
Promoting competition and investment in fibre networks

A brief overview of our plans

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- 1.1 People and businesses need reliable communications networks more than ever before. Full-fibre networks, connected directly to homes and offices, provide faster and more reliable broadband and will enable the next generation of mobile services (5G).
- 1.2 We, alongside the Government, have ambitions to get full-fibre broadband nationwide over the coming years - in rural communities as much as towns and cities. Ofcom's goal is to encourage and enable significant, long-term investment in full-fibre broadband to give customers a choice of networks where feasible, while allowing companies who build these networks to make a fair return.

Enabling the modernisation of the UK's telecoms infrastructure

- 1.3 Our strategy for fibre investment is three-fold: promoting competitive networks as far as possible, using Openreach's ducts and poles to reduce the cost of network build, with regulated prices that support competition; enabling investment through the way we set regulated prices in more rural areas where network competition will not emerge; and supporting public intervention to deliver fibre in the hardest to reach areas.
- 1.4 There is growing momentum in full-fibre broadband investment. Current commitments by broadband companies could see up to six million premises with access to full fibre by 2020. Last year, the UK Government signalled strong support for full fibre and wants 15 million premises to be connected by 2025. Its Future Telecoms Infrastructure Review supported our approach and said that Government would be willing to invest in full fibre in remote areas where companies were unlikely to build networks because of cost.
- 1.5 We have previously set out how regulation could evolve to support further investment from new entrant networks, Openreach and Virgin Media by:
 - 1) **Supporting a move towards unrestricted duct and pole access**, giving companies greater flexibility to use Openreach's telegraph poles and underground ducts.
 - 2) **More holistic consideration of business and residential markets**, focused on promoting competition by incentivising companies to build networks.
 - 3) **Different regulatory approaches in different parts of the country**, depending on the intensity of network competition.
 - 4) **Preserving incentives for Openreach to invest**, in fibre across the country by having a fair package of regulatory measures.
 - 5) **A smooth transition from older copper networks to full fibre**, while protecting consumers during the migration process.
 - 6) **Public intervention in remote areas where there is no prospect of network competition**

- 7) **Longer-term certainty for investors**, lengthening the period of our telecoms competition assessments from three years to at least five.

1.6 We set out proposals for (1) in November 2018 and for (2) and (3) in December 2018. Today's proposals provide more clarity on items (3) to (5).

Proposals for promoting competition and strengthening investment incentives

1.7 Our latest proposals are designed to support a step-change in investment in fibre by Openreach, Virgin Media and new entrant networks such as CityFibre, Hyperoptic and Gigaclear. They represent a significant departure from our historical approach to economic regulation. Our specific proposals allow all investors the opportunity to make a fair return (the 'fair bet') on new fibre networks by allowing them to generate the increased revenue expected from the speed, reliability and resilience that fibre offers.

1.8 Our specific proposals allow this by:

- setting regulated prices only for entry-level superfast services and allowing all operators including Openreach freedom to set prices for higher speed and higher-quality fibre-based services; and
- maintaining stable prices for Openreach's regulated entry-level superfast broadband (up to 40Mbit/s) and high-capacity 'leased lines' based on costs for new entrants and not the costs of the scale incumbent operator, BT. Thus, we are injecting more margin into the network layer to allow sufficient margins for all network investors.

1.9 We think these proposals will support network competition and investment in the more urban areas of the country: the first 70% of the UK.

1.10 The remaining more rural areas, where there is no prospect for competing networks and a weaker commercial case for investment, should not be left behind. Therefore, our proposals support continued retail competition while maintaining the incentives for Openreach to invest in full fibre by allowing Openreach to spread the costs of investment in fibre across a wider group of consumers. This is a radical departure from our previous approach and is akin to utility rate of return regulation or a 'regulated asset base' model (RAB). This will enable Openreach the opportunity to profitably invest in full fibre at low risk.

1.11 Enabling 5G networks to emerge in the more rural areas is also critical, and this requires the availability of fibre to connect the mobile base stations. To support this, we are proposing cost-based access to Openreach's 'dark fibre' in these areas, including a reasonable return on Openreach's investment. Dark fibre is where Openreach gives competitors physical access to its fibre cables, allowing them to take direct control of the connection. This approach will allow continued and effective supply of mobile backhaul capacity and business connections.

Supporting a smooth transition from copper to fibre networks

- 1.12 Once Openreach has built its full-fibre networks, we want to support a smooth, managed transition away from the old copper network to release cost savings and to increase incentives on all broadband providers to promote full-fibre. We are proposing a framework to help Openreach move customers from its copper network to fibre efficiently and quickly by:
- allowing for future regulated products to move from the copper to fibre networks to ensure continued protection for consumers;
 - permitting the network investor to realise the ‘value premium’ full fibre brings in terms of speed, reliability and resilience in the form of a mark-up on the regulated price; and
 - allowing greater flexibility for Openreach in setting copper-based broadband product pricing to allow a managed transition from copper to fibre services.
- 1.13 A predictable framework for closing down Openreach’s copper network once fibre is built – underpinned by regulation - substantially reduces the risk for Openreach of deploying fibre.

Predictable regulation is a key foundation for continued fibre investment

- 1.14 Our proposals will give the certainty for alternative networks, Openreach and Virgin Media to deliver full fibre to homes, businesses and future 5G networks.
- 1.15 **For new entrant networks:** moving away from cost-based charge controls of copper-based services, thereby giving retail broadband providers, such as Sky, a stronger incentive to switch to an alternative supplier, enter partnerships with such suppliers, or build their own networks. This, along with the availability of duct and pole access, will provide incentives for competitive network build.
- 1.16 **For retail broadband providers:** as competing networks are built retail broadband providers will have wholesale access to a number of networks on different commercial terms. In the meantime, retail providers will still be able to compete based on access to the Openreach network, as they will be able to have this access on similar terms as at present.
- 1.17 **For Openreach (and indirectly Virgin Media) in the urban 70% of the UK:** our proposals address the regulatory enablers previously identified by Openreach as constraints to delivering on its ambition for 10 million full-fibre premises and should further underpin Virgin Media’s Project Lightning investment programme:
- The removal of cost orientated regulated prices for existing copper products allows higher margins and will allow quicker depreciation of legacy copper assets;
 - By setting a moderately higher charge control for FTTP 40/10 than for MPF and FTTC 40/10 to reflect the additional value to customers;
 - Retention of pricing flexibility for higher-speed services above the 40/10 anchor; and
 - Supporting a predictable transition from copper to fibre networks underpinned by regulation, so that the copper network can be retired.

- 1.18 **For Openreach in the remaining more rural 30% of the country:** Our proposals, which are aimed at protecting retail competition, could provide Openreach with stronger incentives to invest in full fibre, by making it easier to spread the costs of investment in fibre across a wider group of consumers (the “RAB” model). This effectively de-risks full fibre investment in such areas. We recognise that in the most remote parts of the country, there will still be some areas which this model cannot reach. As we noted last year, these areas would require some public intervention and we will work closely with public bodies as they develop their plans.
- 1.19 **But the biggest winners of all will be consumers.** Over time, our strategy will transform the broadband service experience for people and businesses, through more competition, more investment, and enhanced mobile services, while at the same time protecting them from the risk of excessively high prices.