

# The influence of NGN on our current economic regulatory costing and pricing framework

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*Views expressed are of the author only and should not be taken to represent an Ofcom wide position*

# Agenda

## Why NGN / UK

- Reasons why operators choose to implement a NGN

- What's happening in the UK

## Scale of the change

- Gross replacement cost of the network (GRC)

- Impact of NGN

- Resulting GRC

## Impact on the current regulatory framework for costing and pricing

- Common position / technology neutral

- Changing cost structures

## Current LRIC model

- Possible impact of NGN technology

## Economic Policy discussion topics

- Predominant Pricing & Costing points

# Why NGN

Cost Savings

Technology improvement

One converged network

Economies of scale & scope

Future services

## NGN in the UK

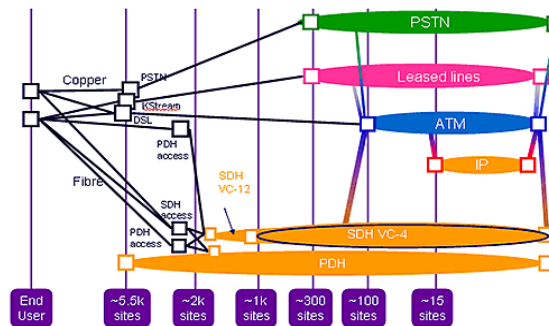
BT state they plan to spend £10bn over the next five years on NGN

BT have already spent a significant amount

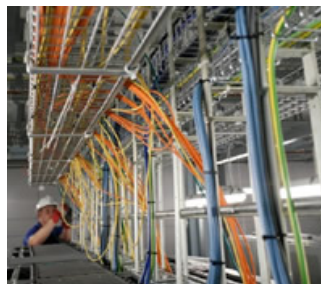
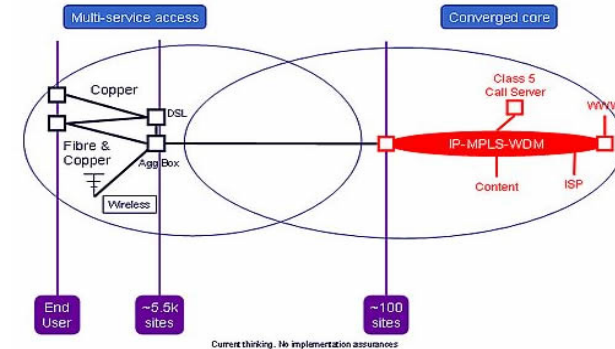
Upgrading the core network

One network replaces many

21CN - our current UK network



21CN - our simplified UK network



X 5,500



X 30 million

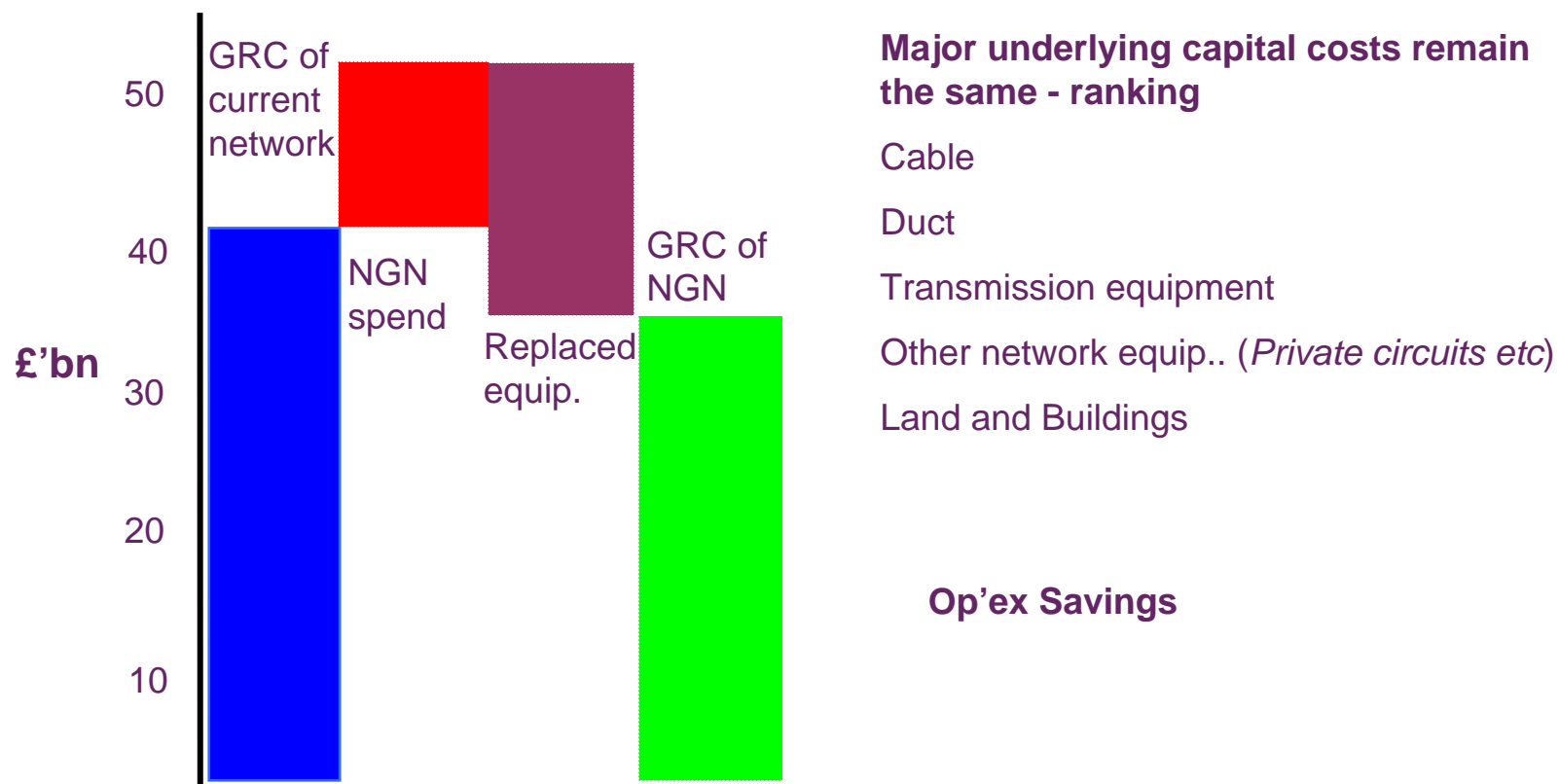


## Scale of the change – *illustrative numbers only*

Gross replacement costs of current networks £40 billion

Capital NGN spend £10billion

Components being replaced by NGN Equipment £15billion

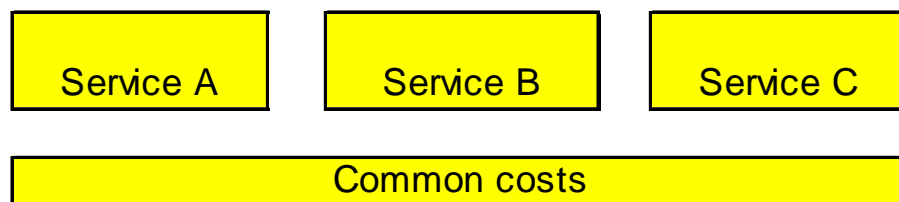


# Impact on the current regulatory framework for costing and pricing

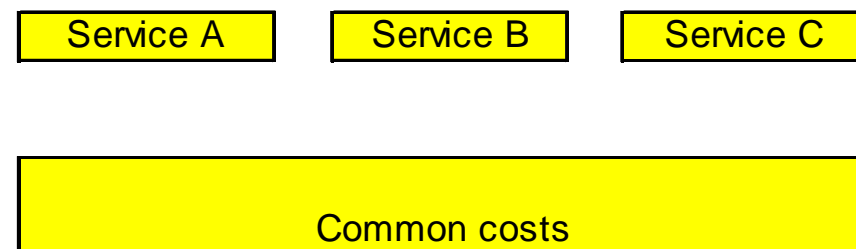
## *ERG – Common position;*

- Technology neutrality retained
- Regulatory accounting guidance remains relevant & valid; principles based
- Changing cost structures will require analysis
  - i.e. simplified LRIC view

### Traditional Network



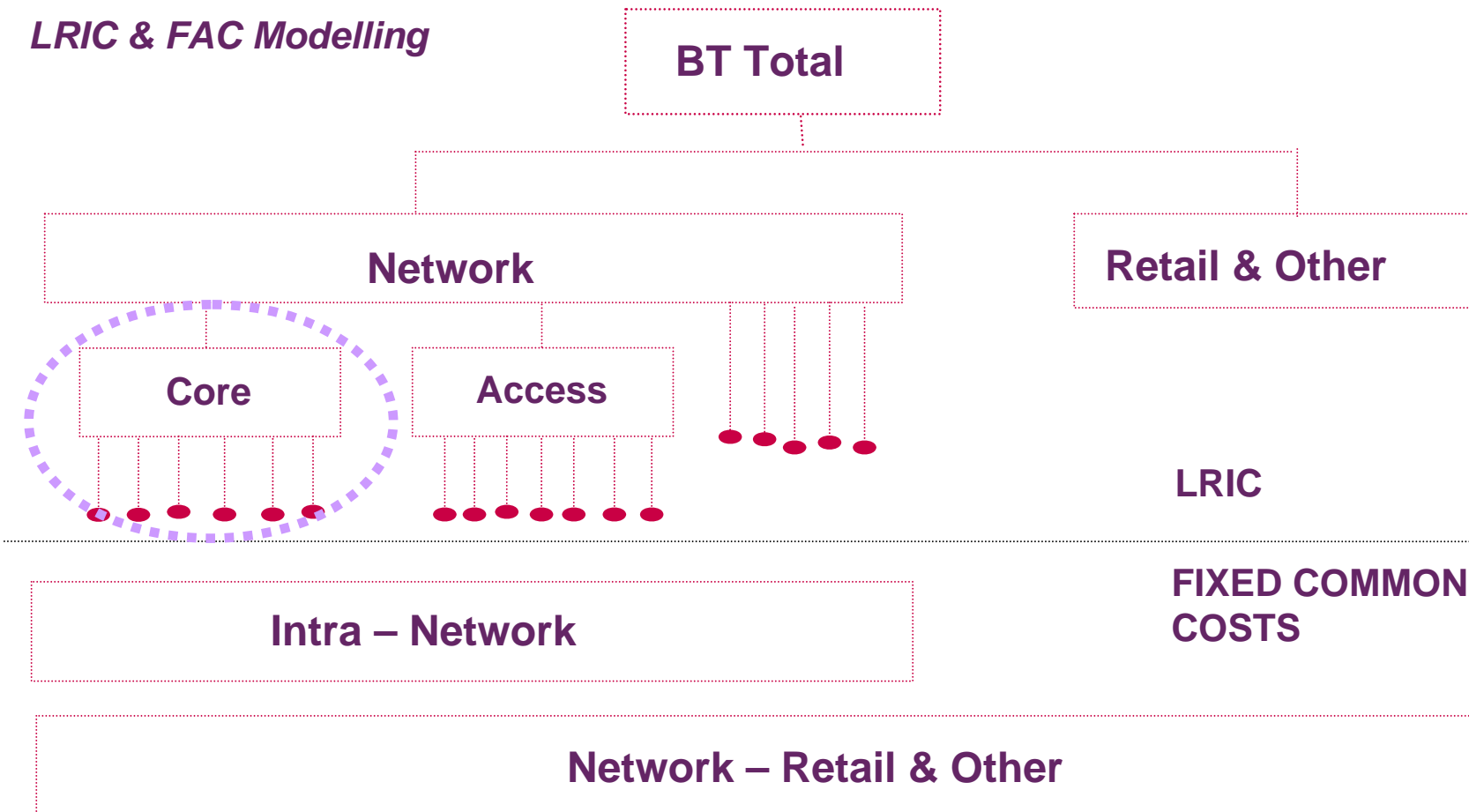
### NGN



**NRA's will need to consider adapting current modelling and costing approaches.....**

# An example of the possible Impact of NGN on the current regulatory framework

## LRIC & FAC Modelling



# An example of some economic policy discussion topics

Pricing	Costing
Ramsey pricing – willingness to pay / perceived value / elasticity	Modelling methods – Top down v bottom up
Pricing options – bundles / new services / fixed fee v usage	CCA v HCA – CCA accepted, both similar in early years.
Cost orientation – what does it mean in an NGN environment	LRIC v FDC – increments, combinatorial tests, application