The position of Telekom Slovenija on the regulated broadband market

PosTel 2010

Mag. Miroslava Zupančič

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Broadband market in Slovenija

- **The main characteristics of the broadband market:**

  - Strong competition in urban areas
  - Small usage of optical and copper access in urban areas
  - Fast migration from copper to other infrastructures in urban areas (cable and optic)
  - Strong price pressure on retail market from cable and optical competitors
  - Low retail prices of optical products
  - Low market share of Telekom Slovenija on optical access
  - Development of FTTN in rural areas is blocked by LLU competitors
  - Open networks built with EU funds

Broadband access on retail market in Slovenia

1.1.2009/ 30.6.2010

Fixed broadband lines by technology

(according to the number of connections)

- **DSL lines 67%/60%**
- **Cable modem23%/**24%
- **FTTH10%/**15%

Fixed broadband lines by operators

(according to the number of connections)

Telekom Slovenia 49,1 %/44,7% (39,3% DSL, 5,4% FTTH)

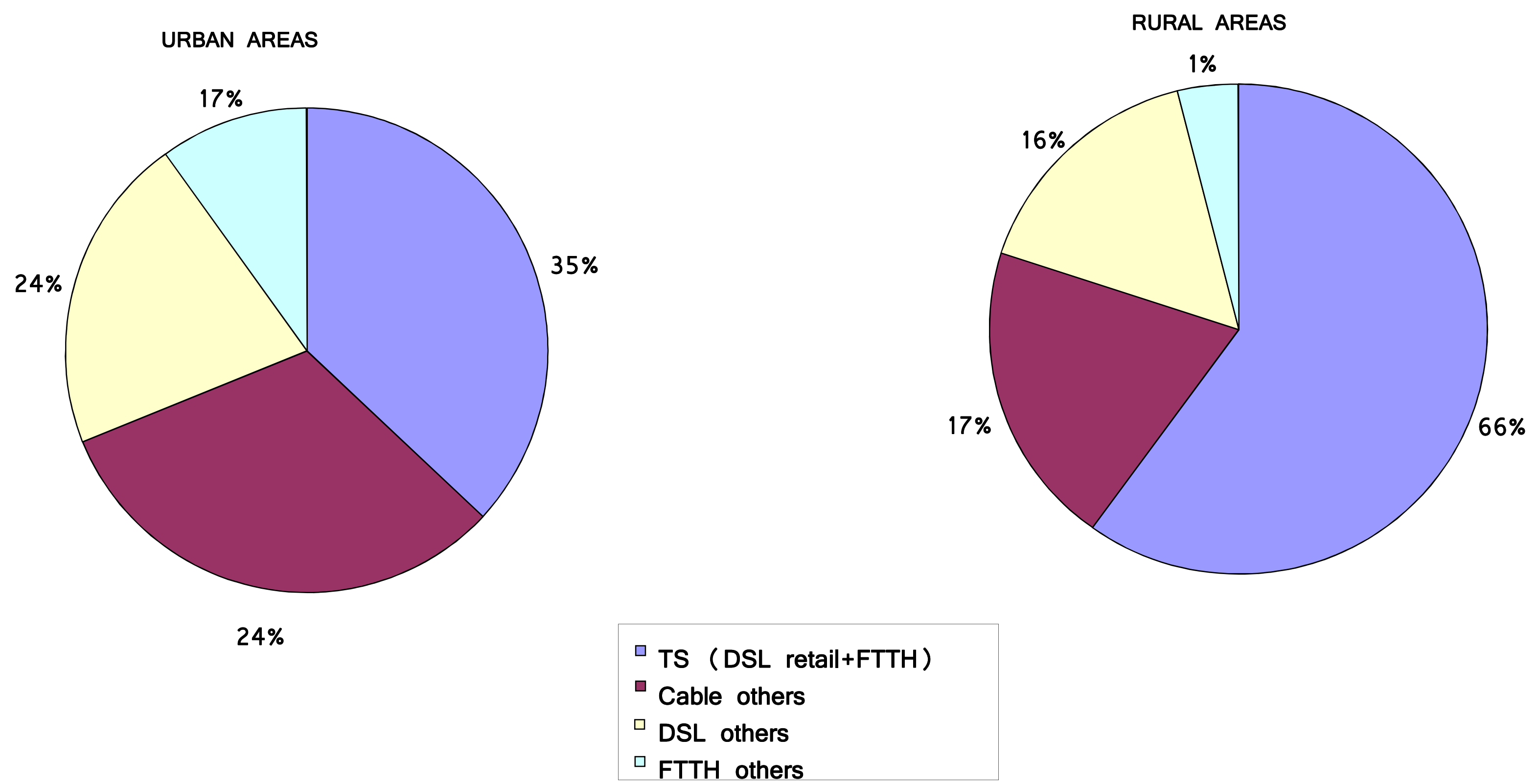
- **Others 50,9%/55,3% (21,8% DSL, 24,1% cable, 9,4% FTTH)**

Total number of BB lines on 30.6.2010: 477.593

Fixed broadband penetration: 22,8%/23,6%

Total BB access lines in urban and rural areas

Source: TS (1.7.2010)



Current regulation on DSL markets in Slovenia

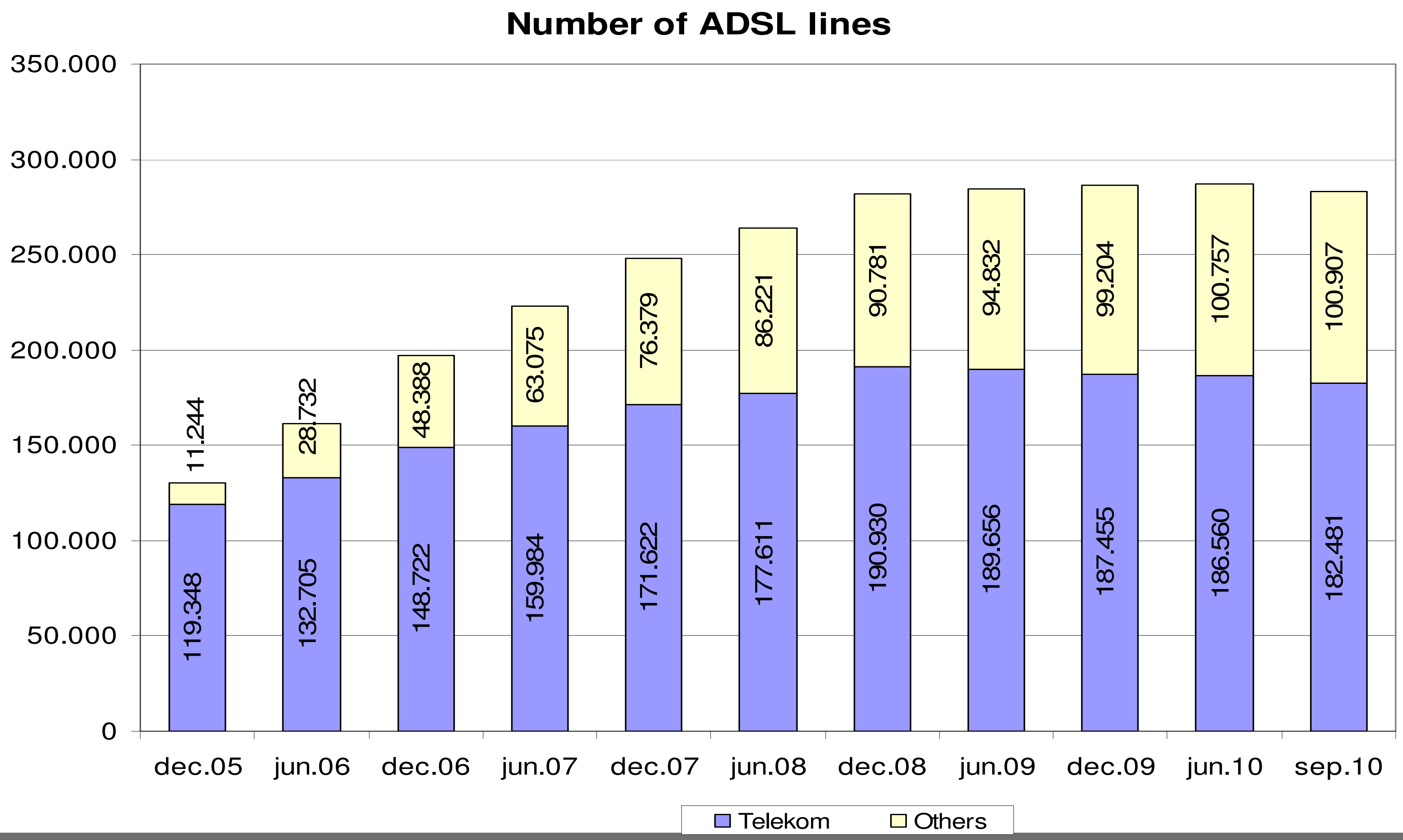
Obligations on markets 11 and 12

Market 11 (access to copper infrastructure)
Transparency
Non-discrimination
Access to the network (access with own optical cable)
Price control (cost prices based on LRIC)
Prices: full LLU 8,20€ - shared LLU 3,27 €

Market 12 (acces to bit stream)
Transparency
Non-discrimination (VoIP, IPTV, VoD, “naked DSL”)
Obligations on market 12 are defined very general: problems with “naked DSL”,VPN, CPE, multigain systems EMX)
Access to the network (national, regional)
Price control based on model **“retail minus x”** (x from 43% to 66%)

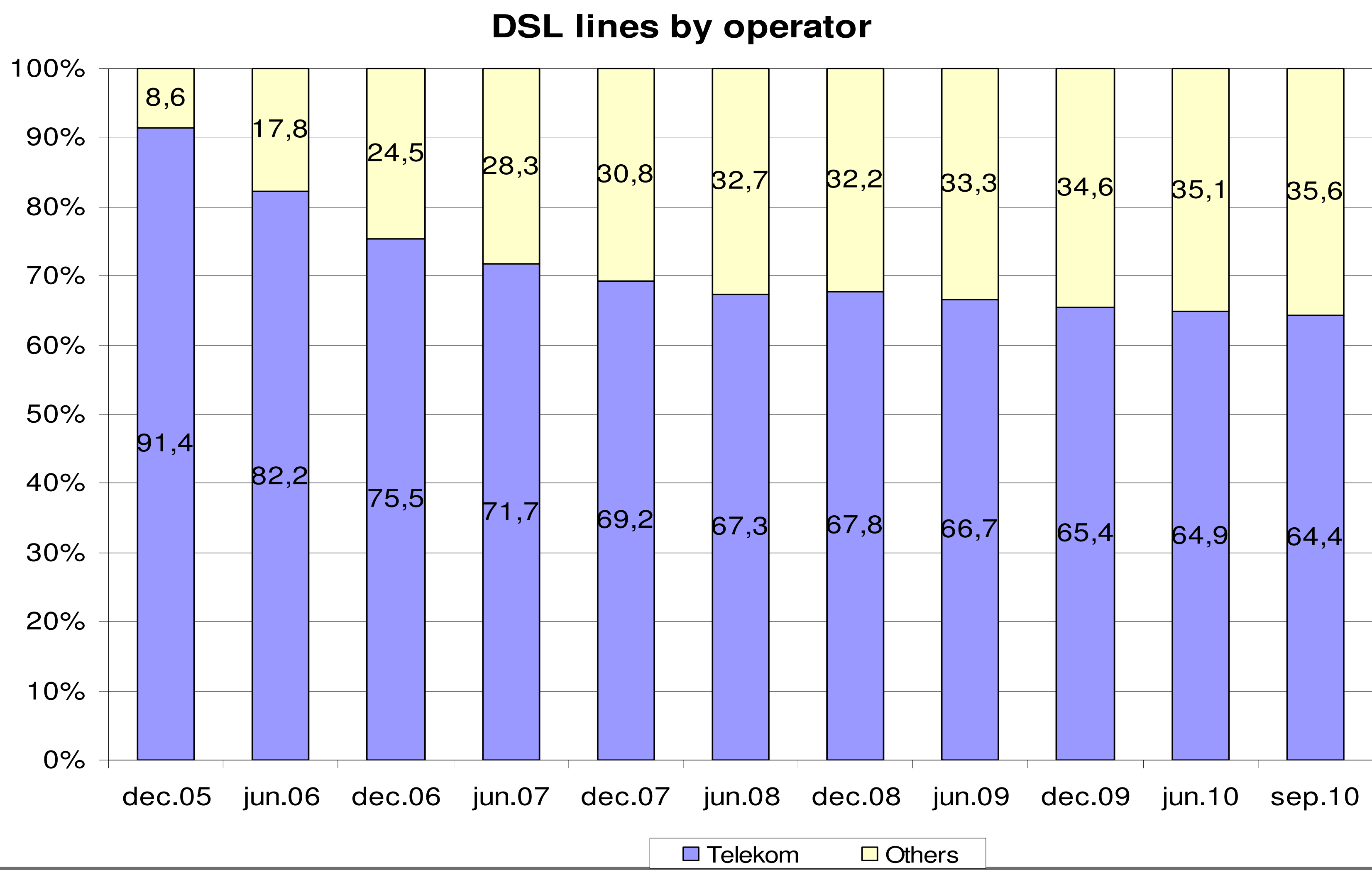
DSL retail lines by operator

Source: TS



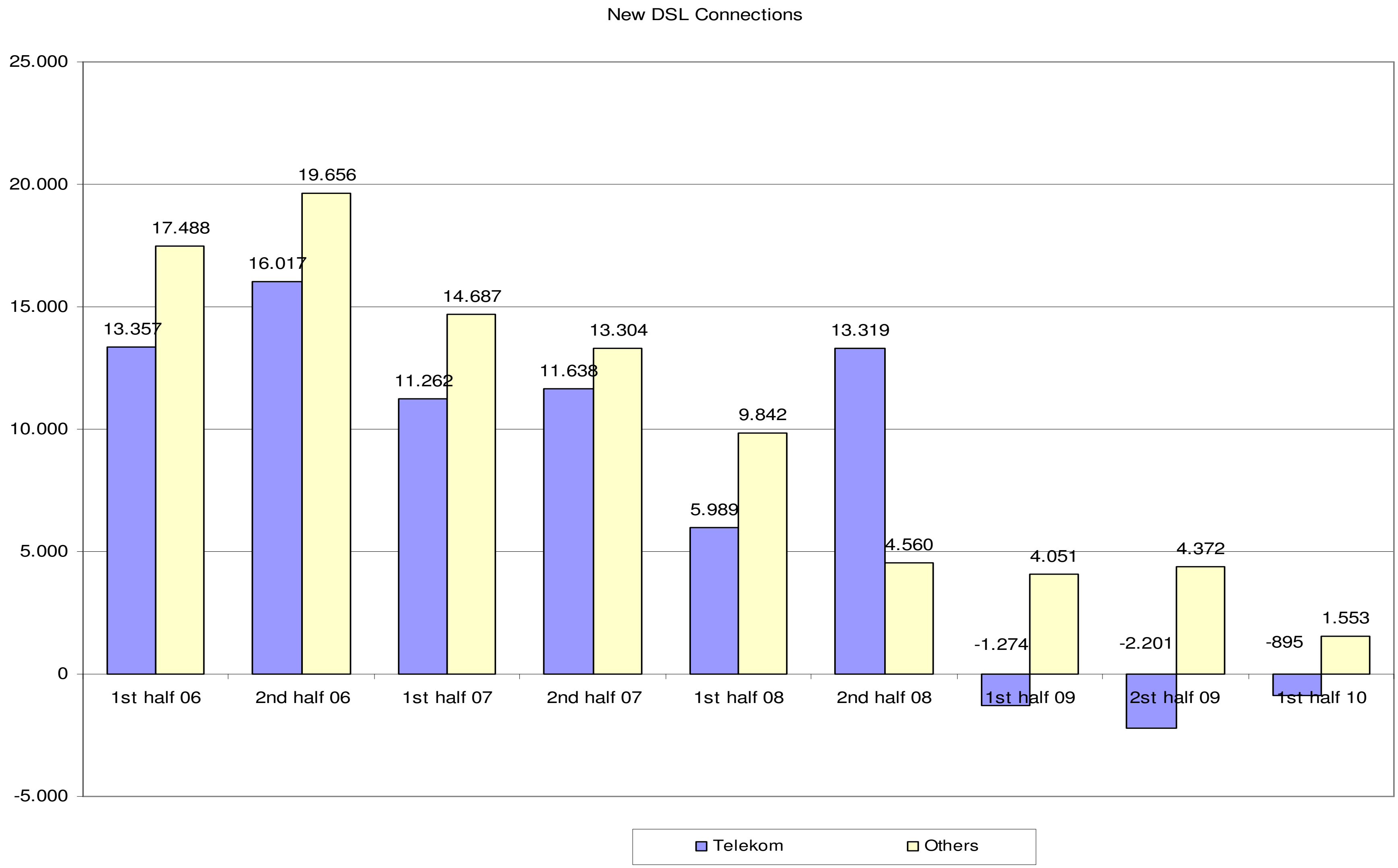
DSL access lines market share by operator

Source: TS



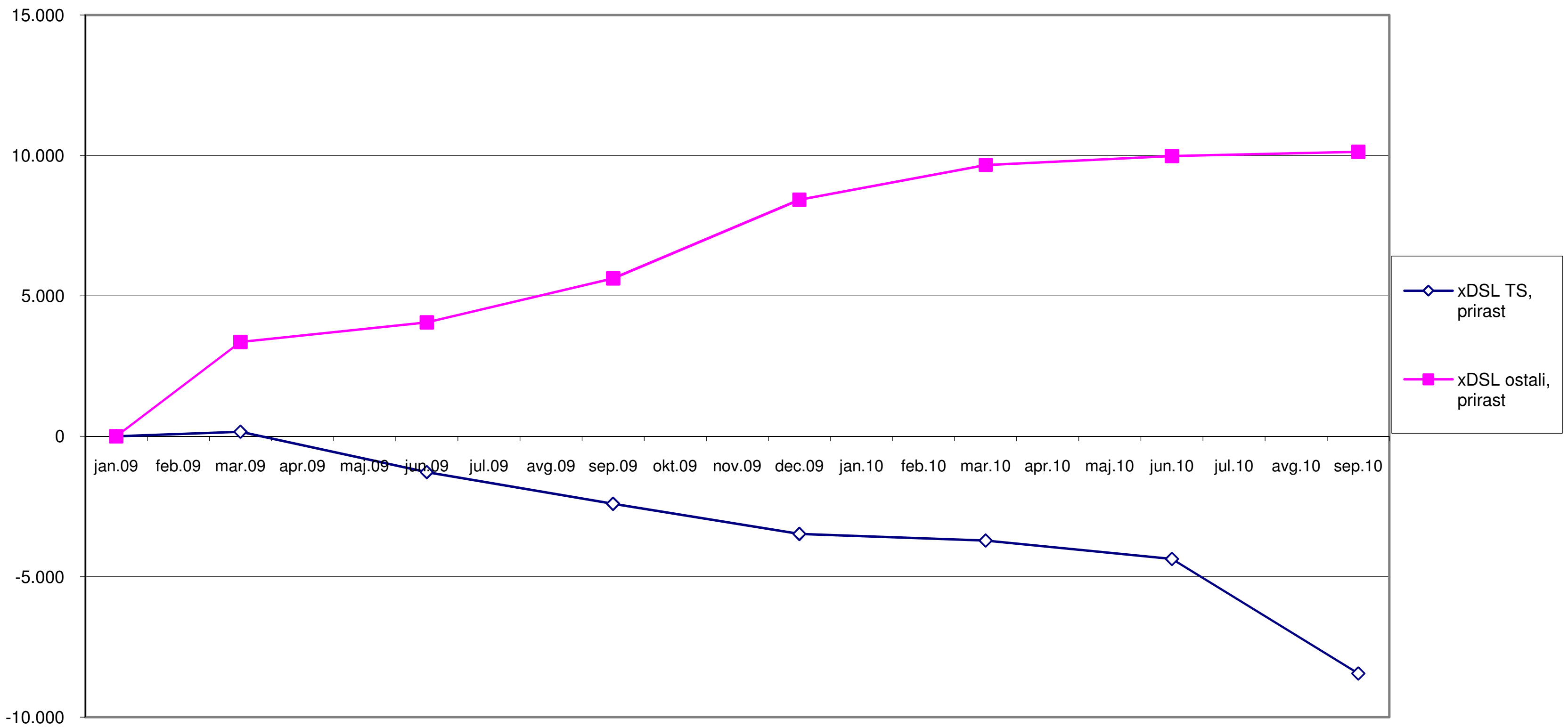
DSL increment by operator

Source: TS



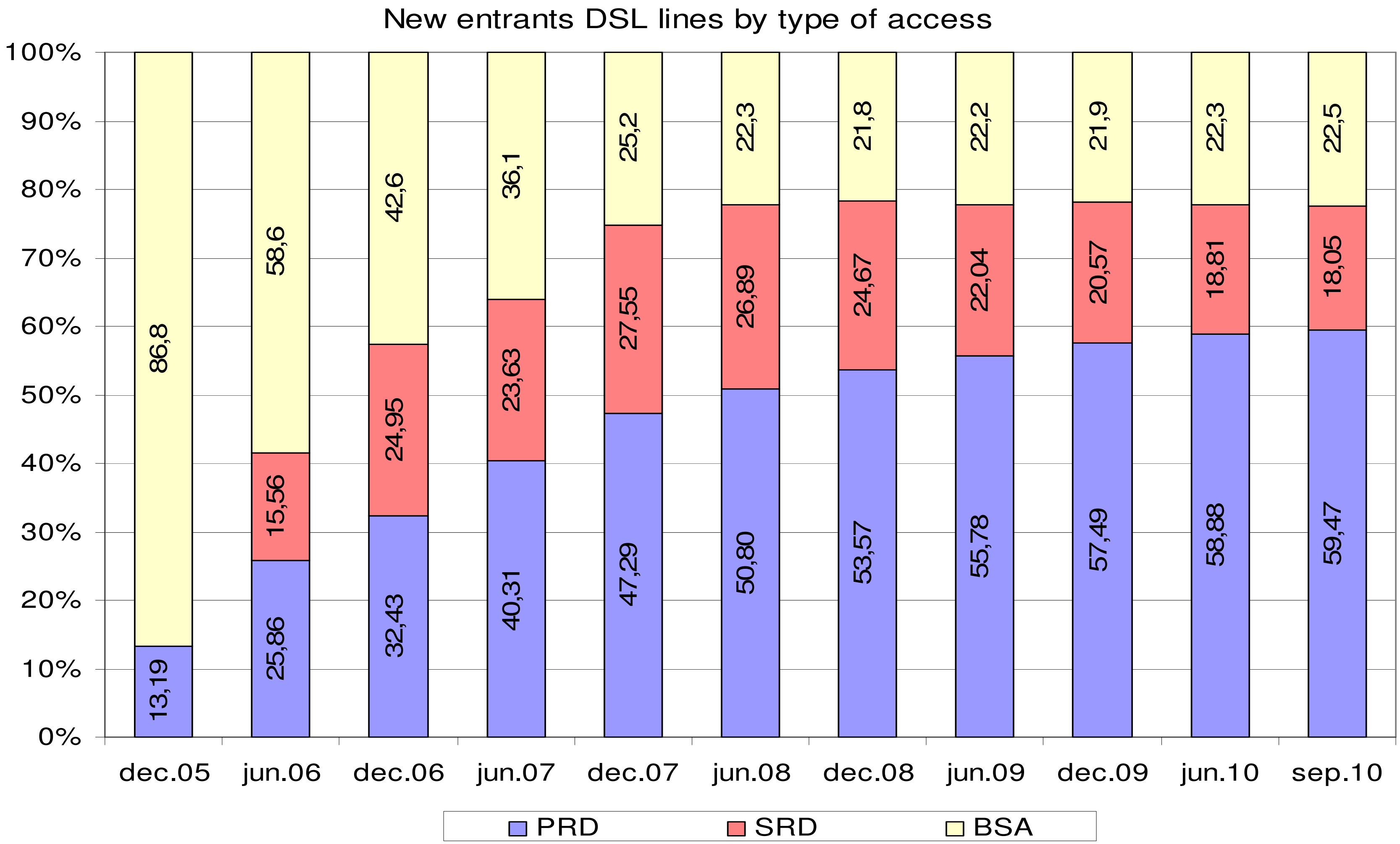
Total xDSL increment on retail market in period 1.1.2009 – 30.9.2010

Source: TS



New entrants DSL lines by type of access

Source: TS



Open questions and dilemmas under the current regulation

- **High regional differences** (TS market share in urban area is 35%, others: cable 24%, DSL 24%, FTTH 10%, July 2010)
- **Low wholesale (BSA) and retail (FTTH) prices**
- **Undefined migration to FTTC** (rural areas)
- **High infrastructure competition in urban areas** (four infrastructures)
- **Low use of optical fibre and copper network**
- **Inappropriate cost model for "naked" services**
- **Low Telekom Slovenia market share of new DSL lines** (only 11%, of total increment in 18 months)
- **Fast decreasing of TS's retail market share** (49,1% in January 2009, 44,7% in July 2010)

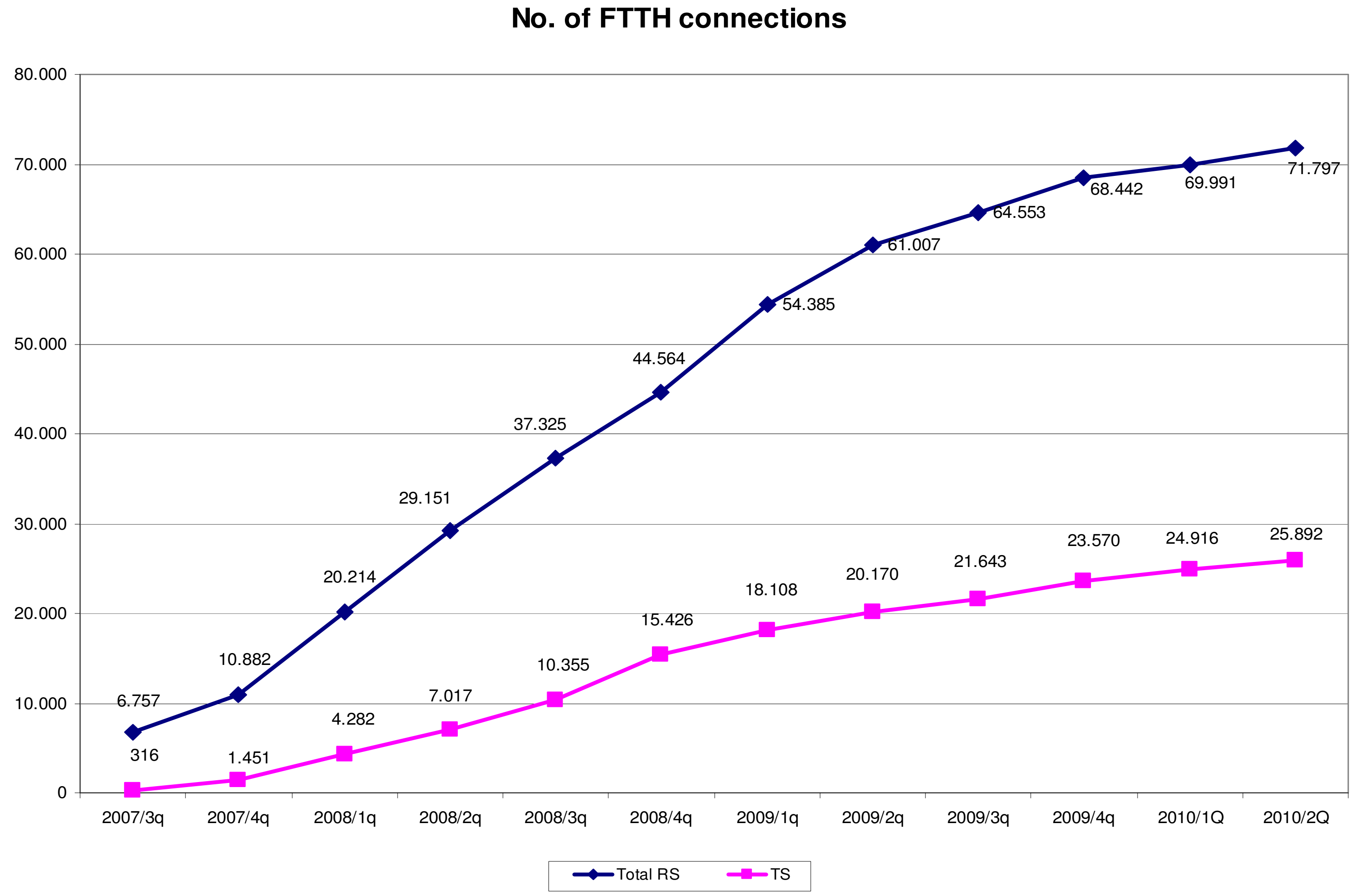
New proposal of broadband regulation in Slovenija

In November 2010 NRA (APEK) published third analyses on markets 4 and 5

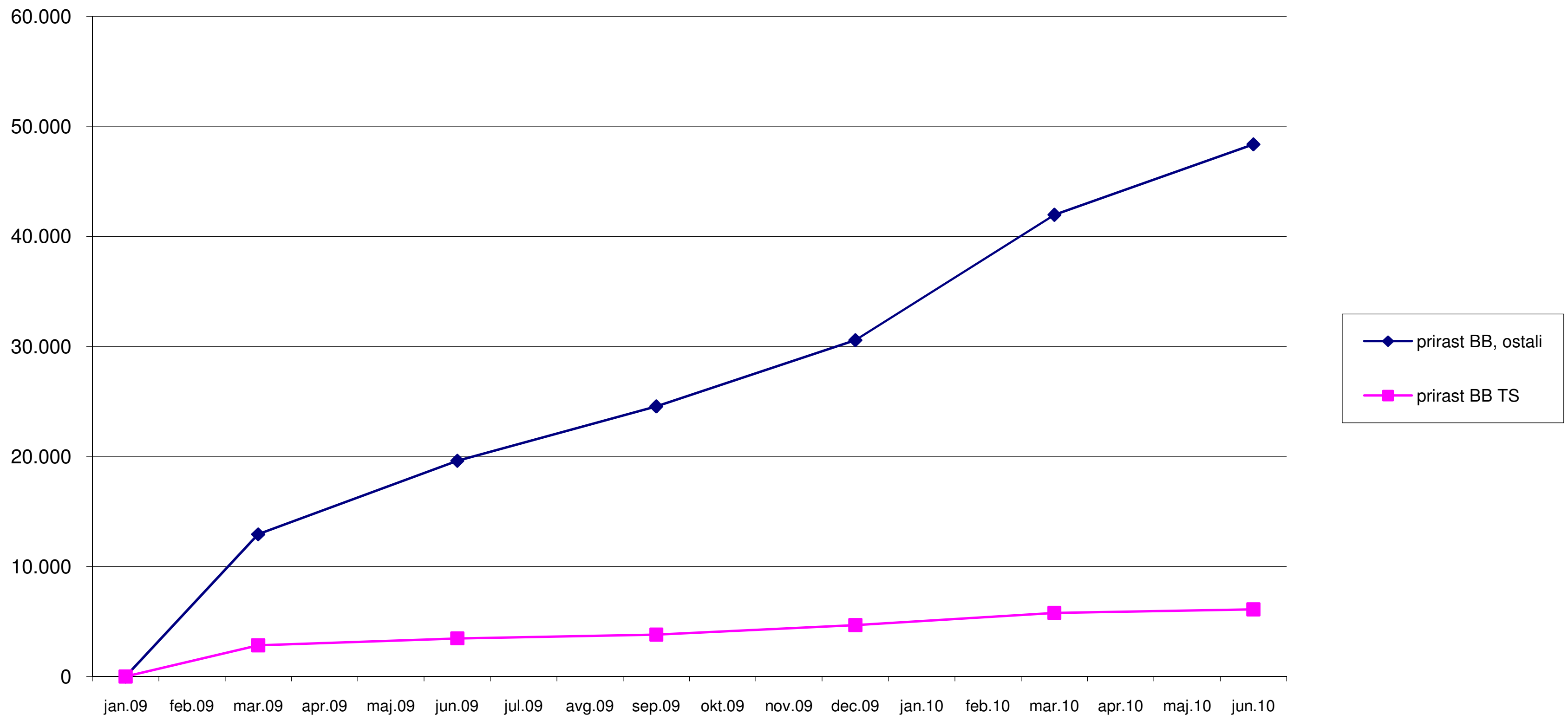
Basic elements:

- **Harsher remedies (access to all passive elements – copper and optical loops, ducts, dark fibers, in-house wiring) on market 4**
- **Copper and fiber on market 5**
- **Markets are defined as national in spite of high geographical differences between urban and rural areas**
- **Strong price control of optical access (based on LRIC model)**
- **TS is concerned about possible negative impact of proposed obligations to market development and motivation for new investment**
- **Slovenian market is very dynamic with strong infrastructure competition, especially in urban areas**

FTTH lines (total and Telekom Slovenia) Source: TS and APEK

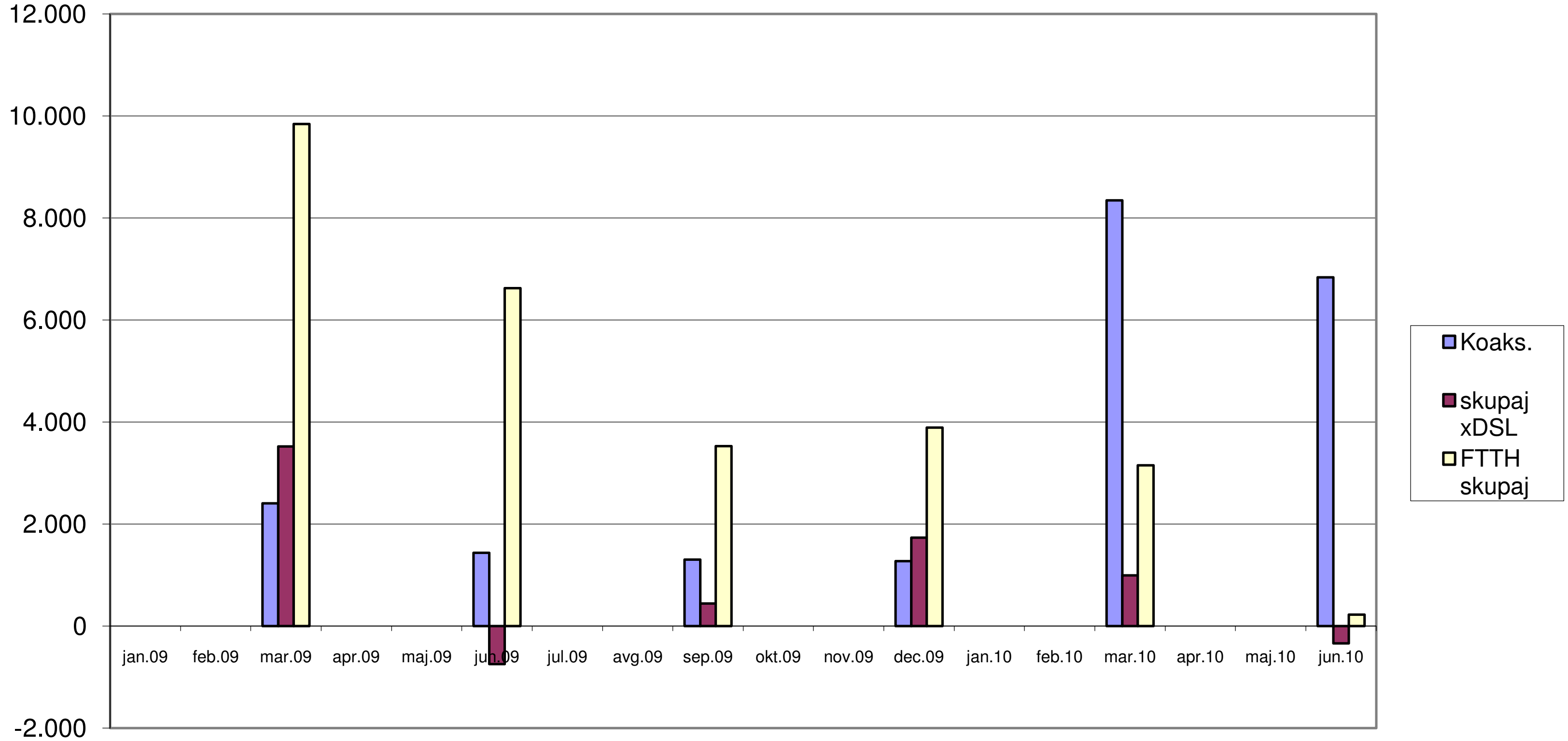


Total BB increment on retail market in period 1.1.2009 – 30.6.2010
Source: TS



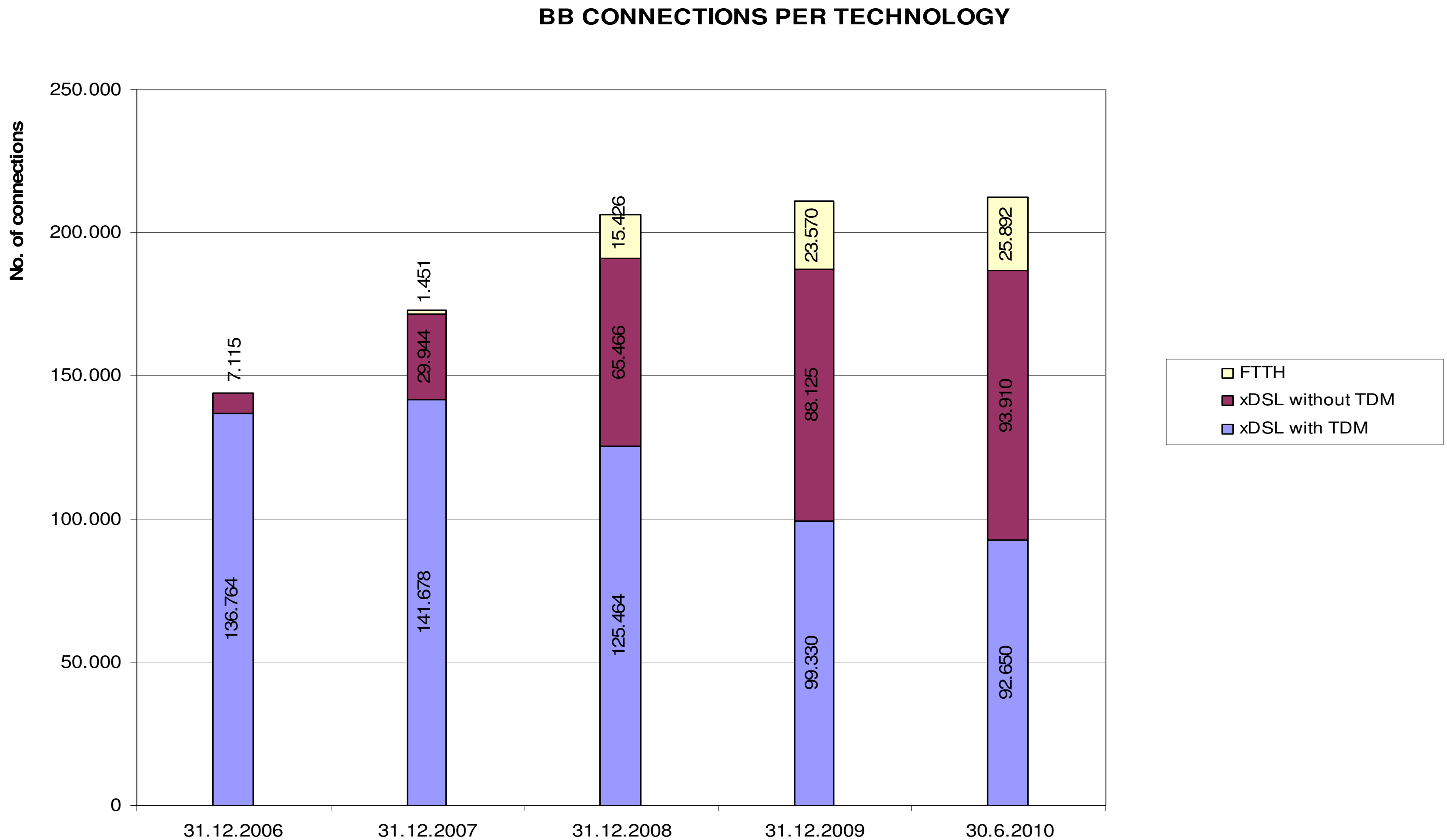
Quarter BB increment on retail market in period 1.1.2009 – 30.6.2010 per technology

Source: TS



Retail BB connections of TS per technology

Source: TS



NGA Recommendation

In September 2010 EC published NGA new NGA Recommendation

Basic elements:

- **Ladder of investment principle**
- **New regulator instruments to promote co-operation/ co-iinvestments**
- **Symmetric access obligations as complement for** asymmetric
- **Rate of return should reflect investment risk**
- **Geographical differences should be taken into account**

Strategy of deployment and regulation in EU

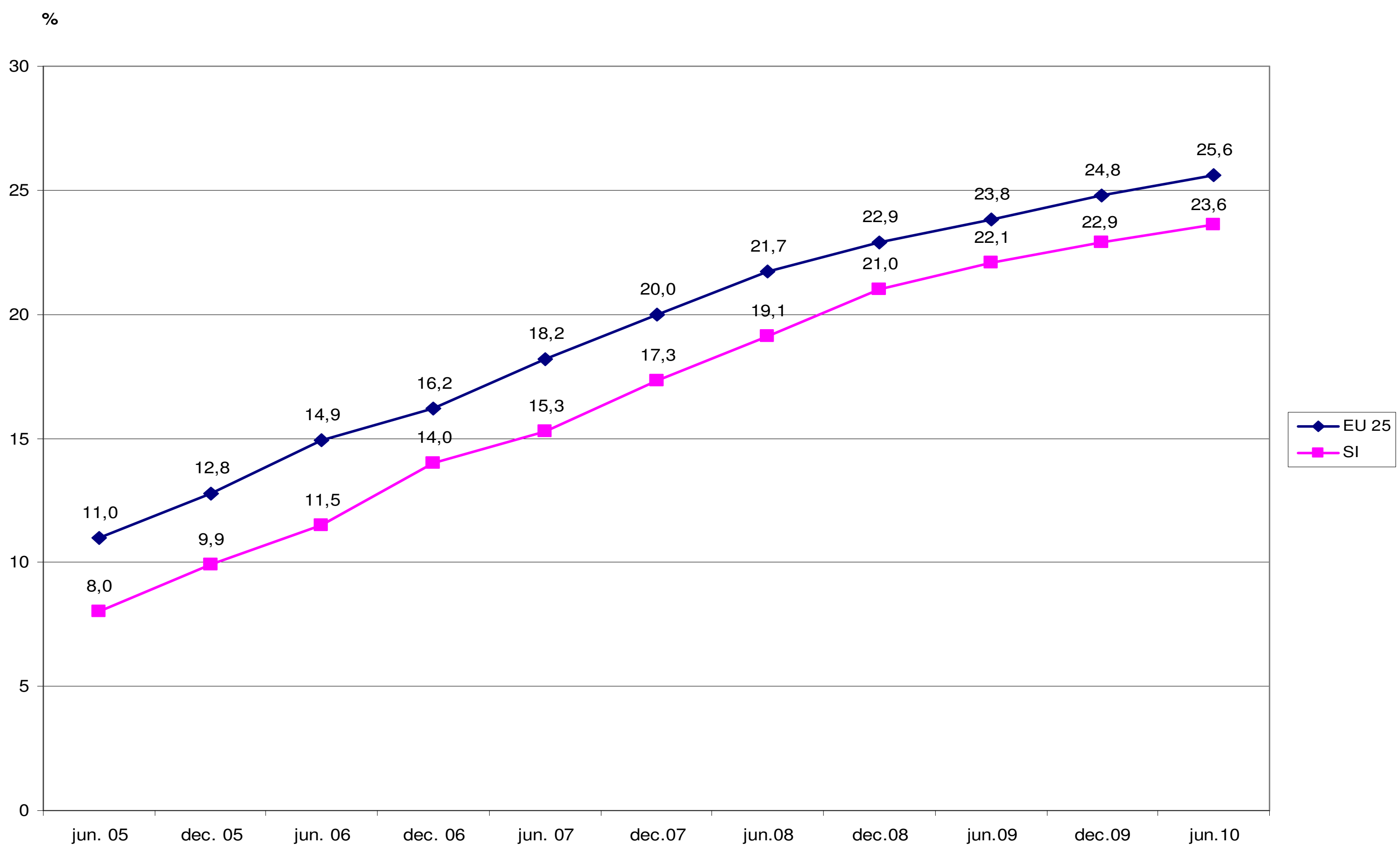
In September 2010 EC published NGA new NGA Recommendation

Basic elements:

- **FTTC/VDSL as the prevailing technology**
- **FTTH in GPON technology**
- **Symmetric access obligations as complement for** asymmetric
- **Different approaches in EU:**
  - **Access to ducts (France, Spain, Portugal)**
  - **Access to VULA (Great Britain)**
  - **Access to FTTH (Netherland, Finland, Sweden)**

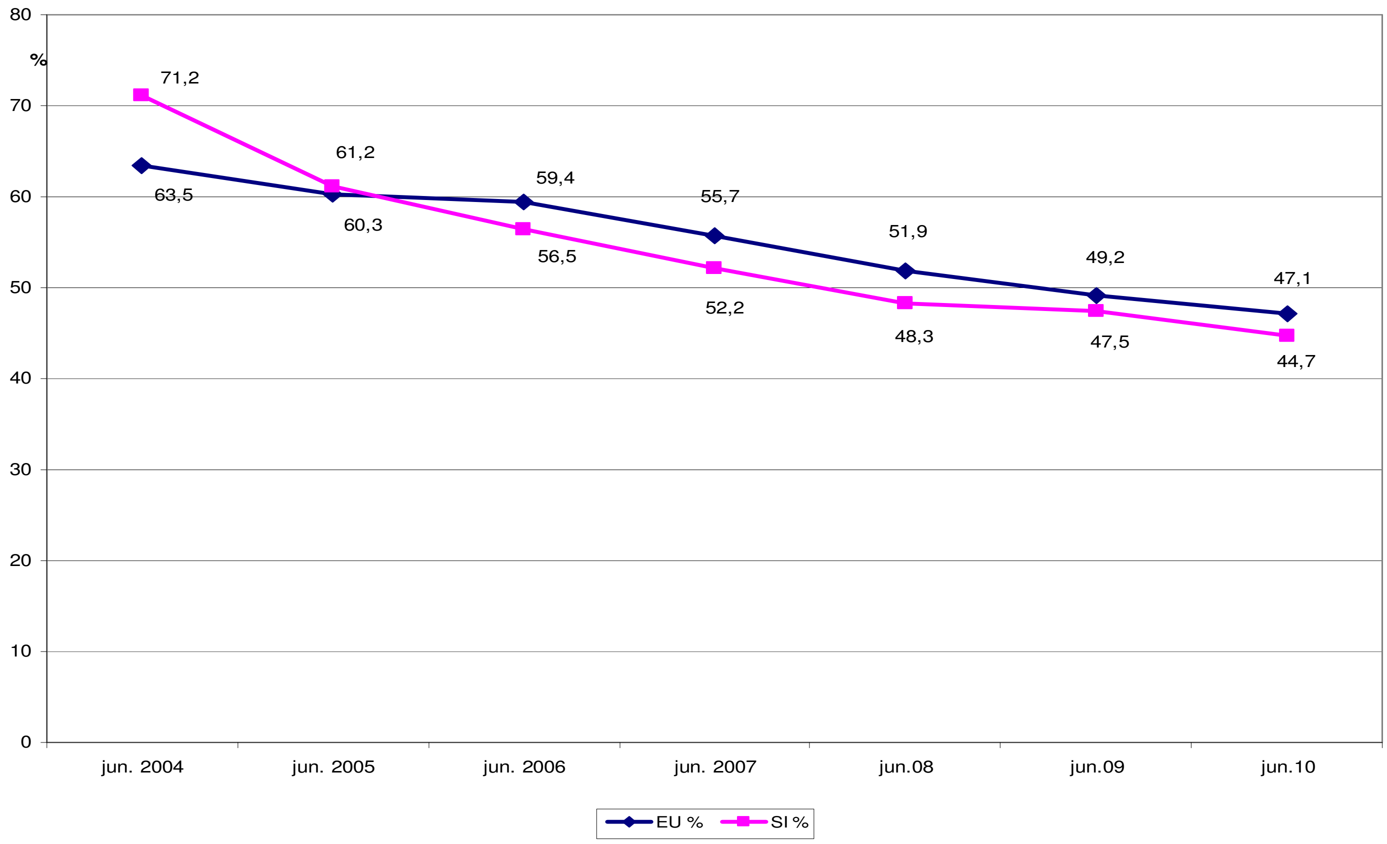
Broadband penetration rate in EU and SI

Source: EU



Market shares of incumbent in EU and SI

Source: EU



Telekom Slovenija's dilemmas regarding the proposed regulation on markets 4,5

Dilemmas regarding the proposed regulation:

- **Harsher remedies will cause additional lowering of Telekom Slovenia's retail market share**
- **New remedies will further increase geographical differences between rural and urban networks (**Telekom Slovenia covers only 28% households in urban areas)
- **Low retail prices of optical connections will be transferred to wholesale market**
- **Implementation of the new remedies will cause additional costs**
- **Regulation of in-house wiring should be symmetrical**
- Regulation of FTTN nodes in rural areas should be adapted to existing situation (small nodes with maximum 200 subscribers)
- Strong competition from the side of cable operators (cable networs are excluded from regulation on market 5)

Thank you for attention