COMISIÓN NACIONAL DE LOS MERCADOS Y LA COMPETENCIA

Wholesale Regulation of VHCNs

Spain, a success case

Alberto Navas

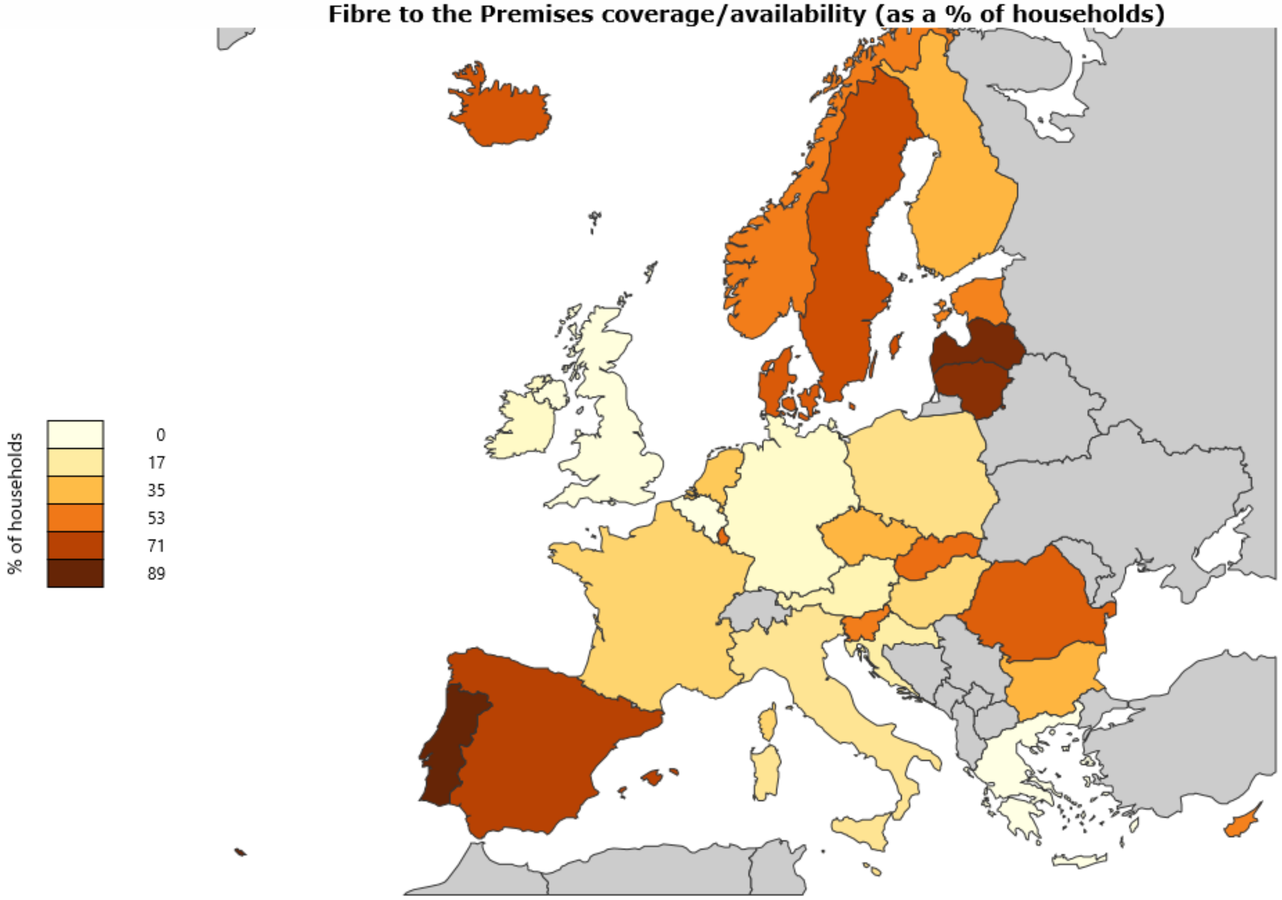
Amman, 19 June 2019

AGENDA

CNMC
COMISIÓN NACIONAL DE LOS MERCADOS Y LA COMPETENCIA

1. THE EVOLUTION OF THE BB MARKET IN SPAIN
2. CURRENT MARKET DYNAMICS
3. 2009 AND 2016 *EX ANTE* WHOLESALE REGULATIONS
4. PUBLIC FUNDING SCHEMES – PEBA NGA
5. CONCLUSIONS

THE EVOLUTION OF THE BB MARKET IN SPAIN



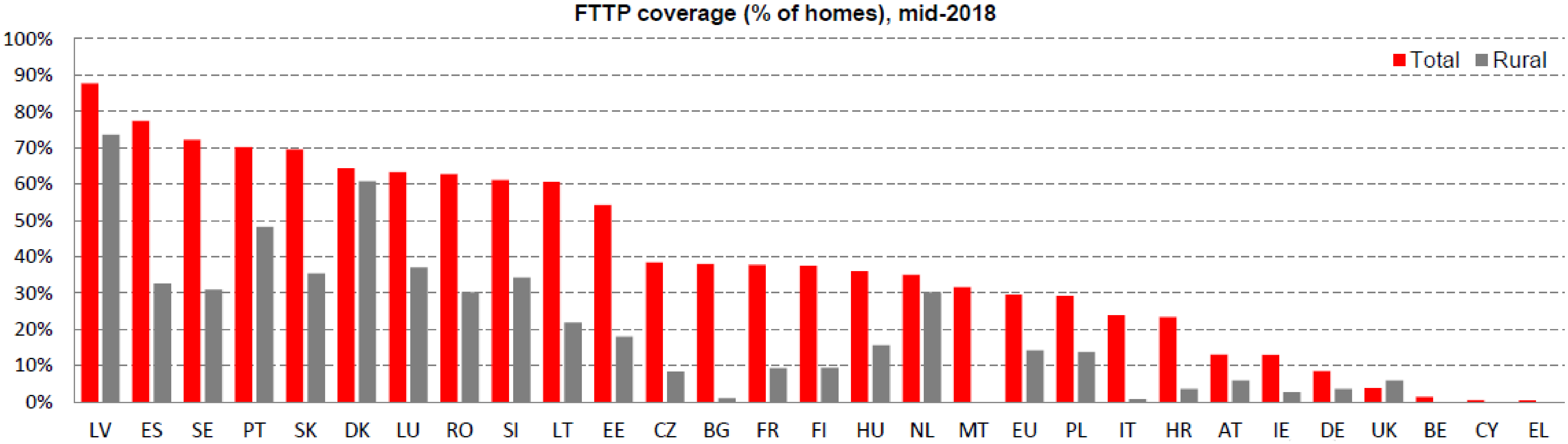
SOURCE: European Commission, 2017

"Spain now has the most extensive fibre-to-home network in Europe."
The Economist, 2 de abril de 2016

"Only around half a million of the UK's homes and offices currently get ultrafast, full-fibre broadband to their door. That represents around 2% of premises, compared to more than 70% in Spain, Portugal, Korea and Japan."

Speech by Sharon White (Ofcom CEO) to the Parliamentary Internet, Communications and Technology Forum, 10 July 2017

THE EVOLUTION OF THE BB MARKET IN SPAIN



Source: IHS and Point Topic

THE EVOLUTION OF THE BB MARKET IN SPAIN

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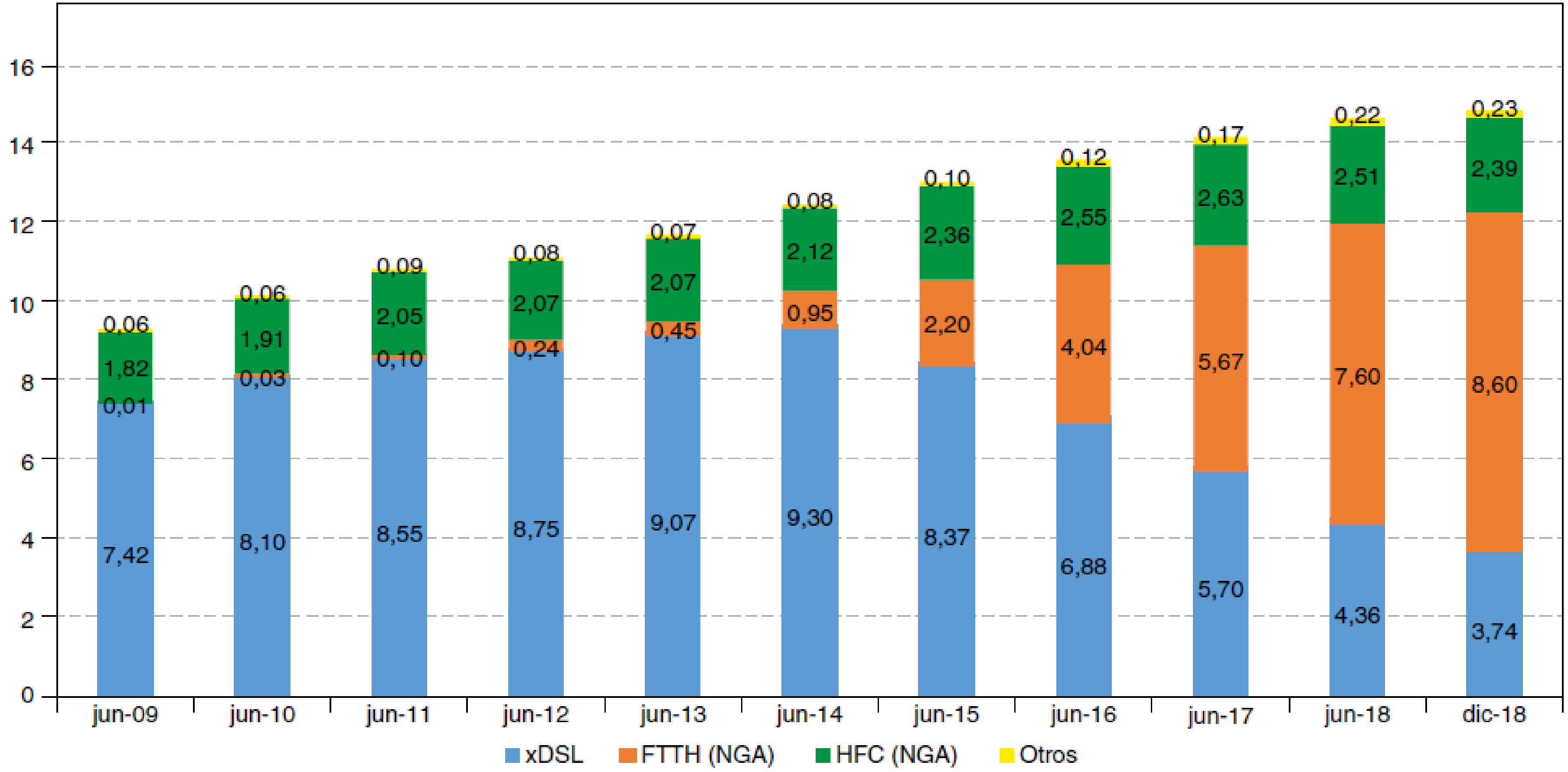
Active BB lines per technology (mill.)



SOURCE: CNMC

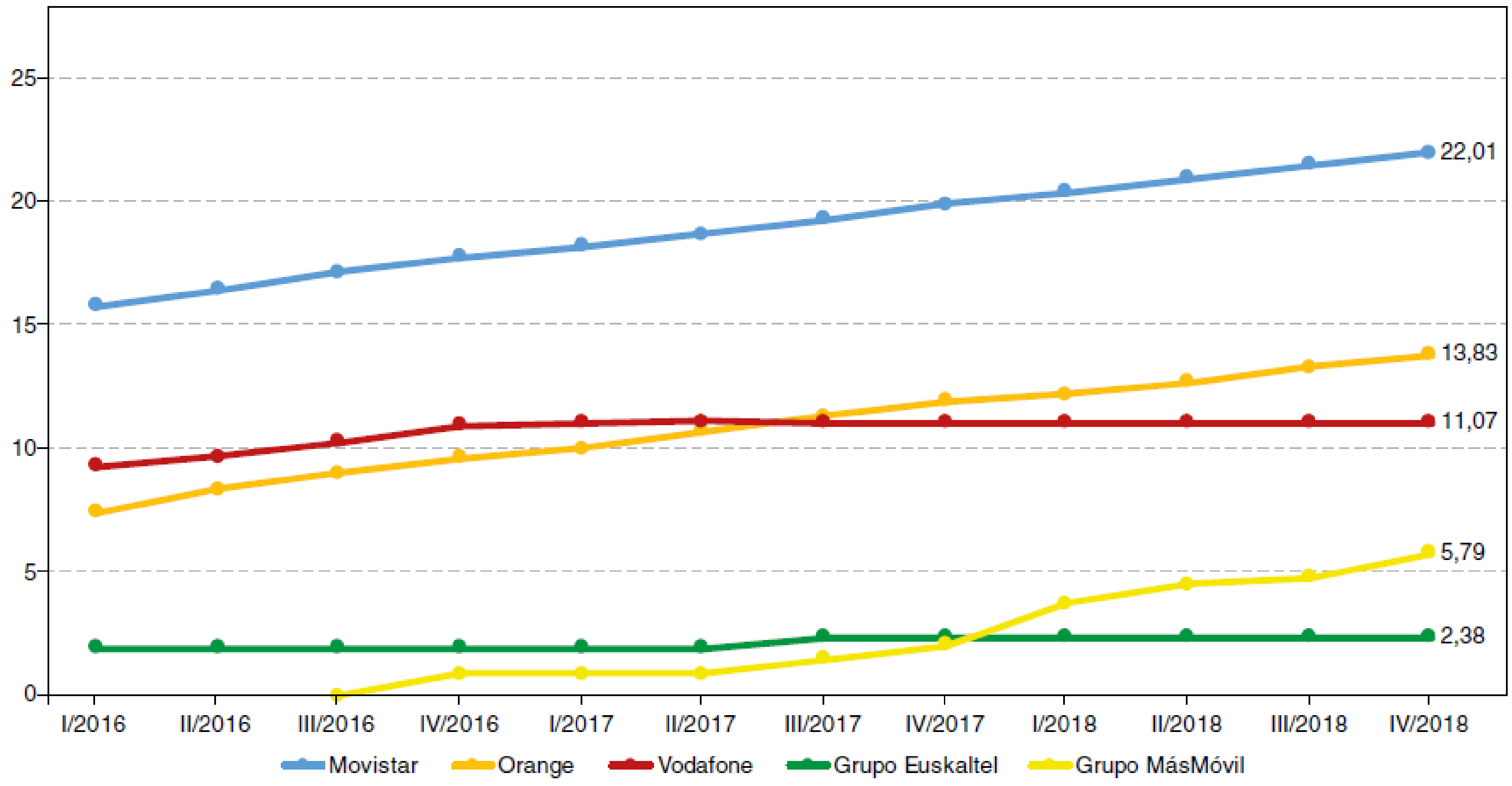
- Up-take of NGA lines: from **1.8 in 2009 to 11 in 2018** (x>5 in 10 years)
- Mostly based in FTTH (80% of NGA lines).
- NGA lines % over total BB lines from 20% in 2009 to 75 % in 2017. Copper lines < 25%

THE EVOLUTION OF THE BB MARKET IN SPAIN

- BB LAUNCHED IN 1999; QUICK ADOPTION OF BUNDLES
- TELEFONICA LAUNCHED ITS FIRST 4P CONVERGENT PRODUCTS (2012)
- FIRST MAJOR NGA OPERATORS WERE CABLE OPERATORS (ONO)
- TELEFONICA DECIDED TO OVERHAUL ITS NETWORK TO FTTH
- CO-INVESTMENT AGREEMENTS
- MERGERS OF MOBILE OPERATORS WITH FTTH PROPRIETARY OPERATORS (2014-2015)
- APARISON OF MAVERICK (MásMóvil)
- ACQUISITION OF DTS BY TELEFONICA (2015)

THE EVOLUTION OF THE BB MARKET IN SPAIN

GRÁFICO 2
DESPLIEGUES NGA POR OPERADOR
(Millones de UU II)



Fuente: CNMC.

THE EVOLUTION OF THE BB MARKET IN SPAIN

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JUNE 2018	TELEFÓNICA	VODAFONE	ORANGE	MÁSMÓVIL	EUSKATEL
TECHNOLOGY	FTTH	HFC/FTTH	FTTH	FTTH	HFC
MAXIMUM RETAIL SPEED	600 Mb/s	1 Gb on its network 600 Mb/s rest	1 Gb on its network 600 Mb/s rest	300 Mb/s	500 Mb/s (Telecable) 350 Mb/s (EKT/R)
SYMMETRIC SPEED	Yes	Yes	Yes	Yes	No
NGA COVERAGE (In million building units)					
- Proprietary Network	20,2	10,3	12,7	4,5	2,2
- Telefónica Wholesale		10,6	Min 7,5		
- Orange Wholesale				8,4	
TOTAL ACCESSIBLE B.U.	20,2	20,9	Min 20,2	12,9	2,2
APROX. NGA COVERAGE (%)	77%	80%	Min 77%	49%	70%

- HIGH TOTAL COVERAGE OF MAIN OPERATORS
- EXPECTED PROPRIETARY NETWORK COVERAGE BY **2020**:
  - Telefónica: 25 M building units→ **FTTH COVERAGE > 95%**
  - Orange 16 M building units

SUB-NATIONAL GEOGRAPHICAL SCOPE.

CURRENT MARKET DYNAMICS

- **IMPORTANCE OF CONVERGENT PRODUCTS**; IMPORTANCE OF PREMIUM TV PRODUCTS
- FIRST BRANDS OF MAJOR OPERATORS COMPETE ON A “**MORE-FOR-MORE**” STRATEGY
- AGRESSIVE PROMOTIONAL AND MARKETING EFFORTS
- LOW-FARES SEGMENT LED BY **MAVERICK MÁSMÓVIL** AND APPEAREANCE OF SECOND BRANDS OF MAJOR OPERATORS

CURRENT MARKET DYNAMICS

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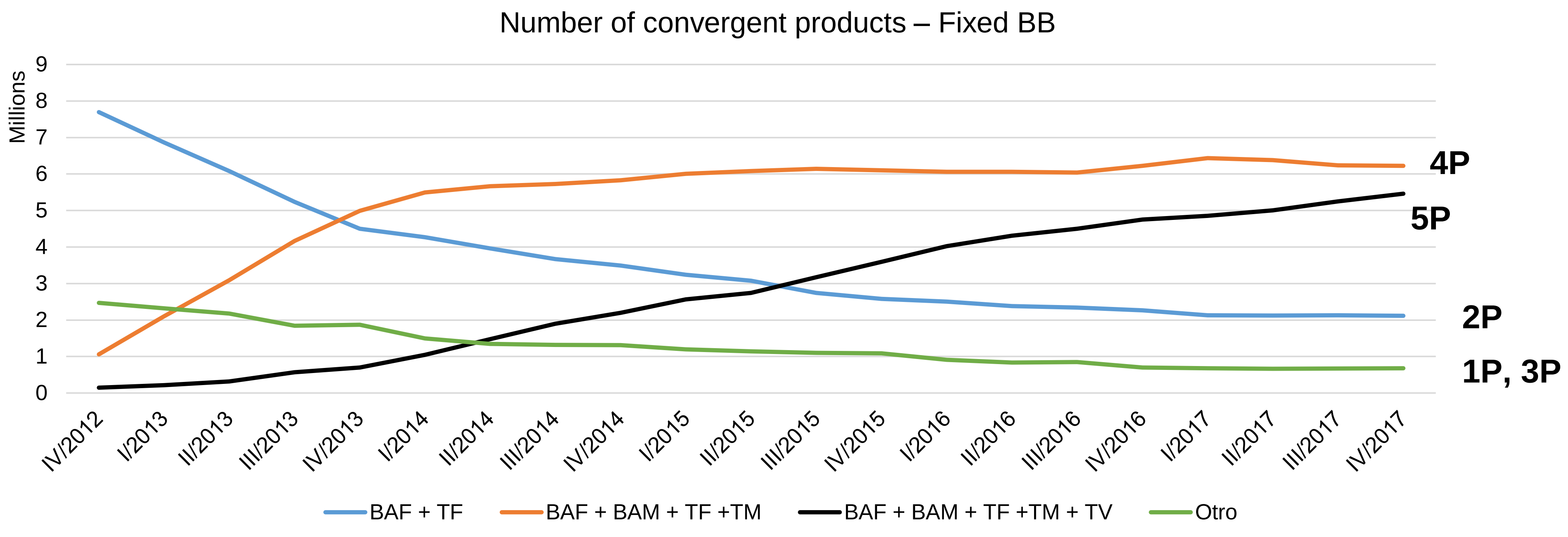


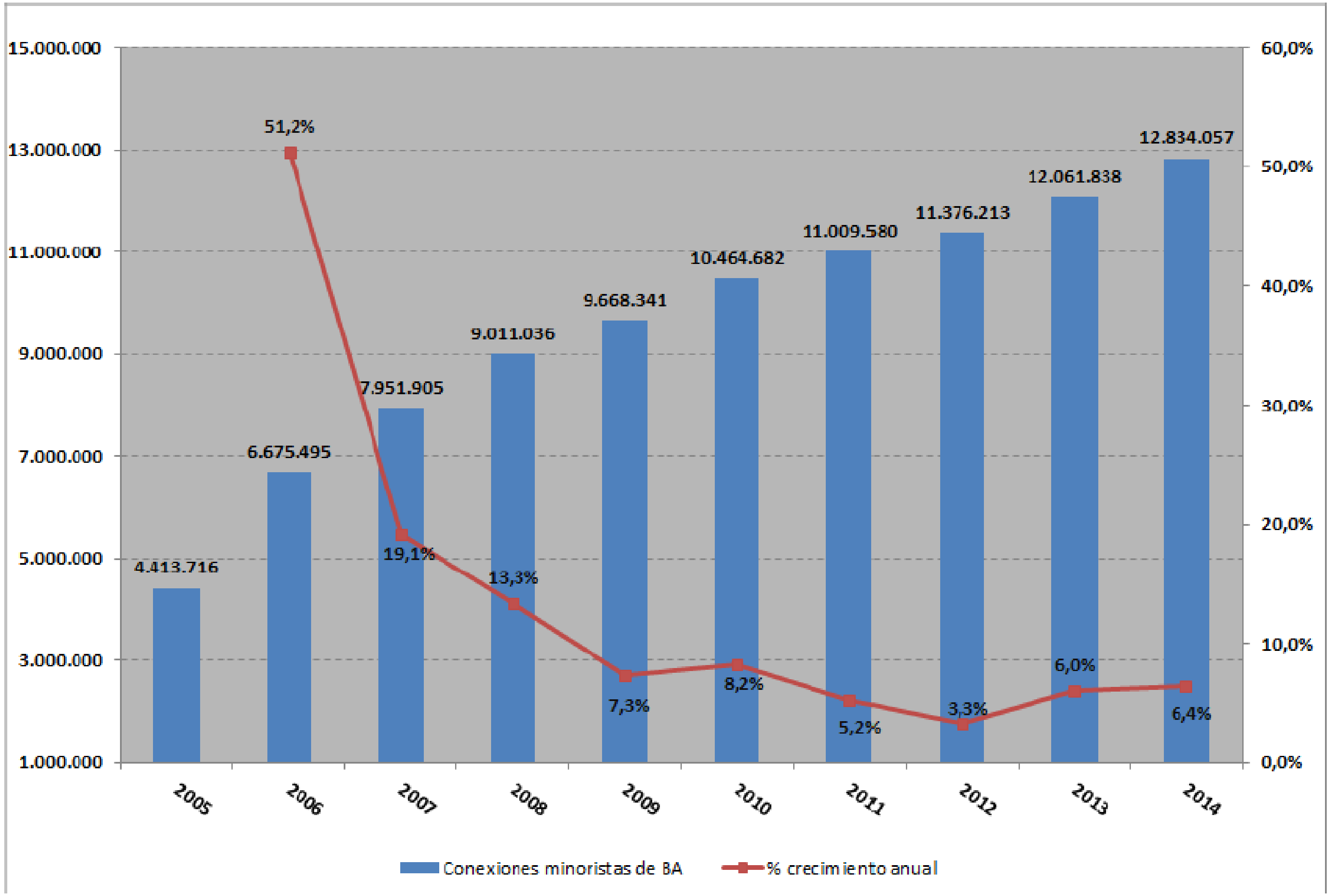
- OVER 80% OF BB CONNECTIONS ARE BUNDLED WITH AT LEAST ONE MOBILE LINE
- 5P CONVERGENT RETAIL PRODUCTS >35% TOTAL BB LINES

2009 *EX ANTE* REGULATION

- MEASURES TO PROMOTE THE ROLL-OUT OF FTTH
  - ACCESS TO PASSIVE INFRASTRUCTURE
  - CAP OF 30 Mbps FOR TELEFONICA'S WHOLESALE ACCESS PRODUCTS
  - SYMMETRIC OBLIGATIONS FOR IN-BUILDING OPTICAL WIRING
  - ANCILLARY OBLIGATIONS; e.g. PROCEDURE FOR DECOMMISSIONING OF MDFs

2016 *EX ANTE* REGULATION

Gráfico 8. Evolución del número de accesos de banda ancha[66]



- TWO COMPLEMENTARY GOALS
  - PROMOTE EFFICIENT NETWORK INVESTMENT
  - SPUR SUSTAINABLE COMPETITION

2016 *EX ANTE* REGULATION

- 2009 MEASURES REMAINING IN PLACE
  - ACCESS TO THE INCUMBENT's PASSIVE INFRASTRUCTURE
  - ACCESS TO THE INCUMBENT's COPPER NETWORK
  - SYMMETRIC OBLIGATIONS STILL IN PLACE

- NEW **GEOGRAPHICAL SEGMENTATION APPROACH**
  - ZONE 1 → LOCAL EXCHANGES WHERE AT LEAST TWO ALTERNATIVE OPERATORS WITH AN INDIVIDUAL MS IN THE RETAIL MARKET OF 10% EXIST AND WHERE TELEFONICA's MS IS <50%
  - ZONE 2 → REST OF TELEFONICA's LOCAL EXCHANGES

- SEPARATED ANALYSIS FOR RESIDENTIAL AND BUSINESS MARKETS

2016 *EX ANTE* REGULATION – MARKET 3a

- INTENSIVE COMPETITION IN INFRASTRUCTURE AREA – **BAU** MUNICIPALITIES (66, 35% OF TOTAL SPANISH POPULATION) → ENCOMPASSING LOCAL EXCHANGES:
  - IN ZONE 1 (COMPETITIVE AS TO THE RETAIL MARKET)
  - AT LEAST THREE OPERATORS WITH 20% OF NGA ACCESS

- **ALL EXCHANGES IN BAU AREA**
  - ACCESS TO PASSIVE INFRASTRUCTURE
  - WHOLESALE ACCESS FOR THE COPPER NETWORK

- **REST** OF LOCAL EXCHANGES, ADDITIONALLY:
  - VULA-LIKE SERVICE OVER THE INCUMBENT's FIBER NETWORK (**NEBA LOCAL**).
  - TEMPORARY (INDIRECT ACCESS) VULA OFFER WITHOUT SPEED LIMITATION

2016 *EX ANTE* REGULATION – MARKET 3b

- THE GEOGRAPHICAL SEGMENTATION LED TO THE DIFFERENTIATION OF TWO SUB-MARKETS; 3B_1 AND 3B_2
  - **MARKET 3B_1** IS LINKED TO EXCHANGES IN ZONE 1, WITH EXCEPTIONS (WHEN COMPETITION IS BASED IN INDIRECT WHOLESALE ACCESS).
  - **MARKET 3B_2** ENCOMPASSES NON-COMPETITIVE LOCAL EXCHANGES

- IN **MARKET 3B_1 NO OBLIGATION** IS SET UPON THE INCUMBENT

- IN **MARKET 3B_2** TELEFÓNICA HAS THE OBLIGATION TO PROVIDE ACCESS TO ITS FIBER NETWORK WITHOUT BANDWIDTH CAP (**NEBA FIBRA**).

2016 *EX ANTE* REGULATION – MARKET 4

- DIFFERENT NATURE OF CLIENTS
  - GEOGRAPHICAL DECENTRALISATION OF MAJOR CLIENTS
  - NEED FOR SPECIALISED SERVICE
  - NEED OF NATION-WIDE NETWORK COVERAGE

- TELFONICA IS ALSO THE MAJOR PROVIDER OF LEASED LINES

- AS PROVIDER WITH SMP, TELEFONICA IS OBLIGED TO PROVIDE VULA-LIKE WHOLESALE ACCESS FOR THE BUSINESS MARKET (**NEBA EMPRESARIAL**)

2016 *EX ANTE* REGULATION – PRICE REGULATION

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- ERT USED FOR **NGA** REGULATED WHOLESALE PRODUCTS
  - TELEFONICA SETS PRICES
  - CNMC CONTROLS IF AN HYPOTHETICAL **AS-EFFICIENT COMPETITOR COULD REPLICATE TELEFONICA'S RETAIL PODUCTS**.
  - BASED ON TELEFONICA's REAL DATA FOR PRODUCTS ACCOUNTING FOR ITS 80% CLIENT BASE.

- IF TEST IS NOT PASSED, CNMC WOULD:
  - PUT TELEFONICA's RETAIL PRODUCT ON HOLD
  - PERFORM PUBLIC CONSULTATION
  - ADAPT PARAMETERS OR URGE TELEFONICA TO MODIFY REFERENCE OFFER
  - ADOPT PENALTIES IF NEEDED

- **BU-LRIC+ FOR THE REST** OF REGULATED WHOLESALE PRODUCTS

PUBLIC FUNDING SCHEMES

- **PROGRAMA DE EXTENSIÓN DE LA BANDA ANCHA DE NUEVA GENERACIÓN - PEBA-NGA**
  - SEAD – CENTRAL GOVERNMENT INSTRUMENT
  - FOSTER ROLL-OUT OF BB NETWORKS IN “WHITE ZONES” → NO CURRENT NOR PROSPECTIVE COVERAGE (3 YEARS)
  - YEARLY CALLS (>30 Mbps from 2013 onwards, >100 Mbps 2016 from onwards).
  - € 350 M IN PUBLIC FUNDING FOR THE PERIOD 2013-2018
  - TOTAL MOVILIZED INVESTMENT OF € 700 M

THE 2019 CALL (APRIL 2019)

  - 95% OF THE POPULATION IN EACH PROVINCE IN SPAIN WITH A CONNECTION OF >100 Mbps BY 2021
  - BUDGET OF € 450 M FOR THE 2019-2021 PERIOD.

- REGIONAL GOVERNMENTS COMPLEMENTARY FUNDING SCHEMES, FEDER FUNDING

CONCLUSSIONS

- EECC REMINISCES SPANISH WHOLESALE REGULATION
  - **PRIORITY ON THE ACCESS TO PASSIVE INFRASTRUCTURE** (DUCTS, CONDUITS, POSTS) UPON THE OPERATOR WITH SPM → **IN PLACE IN SPAIN SINCE 2008**
  - **SYMMETRIC OBLIGATIONS** (IN-BUILDING SHARE OF THE OPTICAL WIRING) → **IN PLACE IN SPAIN SINCE 2009**
  - NRAS SHALL PERFORM THEIR MARKET ANALYSIS WITH A MORE DETAILED **GEOGRAPHICAL SEGMENTATION** TO GAUGE DE-REGULARISATION OF COMPETITIVE ZONES → **IN PLACE IN SPAIN SINCE 2016**

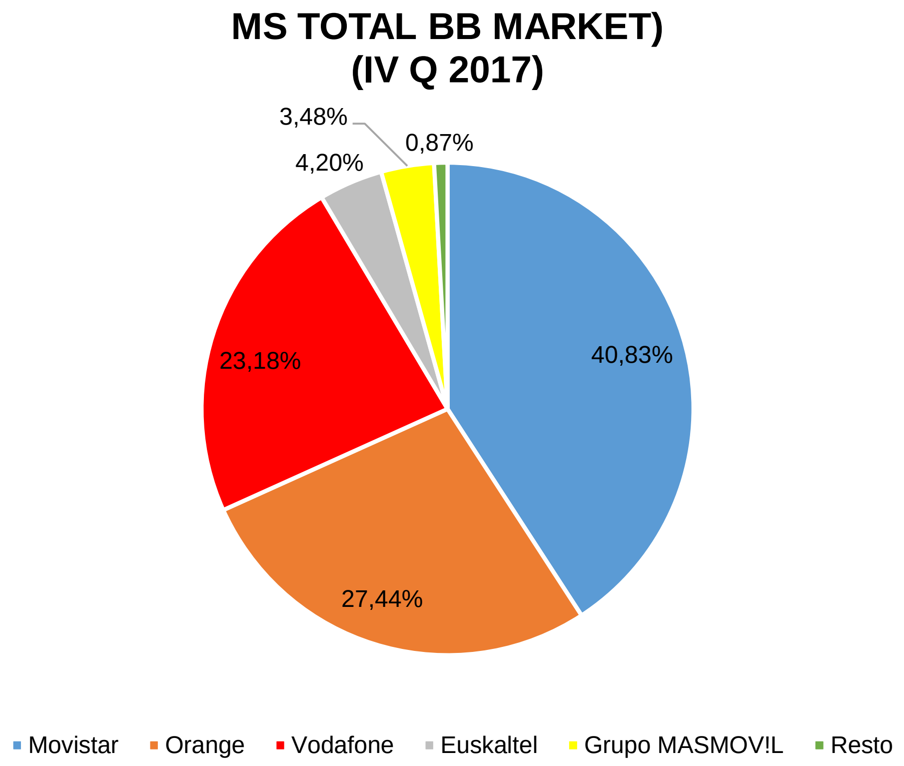
- **SPAIN** IS WELL POSITIONED TO ACHIEVE EC's GIGABIT SOCIETY GOALS

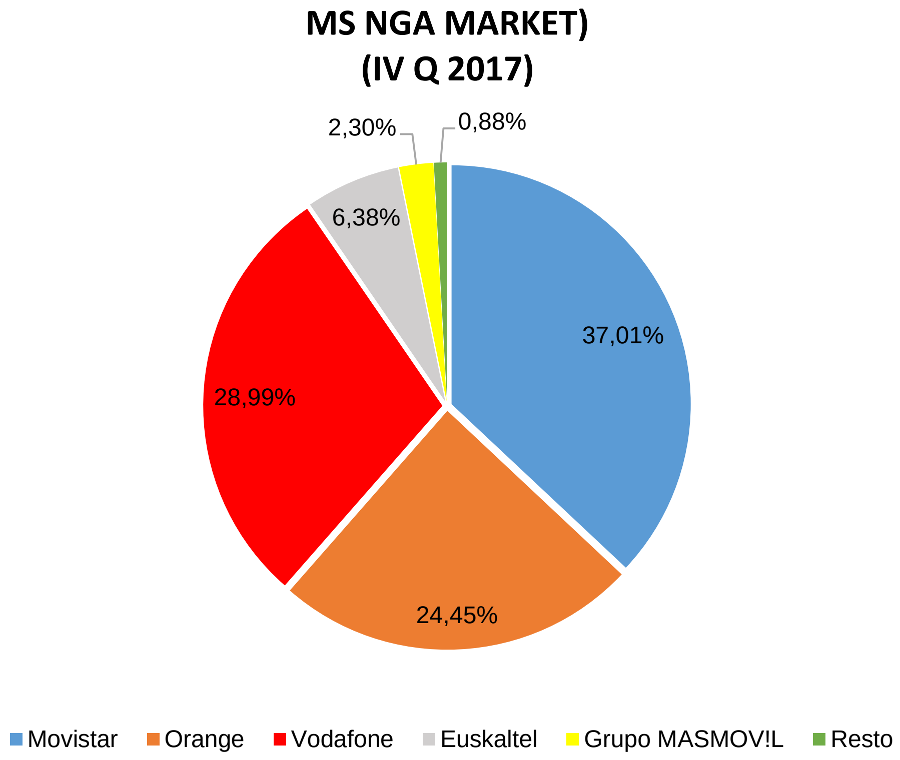
- REGULATION GOALS ARE STILL OBSERVING IMPROVEMENTS

CONCLUSIONS

- TELEFONICA MS IN NGA MARKET < MS IN TOTAL BB MARKET

- INTENSE COMPETITION IN THE NGA SEGMENT (HFC, FTTH)





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¡Muchas gracias!

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