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## Telecommunications Services

### 2005 Canadian Telecom Summit Conference Highlights

#### Event

Highlights from the 2005 Canadian Telecom Summit Conference in Toronto.

#### Investment Opinion

- **Regulation – The CRTC’s VoIP Decision in Hindsight.** BCE and TELUS proclaimed the CRTC Decision to regulate VoIP is fundamentally wrong, as it fails to grasp the shift in competitive dynamics and the revolutionary potential of VoIP. In defense, CRTC Chairman Dalfen agreed that VoIP may be the beginning of a major paradigm shift, but noted timing and magnitude of the impact remain uncertain and forbearance should not be prematurely granted.
- **Local Forbearance Application, Appeals, and Policy Review.** BCE and TELUS have appealed the VoIP Decision to the federal cabinet. In the meantime, the telcos will be focused on Aliant’s local forbearance application and the Federal Policy Review.
- **Too Much Emphasis Being Placed on Federal Policy Review?** We believe the Review will have an important impact on government priorities; however, we are concerned that carriers are placing too much emphasis on the Review as a cure-all for the industry. The Review panel will issue a report outlining its mandate on June 6, 2005.
- **Residential VoIP Experiences.** Early VoIP service providers shared pricing experiences and indicated that VoIP faces a flat price elasticity curve, and that lower prices do not always translate into higher market share gains as customers value quality and features above cost. Key challenges for VoIP operators are: (1) tech support, (2) customer abuse, and (3) voicemail SPAM/SPIT.
- **Focus on Bundles.** Broadband Internet and video are the key churn-reducing services in a bundle, though converged wireline-wireless will become the anchor in the future. Bell Canada noted the importance of enhancing consumer bundles beyond simply price discounting. We anticipate Bell Canada will announce its next generation of bundles in the coming days.
- **Wireline-Wireless Convergence The Next Paradigm Shift.** Rogers is conducting technical trials of its “Roam-to-Home” converged service, which incorporates WiFi/WiMax technology to hand off mobility traffic to a residential WLAN connection. Service and functionality should be ready in 12-18 months.

## Details

Over the past three days we attended the 2005 Canadian Telecom Summit conference held in Toronto. Presentations were made by senior representatives from government departments (the CRTC, Industry Canada) and each of Canada's major telecom service providers. Highlights from the conference include:

- **ICT Spending – Canada Falling Behind U.S. and Global Economies?** CEO Michael Sabia highlighted a growing divide between productivity levels in Canada and the U.S. and called for improved innovation and information and communications technology (ICT) spending to bridge the gap. The gap in ICT spending between Canada and the U.S. is attributed to a historic lack of services available in Canada at reasonable prices – a function of more providers in the larger U.S. market. In asking the federal telecom policy review members to address this issue, Mr. Sabia suggested Canada should explore ways to differentiate itself on a global scale – by focusing on e-health or e-government for instance.
- **Regulation – The CRTC's VoIP Decision in Hindsight.** Regulation was a central topic at the conference, with many divided views on the CRTC's decision to regulate incumbent (ILEC) VoIP services last month (*See RBC CM Comment dated May 13, 2005 for further detail of the Decision*). BCE CEO, Michael Sabia, proclaimed in his keynote remarks that the CRTC Decision is fundamentally wrong, as it fails to grasp the shift in competitive dynamics and the revolutionary potential of VoIP. Specifically, Mr. Sabia believes the Decision (1) is focused on protecting competitors – not competition; (2) does not recognize the cablecos as very strong competitors; and (3) fails to recognize that incumbents do not have an incentive to drop prices and drive competitors from the market as barriers to entry remain low and would prevent the ILECs from subsequently raising rates. Mr. Sabia also highlighted that 19 of the 20 largest OECD countries, excluding Canada, have refrained from regulating VoIP pricing (the exception being Singapore).

TELUS CEO, Darren Entwistle, complemented BCE's position and noted that regulation has a greater impact on business financial results than all competitors combined. CEO Entwistle encouraged the Commission to be more forward looking, establish clear goals, level the competitive playing field and rely on market forces with strong enforcement rather than regulation.

CRTC Chairman Charles Dalfen defended the Decision, and noted the Commission continues to stay the course – remaining deliberate, disciplined, and consistent by avoiding the “dazzle” of VoIP. Chairman Dalfen agreed that VoIP may be the beginning of a major paradigm shift, but noted timing and magnitude of the impact remain uncertain. As a result, the Commission is hesitant to forebear from regulating VoIP until sustainable competition has proven itself.

- **Too Much Emphasis Being Placed on Federal Policy Review?** A common message through the conference was that companies and stakeholders are looking to the federal policy review as the industry's saviour. The panel, which was established by Industry Canada following the federal budget release in February 2005, will examine various telecom policy issues, including ICT spending in Canada, rural broadband deployment as well as other policy suggestions including foreign ownership. While we believe the Review will have an important impact on government priorities, we are concerned that carriers are placing too much emphasis on the Review as a cure-all for the industry. The Review panel will issue a report outlining its mandate next week (June 6, 2005).
- **Wireline-Wireless Convergence The Next Paradigm Shift.** Representatives from Rogers and several other industry observers spoke extensively of the potential for seamless wireline-wireless convergence and its impact on consumers/business over the medium term. Rogers noted that customer usage patterns are changing and that mobile calls/data are being made more frequently at a destination (in the presence of a wireline connection) versus en-route to a destination. Over 20-30% of mobile calls are made within residential areas, which were not designed with extensive mobile coverage.

Rather than building mobility coverage deeper into residential and business areas at great expense (and inconvenience for those unfortunate residents that have a cell tower built on their block), Rogers is proposing to use multiple technologies working in complement to best serve customers. For example, a mobility customer will be seamlessly handed off from the mobility network (1x, EDGE, HSDPA) to in-home wireless LANs and routed over Rogers' cable plant. To further expand high-speed data coverage, Rogers will deploy WiFi/WiMax networks through certain metro and suburban areas.

Rogers is currently conducting technical trials of its “Roam-to-Home” converged service and expects the service and functionality will be ready in 12-18 months. Challenges include: (1) establishing technology standards; (2) integrating OSS platforms; and (3) network security.

- **Residential VoIP – Achievements and Challenges in a Nascent Market.** The power of IP was a key discussion topic at the conference. Early service providers including Vonage, AOL, and Primus shared experiences and challenges faced in the nascent residential VoIP market. The companies noted that customer purchasing criteria includes: quality, price, and new feature capabilities. The companies also shared pricing experiences and indicated that VoIP faces a flat price

elasticity curve, and that lower prices do not always translate into higher market share gains as customers value quality and features above cost. As an example, the companies pointed to Shaw and Vidéotron, which have both experienced strong demand for their telephony service despite vastly different price strategies. The key challenges for VoIP operators are: (1) complex tech support, (2) customer abuse (call-forwarding/virtual call-centres), and (3) voicemail SPAM/SPIT.

- **Outlook for Consumer Pricing/Focus Remains on Bundles.** Operators continue to highlight the potential for consumer bundling to reduce churn and advance penetration of additional services. Broadband Internet and Video are currently the key churn-reducing services in a bundle, though converged wireline-wireless will become the anchor in the future. Bell Canada noted the importance of enhancing consumer bundles beyond simply offering customers a price discount. Rather, companies should focus on seamlessly offering applications and content over multiple access devices and personalize bundles for different customer groups. We anticipate Bell Canada will announce its next generation of bundles in the coming days, which will emphasize other areas of the bundle like DSL (vs. discounted long distance) and will feature greater customization over simple price discounting.
- **Business IP Migration.** Panel participants agreed that most customers don't care about networks and technology (something the industry has always tried to sell), rather customers are interested in service functionality and a clear business case for implementing IP services. The business case for migrating to IP is clear for most businesses and convincing customers to migrate is not an issue keeping telecom carriers awake at night. One of these business cases is the consolidation of IT and Telecom departments for businesses, and in the words of Karen Sheriff, President of Small & Medium Business at Bell Canada, gives business leaders "a single throat to choke." Bell Canada has set an aggressive target to migrate 1,000 of its largest clients to IP over the next several years.

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