



Internet Telephony Services Providers' Association

February 2005

Valuing BT's Copper Access Network

About ITSPA

The Internet Telephony Services Providers' Association was established in 2004 to represent the voice of the burgeoning VoIP sector in the UK. ITSPA aims not only to encourage the innovation and development of the VoIP industry through the promotion of self-regulation and competition, but also to promote the benefits of the technology to consumers. ITSPA has the objective of ensuring consumers receive a first-class service and to reassure them that any product or service bought from a company displaying the ITSPA logo comes with a high standard of consumer protection, which is properly policed and includes a dispute resolution procedure. Further information on ITSPA and its members, can be found on our website here: <http://www.itspa.org.uk>.

Introduction

As Ofcom confirms in the introduction to this consultation, the local access market does not benefit from effective competition. ITSPA agrees with Ofcom's assumption that it is unlikely, in the foreseeable future, that we will see further market entry in the form of investment in access infrastructure. It is therefore vital that Ofcom encourages retail competition based on regulated access to the local copper access network at charges based on cost.

Recovery of common costs

In the Telecoms Strategic Review¹ Ofcom states the following:

"It may be appropriate for Ofcom to require BT to offer such a wholesale broadband access product [as naked DSL]. A particularly important (and complex) issue that arises is how those costs that are common to PSTN and broadband networks would be recovered. At present, PSTN revenues tend to cover most of the common costs associated with the BT network. As these revenues are eroded, BT will need to recover its common costs elsewhere, and the charges for naked DSL would have to reflect this."

This consultation on the value of copper access discusses the recovery of costs which are common to the access network *and other parts of BT's business*, for example the cost of duct which is shared by both access and core plant. There seems to be no discussion of costs which are common to PSTN and broadband networks.

¹ Paragraph 8.13, Strategic Review of Telecommunications, Phase 2



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Costs common to access and core:

ITSPA would support the use of long run incremental cost (LRIC) as the basis to attribute the cost of shared duct. The alternatives of using bandwidth or cross-sectional area disproportionately load costs on to the access network and effectively enable BT to cross-subsidise its core business (where it faces competition) from its access business (where it has a dominant position).

Costs common to PSTN and broadband networks:

We assume that these common costs would comprise the duct, primary cross-connection point (PCP) and distribution point (DP). Most of these assets are already fully depreciated, so ongoing costs would consist mainly of maintenance.

ITSPA accepts that the cost of a wholesale naked DSL product would include a surcharge to cover the shared costs of the maintenance of the local loop which would normally be recovered through voice line rental charges. However, we do not accept that the whole or majority of the line rental charge should be passed on to BT's wholesale customers. ITSPA's position is that no more than 40-50% of the wholesale line rental charge should be included in the price of wholesale naked DSL.

At this point, some international comparisons may be of use:

In the USA, Qwest (a regional "Bell" company) launched a retail standalone broadband product in 2004, charging \$32 per month, compared with a charge of \$27 per month for the same service including the Qwest voice line rental. The additional \$5 per month for the naked DSL product was what Qwest charged its own customers for the common costs of maintaining the local loop.

In Norway, Telenor imposes a surcharge of NOK 48 (approximately £4) per month on customers who take its ADSL service without a telephony service. There is also a wholesale service, whereby the wholesale operator is charged an additional NOK 80 (approximately £6.71) per month per ADSL line. ADSL wholesale prices vary from NOK190 to NOK 590 depending on speed and contention rates.

We predict that many more former incumbents will begin offering such services to retail customers as a defensive move in the face of consumer demand. *Les Echos* reported earlier this month that France Telecom plans to launch a naked DSL product.

Conclusion



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It is crucial that Ofcom considers these issues with some urgency. Far from being a distant possibility, voice over broadband is now a reality and consumers are already frustrated by the requirement to pay for rental of PSTN lines which they do not use.