Local Loop Unbundling, Hearing on 8 July 2002

Is lack of infrastructure competition caused by price distortions?

Presentation by Telia

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Why has infrastructure investments come to a stop?

- Is lack of infrastructure competition caused by price squeeze and predatory pricing or is it the other way around?
- Are ULL products the solution to effective competition in the access network or just a step?
- Is regulation stimulating investments in new infrastructure?

ULL success or failure - and why

- Incumbents obstruct the process - apply too high prices and offer unfavourable conditions

or

- Large up front investments vs. risk in return
- Price control destroys the market - lack of a market based pricing mechanism on retail services

Business case for ULL by OLO

Case	Characteristics
OLO to take over existing telephony subscription fee from incumbent	Low return Mature market No growth opportunity
OLO to exploit new application via	
• ADSL	*New growth opportunity*
• integrated data and telephony service for SME segment	*Inexpensive leased line replacement*

ULL outcome up to now - Swedish market

- ULL is primarily of interest for new applications and growth markets
- 2 years ago the copper network was deemed to be worthless for broadband applications
- Interest has regained primarily due to failure of investments in fiber and/or cable solutions -
  - overoptimistic projections for growth and rate of return on new infrastructure investments
- Good uptake of LLUB for leased line replacement since start and shared access since beginning of 2002, however, the latter outnumbered by broadband wholesale offer that Skanova voluntarily put on the market

Effective pricing and margins on infrastructure

Preserve
todays technology

Technology neutral - stimulate new entrants and investments in new infrastructure

Service Provider

Operation& Maintenance

Cost of capital based on historical cost - historic depreciation and book value set the level for return

Retail

Wholesale

Service Provider

Operation& Maintenance

Capital cost based on replacement cost for all assets

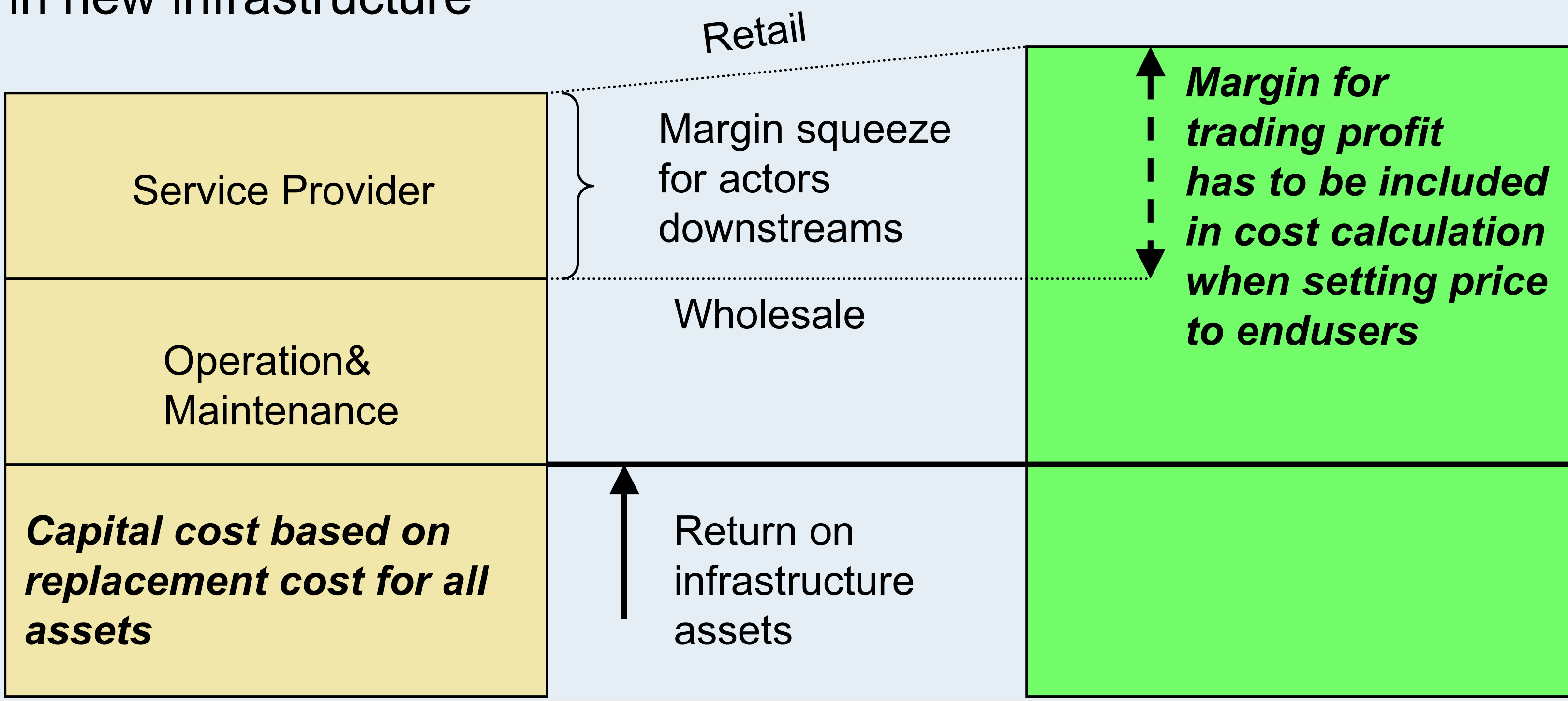
Margins for actors downstreams

Return

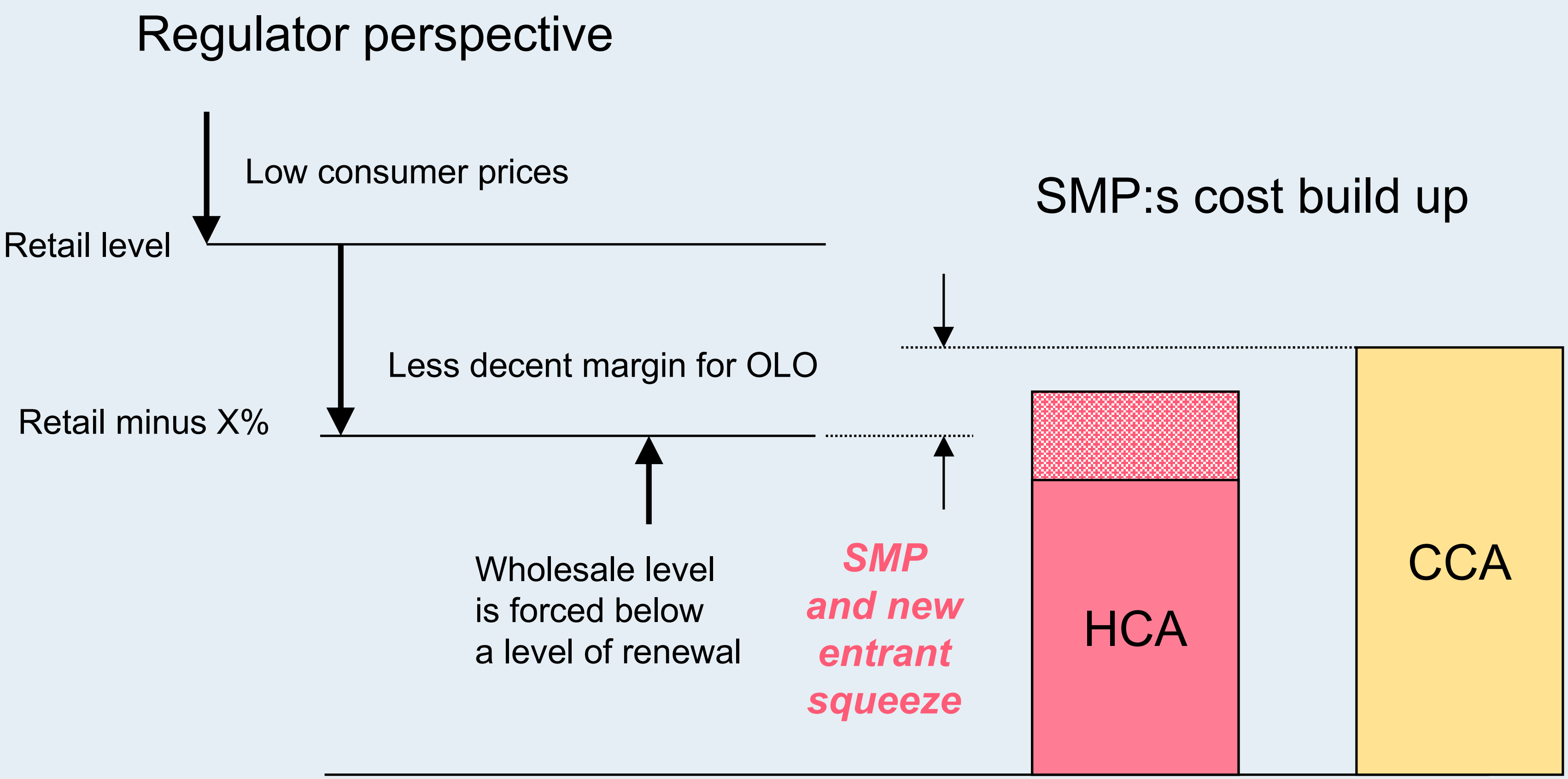
Effective pricing and margins for downstream activities

Technology neutral - stimulate new entrants and investments in new infrastructure

Stimulate growth of downstream netless actors



Old regulation practices



Consequences of price control on retail - summary

- A too low retail price leads to low return, less interest from all market players and a risk that investments are directed elsewhere
- New facility based competition will fail and only virtual operators with grab and run objectives will appear - to the benefit of customers but only in a short sighted perspective
- A preservation of existing infrastructure - all players to focus on the incumbents infrastructure and the cost to interconnect, collocate and the like. A successive downgrade of the infrastructure is at risk.
- Pressure on unrealistically low wholesale pricing to avoid margin squeeze

Proposal to remedy existing lock in

- Avoid price control on retail - a market based price setting mechanism is required to attract new investments
- Stay technology neutral - to stimulate investments in new alternative infrastructure
- Apply FL LRIC on wholesale - and in a harmonised way