



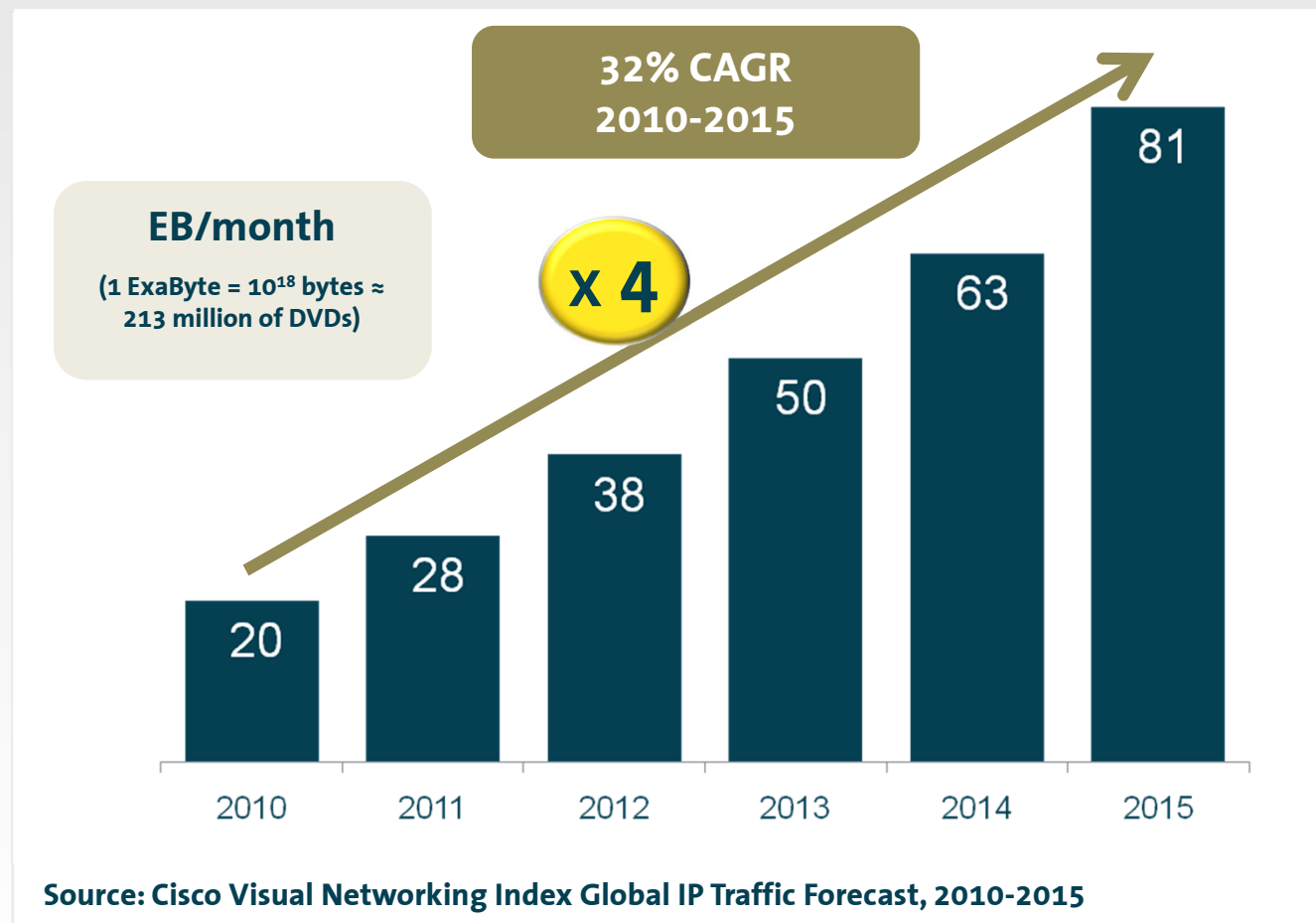
Usage-based Pricing for Broadband Service: What do Providers Anticipate for the Future of Broadband Pricing?

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Telefónica Internacional USA

Broadband Unlimited Conference
Las Vegas, January 9, 2012

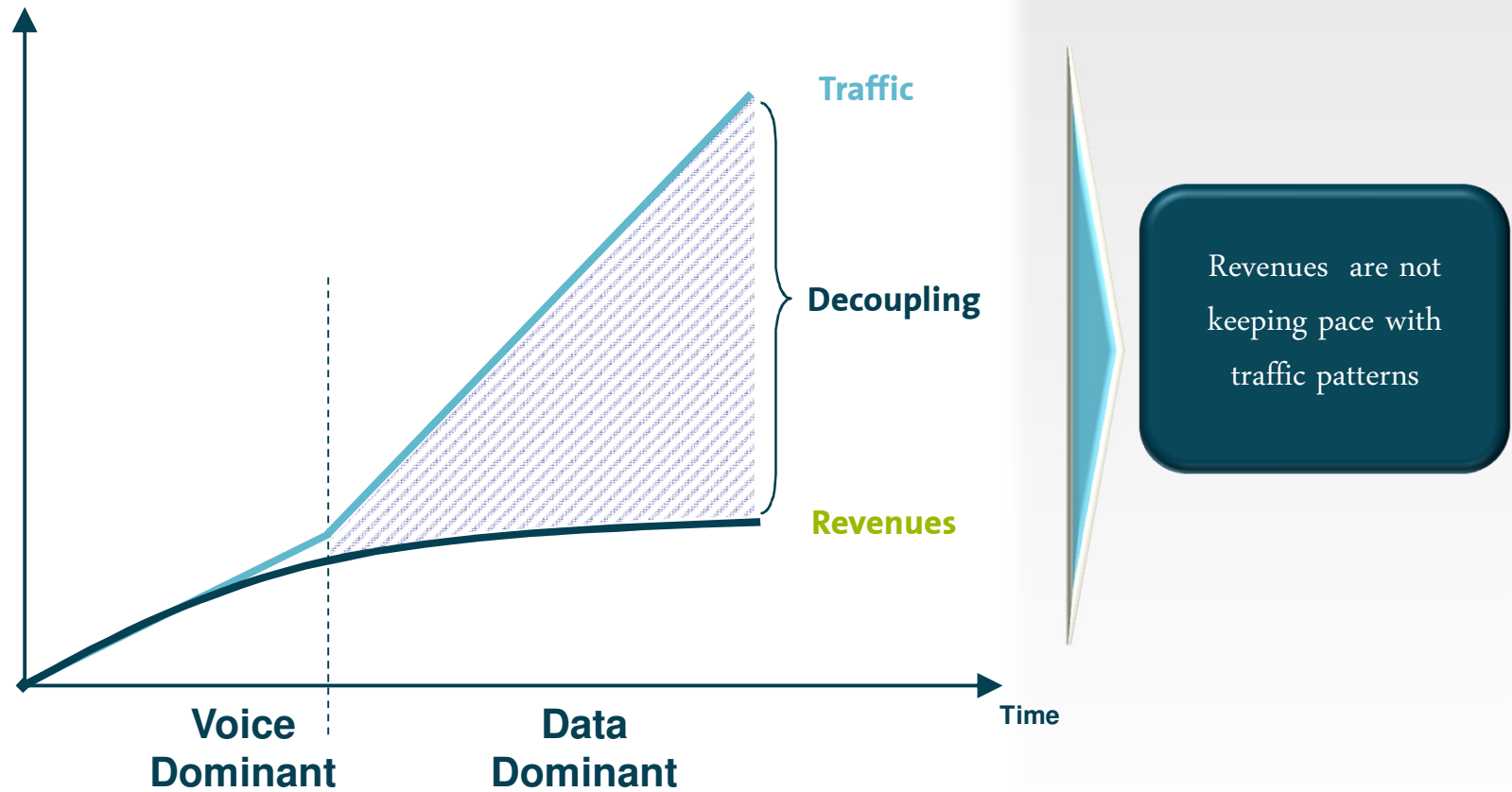
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The need for a new and sustainable Internet model starts with a real challenge: the predicted growth in Internet traffic

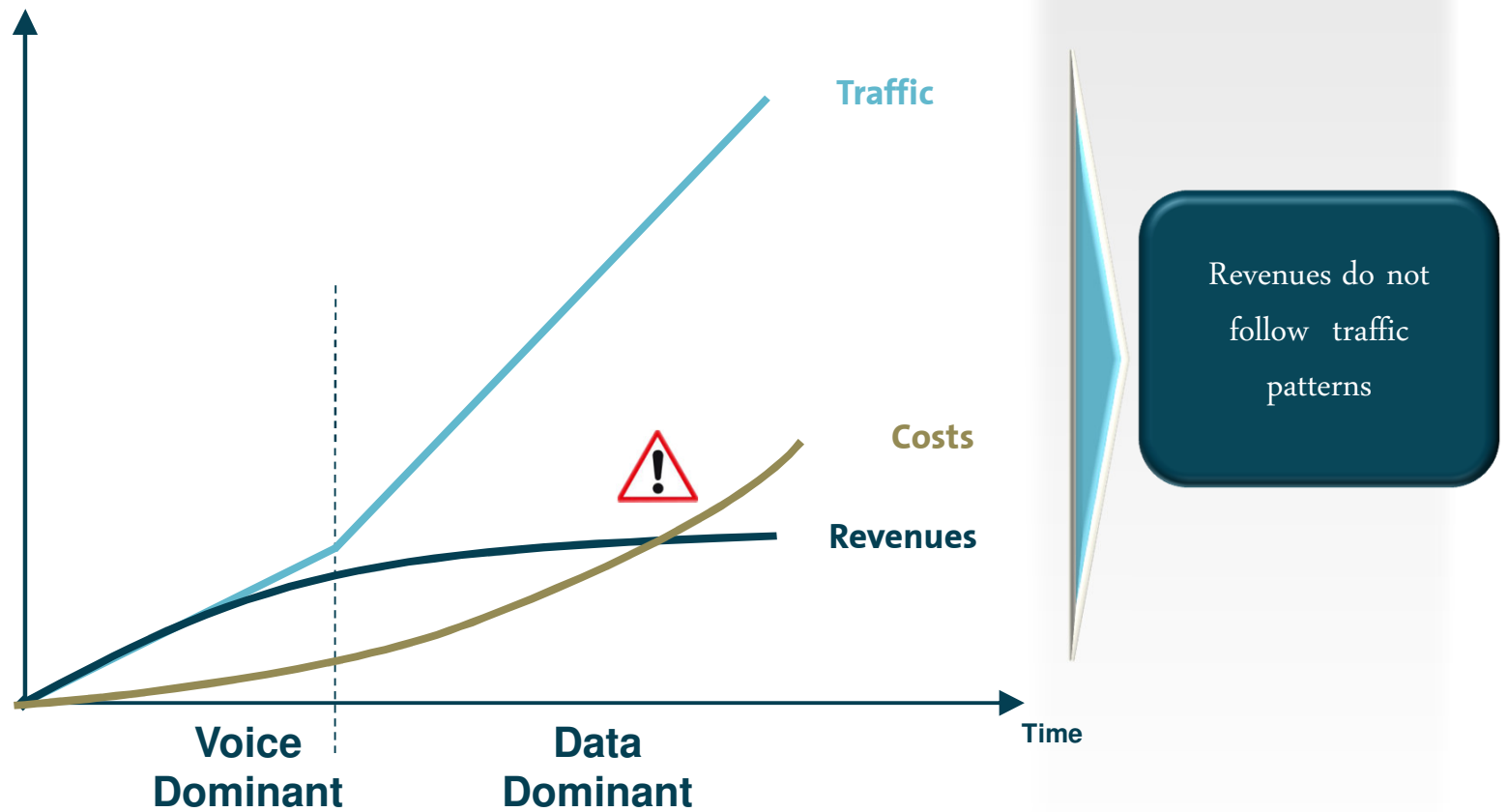


IP traffic will increase four-fold from 2010 to 2015; Internet traffic will exceed 81 Exabytes per month in 2015.

The explosion in traffic growth as well as the current Internet economic model are driving the decoupling between revenue and traffic

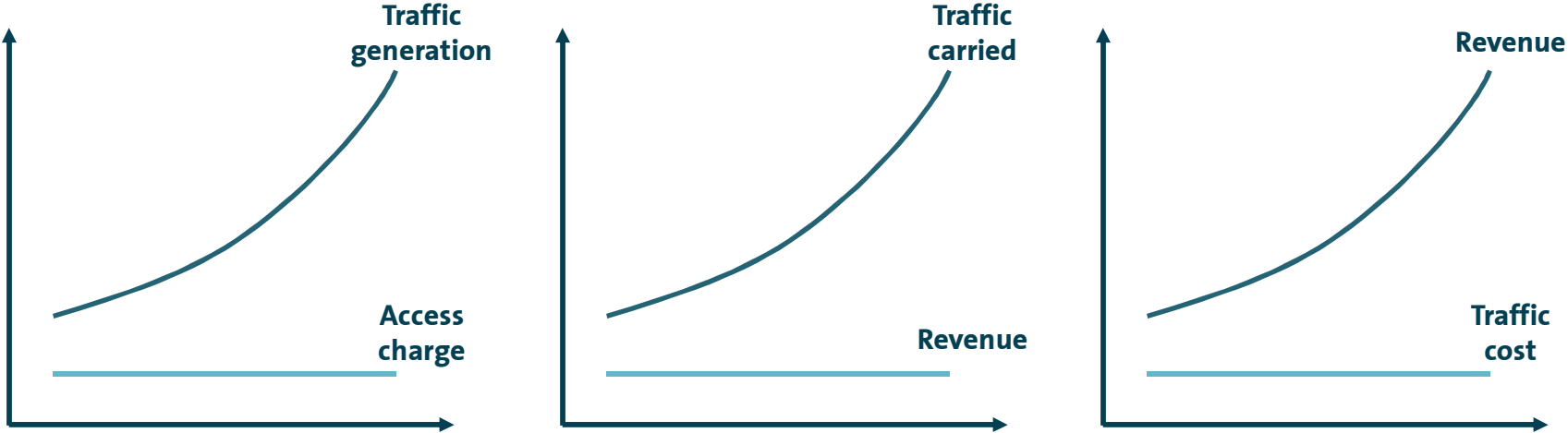


Growing costs, due to traffic explosion, and decoupling between traffic and revenues will make Internet economic model unsustainable



Our main challenge as an industry is to find again the right balance between investment and revenue generation

None of the agents involved in the Internet two-sided market has sufficient incentive to rationalize its behavior in terms of traffic generation



Crisis of current Internet model requires an alternative

Exponential traffic growth

Decoupling traffic - revenues

No sufficient **incentive** for any of the agents to rationalize traffic generation

Extensive use of **peering** in interconnection

Traffic exchange **asymmetry** in interconnection

Crisis of current Internet Model

How could costs induced by traffic growth be financed ?

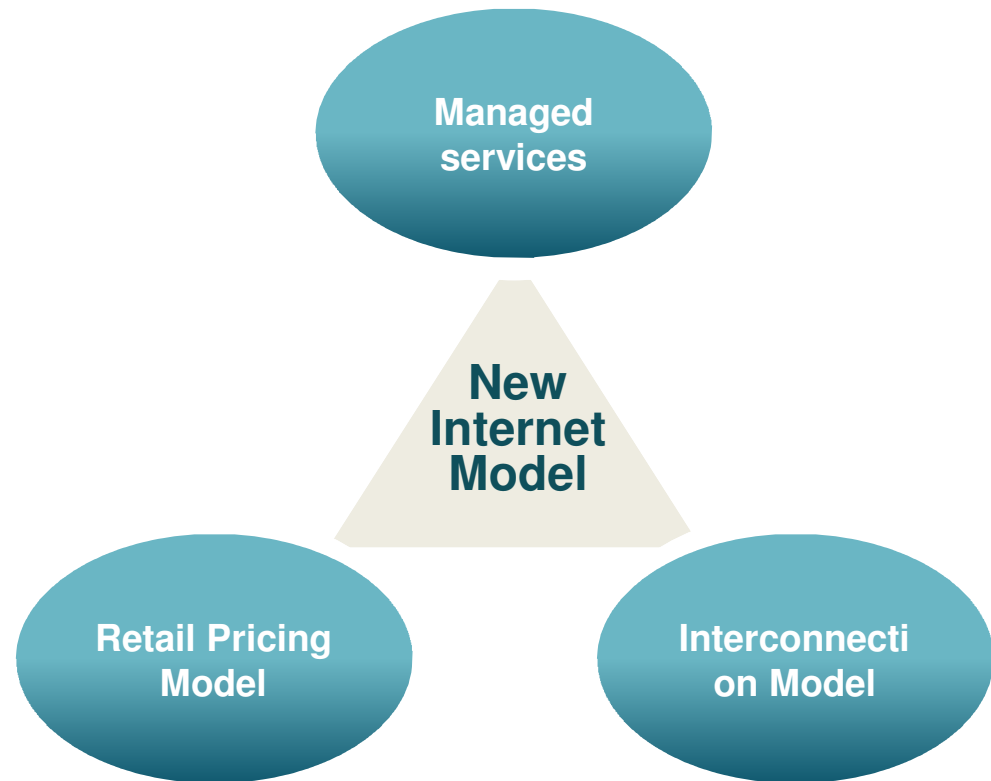
How should growth and innovation in Internet be guaranteed ?

Overcoming this crisis will require rethinking 3 elements: retail pricing, interconnection charging, and new managed services

How should the development and innovation in Internet be guaranteed ?



How could costs induced by traffic growth be financed ?



There are a few examples of bandwidth caps for fixed broadband providers in Europe...



**Call & Surf Comfort
VDSL
25 Mbps/5Mbps
100 GB capacity**

**Call & Surf Comfort
VDSL
50 Mbps/10Mbps
200 GB capacity**

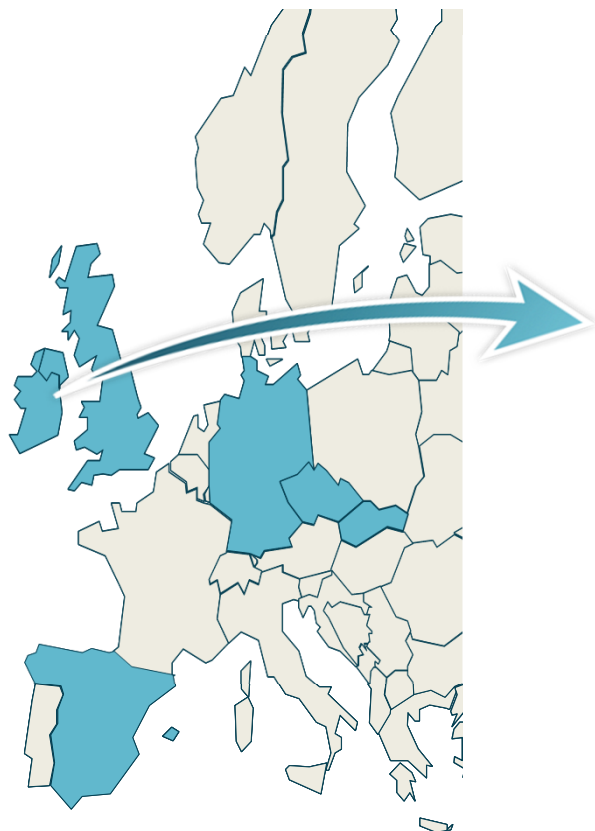
**If capacity is exceeded
speed is reduced to
6Mbps/0,5 Mbps**

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Telefónica has launched in Spain a broadband offer within the Universal Service framework at 1 Mbps download speed and 5 GB capacity. If capacity is exceeded speed is reduced to 128 kbps

... which are more frequent for mobile broadband

O2 IRELAND, FIRST COMPANY WITHIN TELEFONICA EUROPE TO INTRODUCE USAGE BASED TARIFFS



SPEED
21Mbps/5 Mbps

SPEED
7,2 Mbps/1,4 Mbps

CAPACITY
15 GB

CAPACITY
From 700 MB to
7,5GB

FUP
Euro 0,02 cents
per extra MB

FUP
Euro 0,02 cents
per extra MB

CONCLUSIONS

The Internet ecosystem could grow increasingly out of balance and irrational as revenue models struggle to support the next generation of investment

Pricing signals at the retail and wholesale level that act as an incentive for stakeholders to rationalize traffic generation should be allowed in order to correct traffic asymmetries and its impact on network costs

Regulators should refrain from limiting commercial flexibility to develop new business models to ensure the sustainability of the Internet

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