Functional Separation in the UK

The Columbia Institute for Tele-Information
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Richard Nohe
Chief Counsel
BT Global Services, US & Canada
Ofcom’s Primary Issue in 2004

- Competition was restricted in wholesale markets for access and backhaul services
- BT had substantial wholesale market power and was a vertically integrated provider with a presence in the directly related retail markets
- this combination gave BT the ability and the incentive to discriminate against downstream competitors who were also wholesale customers
The remedy: BT’s Undertakings

- BT’s undertakings accepted by Ofcom on 22 Sept 2005
- In lieu of reference to the Competition Authority under the Enterprise Act
- Conclusion to Strategic Review
- Undertakings contain a series of commitments made voluntarily by BT
- Legally binding
Key elements of BT’s Undertakings

- Functional Separation – creation of Openreach
- Equivalence of inputs (Eol)
- Transparency and separate accounting
- Independent audit and oversight
Conditions of a Functional Separate Unit (FSU)

- Network separation
- Management separation
- Restriction on intra company/group influence
- Reorientation of staff rewards and management incentives
- Restrictions on where employees can work
- Restrictions on flow of commercially confidential info
- Transparent coordination of FSU return on assets
- Functionally separate unit can not enter retail markets
- Rest of company can not self supply products of FSU
- Compliance provisions: KPIs, independent oversight
Openreach

- Openreach controls and operates the duct, fibre, copper and other non-electronic assets in BT’s access and backhaul networks

- It has had its own headquarters, distinct brand and around 30,000 people

- It provides product management, sales and service management for significant market power (SMP) products delivered over BT’s access and/or backhaul networks - bottleneck products

- Any performance-related pay for Openreach staff is based only on Openreach’s own objectives and performance; not BT Group’s

- BT publishes separate financial accounts for Openreach
Openreach is also responsible for all duct, access fibre and copper & fibre backhaul.
All services falling within the scope of Openreach are offered to all on equal terms – Equality of Input (EoI).

- EoI is the key concept of Openreach
- EoI is more than non discrimination.
- EoI means: same ordering system, same ability to influence, same prices, terms & conditions, same services and same access to commercial information.
- It guarantees equal access to the ‘economic bottleneck’ and drives downstream competition in the UK.
- It focuses the regulation where it is needed
Independent monitoring and oversight

- **Equality of Access Board**
  - Monitors, reports and advises on BT’s compliance with the Undertakings;
  - Chaired by BT Group non-exec director, with three independent members plus one senior BT manager
  - reports directly to BT Group plc Board
  - reports annually to Ofcom and publishes a summary report as part of BT’s annual compliance report

- **Ofcom**
  - Quarterly implementation reports
  - Annual Report on impact of TSR
Driving Growth in UK Telecoms

- 15+M BB connections in the UK
- 4.8+M LLU lines (most since creation of Openreach)
- 4.9+M WLR lines
- 5.7+M CPS Lines
- Openreach handles 55k LLU external orders per week
- More than 20 LLU operators
- Unbundled services provided from nearly 1,900 local exchanges
- 99.6% of population connected to exchange with up to 8Mb/s BB
- Average BB speed is over 3Mb/s
- ADSL 2+ deployment in 2008, up to 24 Mb/s with average of 8 Mb/s (part of £10 bn investment)
A Snapshot of the UK: Competitive Trends

- Carrier Pre-Selection
- Unbundled Local Loops
- Wholesale Line Rental


Millions:
- Carrier Pre-Selection: 5.7 in 2008
- Unbundled Local Loops: 4.9 in 2008
- Wholesale Line Rental: 4.8 in 2008
## Openreach performance

### Full Years to March 31

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
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<tbody>
<tr>
<td><strong>External Revenue</strong></td>
<td>886</td>
<td>685</td>
<td>318</td>
</tr>
<tr>
<td><strong>Internal revenue</strong></td>
<td>4380</td>
<td>4,538</td>
<td>4,824</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>5266</td>
<td>5,223</td>
<td>5,142</td>
</tr>
<tr>
<td><strong>Operating Costs</strong></td>
<td>3328</td>
<td>3,292</td>
<td>3,156</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>1938</td>
<td>1931</td>
<td>1,983</td>
</tr>
<tr>
<td><strong>Amortisation and Depreciation</strong></td>
<td>689</td>
<td>707</td>
<td>800</td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>1249</td>
<td>1,224</td>
<td>1,183</td>
</tr>
<tr>
<td><strong>Capital Expenditure</strong></td>
<td>1073</td>
<td>1,108</td>
<td>1,038</td>
</tr>
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A New Era of Regulation?

- Increased clarity
- Regulation focused on bottlenecks
- Provided foundation for reduced retail regulation
- Incentive to invest and innovate
- Infrastructure-based competition: benefiting the UK consumer and UK economy

Creating a climate of confidence for infrastructure competition, investment and innovation
Super-fast broadband

- BT plans UK’s largest ever investment in super-fast broadband
  - £1.5 billion programme
  - 10 million homes access to fiber by 2012
  - committed to wholesaling its new services
For more information

- About BT’s Undertakings to Ofcom
  - http://www.undertakingsbulletin.com

- Ofcom
  - http://www.ofcom.org.uk/telecoms/btundertakings/

- About the EAB

- Office of the Telecoms Adjudicator
  - http://www.offta.org.uk/
Thank You