadband internet and telephony services

- Incumbent network covers 99% of households, suitable for broadband internet and telephony services, introduction of (IP-)TV planned in 2007

- Networks alternative DSL operators cover 50-70% of households, on basis of ULL. Offer: broadband internet and telephony services, some also TV

- More than 40 FttH initiatives. In Q4 2006 111.500 homes connected (Stratix)

High broadband penetration

4.8 million broadband connections Q3 2006:

- 60% DSL and 40% cable

- 66% of households (EU average 25%)

- 29% of inhabitants (nr 2 in the world, OECD)

- More than 1.5 million VoB subscribers

- KPN: $\cong$ 5.7 million PSTN/ISDN access lines
  2006: KPN loses 0.56 million access lines to
  cable / mobile only (2005: 0.32 million)

Market trends

- Up to now a competitive broadband internet market. Telephony and TV market grow more and more competitive

- Significant growth of VoB, decline of traditional telephony

- More bundled offers (internet + telephony + TV)

- Consolidation cable operators, takeover of ISPs and DSL operator by KPN

- Mobile broadband not very prominent (yet?)

Regulatory environment

- Regulation of local loop unbundling since 1997, start roll-out ULL mid 2000

- Analysis market 11 (2005): access obligation, price regulation, transparency, non-discrimination and accounting separation

- Analysis market 12 (2005): 'high-quality' WBA light regulated (access, transparency and non-discrimination), 'low-quality' WBA not regulated

Migration to next generation networks in the Netherlands

All-IP initiative by KPN (1)

- Construction of a nationwide single-technology multi-service network (2007-2010)
- Both core network (IP / Ethernet) and access network (FttC and VDSL2 on existing sub loop, FttH in new housing developments)
- Bandwidth up to 50 Mbps (consumer) and up to 100 Mbps (business)
- Investment: 0.9 billion Euro (down from 1.5 billion)
- Sale of MDF locations (expected revenue 1.0 billion Euro)
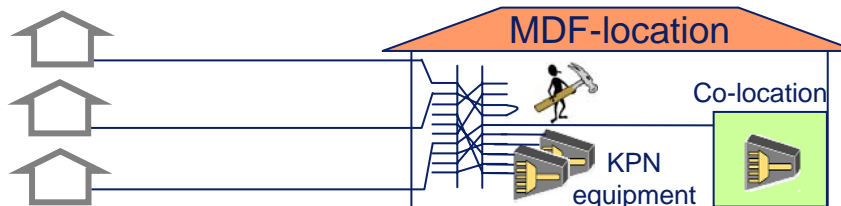
All-IP initiative by KPN (2)

KPN considers All-IP necessary to:

- be able to compete effectively with the multi-play offers of cable companies

- save on cost (0.85 billion saving on OPEX)

- replace existing technology that nears the end of its lifetime
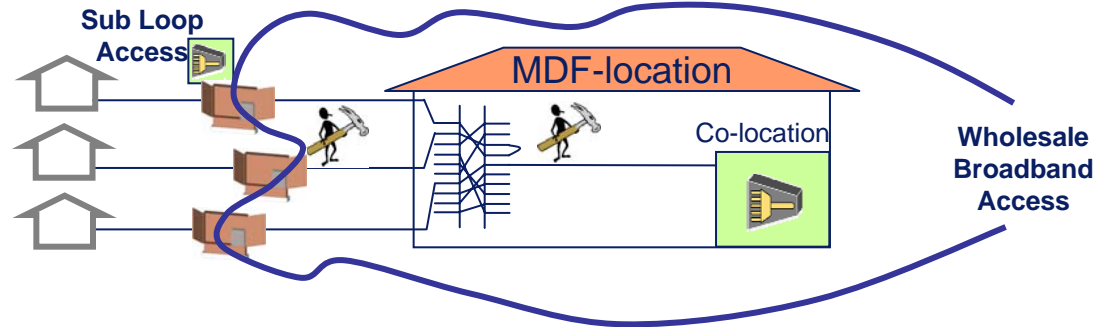
All-IP in three stages
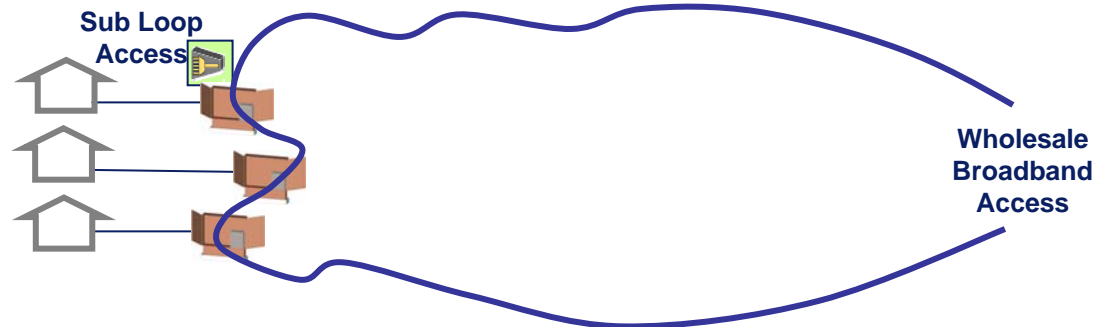
Current situation:
- MDF-access
- Co-location

Interim situation:
- MDF-access
- Co-location
- Overlay VDSL
- SLU
- WBA

Final stage:
- VDSL
- SLU
- WBA
- No MDF-locations

MDF-location
Co-location
KPN equipment

Sub Loop Access
MDF-location
Co-location
Wholesale Broadband Access

Sub Loop Access
Wholesale Broadband Access

Source: KPN presentation 'Op weg naar All IP, 29 March 2006, http://www.kpn-wholesale.com

All-IP initiative by KPN (3)

- All-IP means termination of (regulated) MDF-access and co-location services
- KPN: MDF-access to be replaced by commercial open wholesale model → national / regional wholesale broadband access
- Regulated subloop unbundling + co-location (albeit reluctant)

Challenges for regulators and telco's

All-IP in its context (1)

All-IP is one of the developments in (or results of) a changing world:

- Convergence and multi-play

- Developing competition between infrastructures

- Local FttH initiatives

- Changing business cases

All-IP in its context (2)

- Good old 'legacy regulation' may not necessarily fit a NGN world

- Competition cannot rely on perpetual access regulation

→ Competitors need to reflect on present business models

→ Competitors need to reflect on where they want to be (in KPN's OWM, on their own network, on another network?) and on how to get there

OPTA's view on All-IP initiative (1)

All-IP is an important and good development:

- Incumbent invests in innovative and efficient technology
- Promise of broader service portfolio, lower prices

But:

- MDF-access is an important building stone for present competition in broadband internet and also more and more for TV and telephony. What is the alternative?

OPTA's view on All-IP (2)

- This results in the question: 'Assuming no MDF-access, how to preserve and further stimulate effective and enduring competition, i.e. competition between infrastructures?'

- *But also: how many infrastructures constitute effective competition in a NGN world? "Is two enough?"*

Actions OPTA 2006

- End of 2005: KPN announces All-IP

- May 2006: start of Industry Group Sub Loop Unbundling (IG SLU) to come to Reference Offer SDF Access and Co-location + publication of Issue Paper All-IP for consultation

- October 2006: publication of Position Paper for consultation (English version on www.opta.nl)

- During 2006: ongoing talks with stakeholders (KPN, OLO's, Ministry, EC)

OPTA's position paper (1)

- KPN has the freedom to upgrade its network and terminate MDF-access, but…

- There has to be an equivalent alternative for MDF-access

- New market analysis should point out what the equivalent and proportionate alternative is (draft decisions scheduled for Q2 2007)

- KPN will have to comply with policy guidelines before it can withdraw MDF-access

OPTA's position paper (2)

The equivalent alternative for MDF-access should:

- Address the same competition problems as MDF-access

- Stimulate further infrastructure competition, as high as possible on the ladder of investment

OPTA's preliminary view on this alternative:

- Regulated offer for sub loop unbundling + SDF backhaul

- WBA temporarily regulated where SLU is not yet offered

OPTA's present position (1)

- Responses to position paper and Analysys research into the business case for SLU have raised doubts with regard to OPTA's preliminary view
  - SLU economically not equivalent to MDF-access
  - Case exists for roll-out to business customers

- OPTA therefore decided to uphold the publication of policy guidelines on the conditions for the withdrawal of MDF-access

- In the market analysis OPTA will assess the proportionate remedies that take All-IP into account

OPTA

OPTA's present position (2)

- February 2007: OPTA has called on KPN to propose solutions that are also acceptable to its competitors

- If KPN would come to such 'Undertakings', OPTA would take these into account in its market analysis

- Window of opportunity: until end of Q2

- KPN has accepted this invitation and has started talks with other operators

OPTA on functional separation (FS)

- Position paper: OPTA announces a study on the UK approach
  - Study conducted by NERA

- OPTA's position (letter of 2 March, www.opta.nl):
  - In the Dutch situation (cable competition, FttH initiatives) FS is not proportionate
  - And even if it was: FS is not yet a remedy
  - Nevertheless: if KPN agrees with competitors to include FS in its Undertakings, OPTA will take this into account in the market analysis

Next steps

- Finalisation Reference Offer SLU (April 2007)

- Market analysis
    - Assessment of the set of proportionate remedies that takes All-IP into account
    - KPN Undertakings?
    - Draft decisions Q2 2007

- Policy guidelines on the conditions for withdrawal of MDF-access (together with draft decisions)