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NextGenTel comments - Margin squeeze model

1 Introduction

NextGenTel AS (NextGenTel) refers to letter "Varsel om vedtak om oppfølging av kravet til ikke-diskriminering i marked 4 og 5 ved bruk av marginskvistest for fiberbasert LLUB og Bredbåndsaksess" (Draft decision) dated May 8, 2015. Telenor is requested to provide comments to the Draft decision within June 1, 2015.

NextGenTel will use the opportunity to give comments to the Draft decision. NextGenTel assumes we will be given the opportunity to give comments to Telenor's reply at a later stage.

2 General comments

The WIK study describes the principles to be applied in the margin squeeze test (MST). The present version of the study is updated after the original hearing by, inter alia, including an appendix where the input from the hearing is summarized accompanied by WIK's comments.

NextGenTel register that the inputs from the hearing have had minimal effect on the outcome, and finds it positive that Telenor's requests are not accommodated. Still, NextGenTel would have appreciated if the inputs from Telenor's wholesale customers were discussed in more detail and that there had been put more efforts in clarifying unclear issues instead of delaying this clarification to the actual implementation.

The MST is implemented as an MS Excel spreadsheet that is complex. The user manual contains few details and provides poor guidance. For NextGenTel it would be an advantage if NextGenTel could use the spreadsheet to test the presence of margin squeeze using publicly available information, own costs and assumption. It is unclear for NextGenTel whether this will be possible

3 Customers lifetime

According to Principle 6 in the WIK report the timeframe will be based on average customer lifetime for fibre-based retail services. However, in the case of no empirical evidence, average lifetime for copper based services will be used as a benchmark.

NextGenTel would like to point out that copper-based services should be applied as benchmark as long as there lacks sufficient empirical evidence to make reliable estimates on fibre-based services subject to a workable competitive environment. It will take some time before equilibrium customer lifetimes establishes. Customers may be hesitant to switch to operators still on the learning curve, which creates artificial long average lifetimes to the benefit of the incumbents.

Furthermore, NextGenTel would like to point out that until an established regulatory framework is in place, Telenor may use win-back clauses and other strategies to prevent customers from switching suppliers. This will also create a bias towards too long customer lifetimes to the benefit of Telenor.

Hence, NextGenTel cannot see that it will be possible to use customer lifetimes for fibre-based in the foreseeable future.

4 Economic Lifetime

NextGenTel finds that the timeframe for allocating costs to be used in the MST to be too vague to provide adequate guidance as to determine whether a margin squeeze is present. Generally, we don't see what will constitute the basis for determining the adequate lifetime. Specifically NextGenTel would like to point out that customer equipment may depreciate at a higher rate than assumed in the test.

5 IPTV

NextGenTel finds that the handling of IPTV remains unclear and several questions remain unsolved. The discussion seems to assume "hardbundling" of IPTV, and does not take into account that some suppliers, such as NextGenTel, provide customers with more freedom in combining various broadband services.

On a more technical level NextGenTel, has not found any places to adequately put IPTV-related costs in the model. In this context, NextGenTel would like to add that Canal Digital as a large supplier has a lower acquisition cost of content. To promote competition among equally efficient competitors, Telenor's purchasing power in the acquisition of content should be taken into account in the MST.

6 ODT

NextGenTel register that Nkom has used the 18 counties in the "Calculation ODP" in the spreadsheet. NextGenTel cannot understand this choice. To the extent Telenor has a larger amount of ODP's this should be reflected in the model.

Yours sincerely,
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