

Convergence of broadband networks: regulatory challenges

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Outline presentation

- Convergence: definition and scope
- Consequences of convergence
- Challenges:
- *Bundling issues*
- *Convergence and competition*
- *Convergence of regulation: institutional perspective*
- Key messages

Convergence

- “Traditionally segregated communication, information and entertainment markets are converging on a common *information delivery chain*”
- Convergence: driven by technological developments: digitalization, growth of broadband capacity, IP based networks
- Convergence of broadband networks: key issue for telecommunication regulation

Consequences of convergence

- All services can be delivered via different platforms: copper network, fiber, cable, wireless, satellite
- Existing players move into each others markets, e.g. incumbents entering broadcasting television markets
- New business models (Google, Microsoft, Skype) enter in traditional markets and disrupt traditional business models (advertising)
- Good perspective for competition between platforms, but only if:
 - *Transparency for consumer is sufficient*
 - *No barriers for switching by consumers arise*
- Convergence affects telecommunication markets and regulation:
 1. *Bundling issues*
 2. *Competition*
 3. *Convergence of regulation*

Subject 1: Bundling issues

- End users increasingly purchase bundled services from a single provider
- Multi play strategy: bundling of broadband internet access, voice telephony, (digital) television
- Households in The Netherlands (2008)
 - 50%-60%: multi play bundle
 - 22%: triple play bundle

Subject 1: Bundling issues

- However: still a large customer base purchases single play legacy services, e.g. analogue television, PSTN telephony
- Bundling might affect the way of defining relevant markets: Will the bundle become the relevant market?
 - OPTA paper Economic Analysis Team: www.opta.nl
- The EU framework until now: segregated markets
- Regulatory challenges:
 - Analyze markets in an integrated approach which takes into account interaction between segregated markets
 - Create possibilities for a *triple play* strategy for parties without their own network

Subject 1: Bundling issues

- OPTA regulates in its Market Analysis 2008 not only access to the network of the old incumbent KPN: dominant position in broadband access, telephony...
- ...but also access to cable operator networks for analogue television: dominant position in broadcasting
- By imposing both types of access obligations: parties without own network (e.g. Tele2, Online) are able to offer triple play
- Temporary solution: as long as NGN is not rolled out on a large scale
- Access of KPN to networks of cable operators and vice versa not desirable:
 - They have their own networks to offer triple play
 - Stimulate further roll out NGN by KPN and cable operators

Subject 2: Convergence and competition

- Broadband arena in The Netherlands:
 - KPN DSL2+: 45-50% market share
 - Other DSL2+ operators: 10-15% market share
 - Cable operators: 40% market share
- High penetration of cable (>90% of households)
- As a result of convergence – and the fact that cable operators have a better opportunity to offer triple play bundles (television!) – KPN has incentives to roll out a NGA network...
- ...based on a mix of Fiber to the Home, Fiber to the Curb (street cabinet), and wireless applications

Subject 2: Convergence and competition

- In 2008 KPN realized a joint venture (JV) with Reggefiber
- Goal JV: structural roll out of Fiber to the Home on a large scale
- JV will roll out fiber access networks in several municipalities in The Netherlands
- Cable operators also react on convergence by upgrading their networks: start of Docsis 3.0 (2009 and further)

Subject 2: Convergence and competition

NGN (FttH) requires major investments (approx. 1000 Euro per household in The Netherlands, based on P2P topology)

Access seekers are worried about access to NGN:

- Will access to NGN be guaranteed in future?
- Fear for regulatory holiday

Will investment really happen? Investors worried about regulatory uncertainty:

- FttH business case may have risks in itself
- Risk of possible regulatory intervention during the life time of the investment
- These risks might lead to less or even no NGN investment

Subject 2: Convergence and competition

Balancing act for the regulator

- How to maintain and foster effective competition?
- How to stimulate (or: not to hinder) efficient investments in NGN?

Solution

- Appropriate access regulation for third parties
- Stimulate efficient investment by regulatory certainty for investors

Subject 2: Convergence and competition

Access regulation regarding NGN:

- Access to NGN of KPN should be secured
- Competition between cable and copper networks is not sufficient to reach effective competition (“two is not enough”)
- Therefore a regulatory holiday – to promote investment in NGN – is *not* the right solution
- Obligation for KPN and JV Reggefiber for unbundled access to fiber (Optical Distribution Frame) in The Netherlands
- This type of access enables also other market players to offer triple play bundles in the future

Subject 2: Convergence and competition

Stimulate investment in NGN by creating regulatory certainty:

- Setting an access price cap which is stable over a long period (lifetime of investment): starting tariff + yearly price indexation (CPI)
- Price cap model based on parameters in business case model of parties involved (Discounted Cash Flow model)
- Price cap remains unchanged, unless there are excessive returns
- A three year check on excessive returns

Subject 3: Convergence of regulation

- Convergence needs a policy and regulatory response across the whole information delivery chain
- Interdependencies between economic, technical (standardization/frequency management) and content regulation will grow
- The element of *interest of access to content for all end-users* (“net neutrality”) in the proposed New Regulatory Framework Directives by the EC, is an important example
- Different regulatory models across the European Union
- Need for stronger interaction and co-operation (“convergence”) between different types of regulators
- Policy makers should create sound conditions for convergence between regulators
- A fully converged/integrated regulator, like OFCOM?

Key messages

- Existing players: entering each others traditional domain
- New entrants: putting pressure on traditional business models
- Convergence fosters competition between networks...
- ...and gives incentives for investment in NGAN
- Regulators have to deal with *bundling* as a result of convergence:
 - integrated approach regarding traditionally segregated markets
 - access obligations on different SMP players (cable operators and KPN) may facilitate triple play strategy of other market players
- “Two is not enough”: access regulation still needed for effective competition → no regulatory holiday for NGN
- Role of regulator: balancing between fostering competition (access) and creating long term regulatory certainty to promote investment
- Convergence between different types of regulators by stronger co-operation – integration? – is needed