



## **UK Broadband Limited's response to Ofcom's consultation on a proposed variation of its 3.4GHz Licence**

### **1. Introduction**

1.1 UK Broadband Limited ("UKB") welcomes Ofcom's consultation ("Consultation") on the proposed variation of UKB's 3.4 GHz licence. Our new London network is already demonstrating the benefits that UKB can bring to consumers and businesses. Continued use of this spectrum will enable us to extend our networks in London and to other parts of the country. Our networks will continue to be a combination of LTE and microwave so as to amortise the build costs over both technologies, reduce UKB's own backhaul costs and provide the widest range of services to customers.

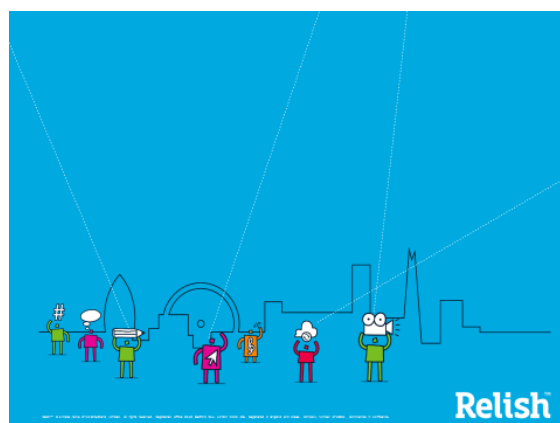
1.2 This response contains:

- an update for Ofcom on the progress made by UKB in implementing its business plan;
- observations on the alignment of Ofcom's duties with granting the licence variation;
- comments on spectrum efficiency and relocation of UKB's spectrum; and
- responses to Ofcom's formal questions in the Consultation.

1.3 This version of UKB's response has been redacted to make it suitable for publication.

### **2. Update on Launch of Relish Services**

2.1 On June 4<sup>th</sup> 2014 UKB launched a new range of services in London provided under the brand name Relish.



2.2 Advertising in print and other media began on June 23<sup>rd</sup>. These services include:

- broadband internet services (fixed and mobile) for homes and SMEs (“Home Broadband” and “Business Broadband” respectively), provided over a new LTE network which utilises UKB’s 3.4 GHz and 3.6 GHz spectrum; and
- dedicated point to point and point to multi-point services for businesses with larger data requirements, provided over UKB’s microwave spectrum (“Dedicated Business Internet”).

2.3 Take-up of new customers since the launch of these services has been strong and UKB is on track to exceed the sales figures projected in the business plan for 2014. We expect the rate of take-up to increase in 2015 as customers’ existing contracts reach end of term and as awareness of the Relish brand and proposition grows.

2.4 Sales of our Dedicated Business Internet product are also ahead of projections at this stage and the location of customers reflects where businesses find it difficult to access fast connections to the internet. We are also starting to see an interest from customers for using the BDUK Voucher Scheme to access these products in eligible areas covered by our network.

2.5 As expected, the Relish Home Broadband and Business Broadband propositions are proving particularly attractive to students, young professionals and SMEs who are seeking a more affordable and flexible product. Feedback we have received on social media indicates that customers are particularly attracted by the ability to dispense with their landline and by our “next day” delivery service.

2.6 [Redacted.]

2.7 [Redacted.]

### **3. Update on UKB’s Wholesale and Enterprise Business**

3.1 [Redacted.]

3.2 [Redacted.]

3.3 [Redacted.]

3.4 [Redacted.]

3.5 [Redacted.]

3.6 [Redacted.]

### **4. Ofcom’s duties to promote competition, support innovation and promote investment**

#### Promoting Competition

4.1 UKB is investing private sector funds to build new access and backhaul infrastructure in the UK. For the first time in more than a decade the telecoms industry is seeing investment in new services which are not based on reselling BT’s network. This means that competitive forces are starting to be exerted which were absent in an environment largely based on the reselling of wholesale capacity obtained from the incumbent.

- 4.2 The fact that UKB has built its own network means that it is able to serve customers in areas that are poorly served by legacy copper, such as the Isle of Dogs, Shoreditch and the Barbican [redacted].
- 4.3 The take-up rate so far has exceeded our expectations and we are therefore confident we can sustain the pricing we have introduced for the foreseeable future, in line with our business plan. We therefore believe that UKB's business represents sustainable competition in the market.

#### Supporting Innovation

- 4.4 The consumer and SME products offered by Relish bring new features and an element of disruption to a market which has seen little that is new in recent years. These features include:
- Competitive pricing - £20 per month for the consumer product;
  - No need for a landline - a saving of £15.99 per month line rental (plus a saving of up to £170 in connection fees for fixed line and broadband services) for consumers who choose not to take a BT landline alongside the Relish broadband service;
  - Next day delivery of the wireless hub;
  - Option of a monthly contract.
- 4.5 Customers have reacted enthusiastically to these innovative features with a large amount of positive press coverage and high levels of customer interest. Sales are running considerably ahead of forecast. [Redacted.]

4.6 [Redacted.]

4.7 [Redacted.]

4.8 [Redacted.]

4.9 [Redacted.]

4.10 [Redacted.]

4.11 [Redacted.]

4.12 [Redacted.]

4.13 [Redacted.]

#### Promoting Investment

- 4.14 The success of the Relish launch has given UKB and its parent company the confidence to continue investing in the UK if Ofcom grants UKB's licence variation. [Redacted.]
- 4.15 [Redacted.]
- 4.16 [Redacted.]
- 4.17 [Redacted.]

## 5. Ensuring Optimal Use of the Spectrum

5.1 In paragraph 5.103-5.104 Ofcom suggests that costs relating to inefficiency caused by the non-contiguity of UKB's spectrum blocks could be avoided if UKB's licence were not extended, since not doing so would mean that UKB's blocks could be included in an auction of spectrum in the band, with the result that all licensees in the band would be able to have a contiguous spectrum holding.

5.2 We do not believe that this assumption is necessarily correct, for the following reasons:

- a) This assumption depends on what size of spectrum blocks Ofcom ultimately decides to auction, which is not yet known.
- b) Linked to the previous point, whilst it is "possible that there may be a more fragmented set of spectrum holdings" if the licence variation is granted, it is just as possible to have an equally or even more fragmented set of spectrum holdings depending on the outcome of the auction if the licence variation is not granted.
- c) UKB's spectrum blocks would not be available for use until 2018, thus potentially reducing the value of that spectrum (and adjacent spectrum if included in the same auctioned block) as compared with unencumbered blocks.
- d) Between the date of the auction and 2018, the interference issues highlighted by Ofcom will remain the same.

5.3 In the event that the licence variation is not granted (Ofcom's "Option 1") Ofcom's model considers two scenarios:

1. UKB's licence expires in mid-2018 and an alternative operator provides a similar service from mid-2018 creating the same benefits as UKB would have done but with a four year lag.
2. UKB's licence expires in mid-2018 but it wins spectrum at auction in 2015 and resumes its business plan in the first half of 2016. It then achieves its business plan forecasts with a one year lag but is required to relocate within the band.

5.4 In figures A5.2 and A5.3 Ofcom appears to assume that bidders will attach the same value to spectrum that UKB will be using until 2018 as it does to spectrum that will be available to use immediately. We do not believe this will be the case. We think it is more likely that either:

- UKB's blocks will attract no bidders, with operators choosing to bid for the unencumbered blocks instead; or
- UKB's blocks will attract bidders, but at a lower price than the unencumbered spectrum (perhaps by an operator who wishes to acquire "spare" spectrum, not for immediate use). In such a case, the overall benefits of Option 1 would be lower than Ofcom has assumed, a) because the amount of revenue generated by the auction would be lower and b) because consumers would not enjoy the benefits of the immediate availability of more competition and new and possibly innovative services.

5.5 Figure A5.2 also assumes that, under Option 1, Ofcom would auction blocks of 50 MHz. We think this is very much a "best case" scenario (in terms of spectrum efficiency) and it cannot be known at this stage whether this is a likely scenario. Currently, typical bandwidths for deployment in networks are 5 MHz, 10 MHz, 15 MHz and 20 MHz. Higher bandwidths which

will be supported past R10 include 40 MHz (2 x 20 MHz), 50 MHz and 100 MHz. However, these higher bandwidths in a single channel are not proving popular from a standardisation perspective due to the low number of countries where they may be used. Instead operators are looking to non-contiguous carrier aggregation to get the higher speeds.

- 5.6 UKB is committed to synchronising with its neighbours wherever possible which would minimise loss of spectrum at the block edges.
- 5.7 We therefore think that the benefits of Option 1 over Option 2 in terms of both spectrum efficiency and highest value use are not as high as Ofcom has assumed.

#### Cost / Benefit Analysis

- 5.8 Annex 5 of the Consultation sets out Ofcom's approach to identifying and, where possible, quantifying the costs and benefits of extending UK Broadband's licence. We have reviewed the model that Ofcom has used to arrive at its conclusions and we agree with the methods used.
- 5.9 We note that Ofcom has focussed on the benefits to customers of UKB's fixed wireless broadband service. Therefore, any additional benefits accruing to mobile broadband customers will be incremental to the net benefit already identified.

#### **6. Relocation of UKB's spectrum**

- 6.1 We note Ofcom's decision not to proceed at the present time with its proposal in the October 2013 consultation to consolidate UKB's spectrum into a contiguous block. We confirm that we remain willing to relocate one or both of our spectrum blocks within the band at any point up until the award of the 3.4 GHz PSSR spectrum and that our business plan has been tested to take account of the additional network costs this would entail (as detailed in our earlier submissions).
- 6.2 We await any further proposals Ofcom may include in its consultation on the design of the PSSR auction later this year.

#### **7. Responses to Ofcom's questions**

- 7.1 UKB welcomes Ofcom's proposal to approve UKB's application for an indefinite extension to its 3.4 GHz licence.
- 7.2 UKB notes Ofcom's proposal that the licence variation will be subject to the application of an annual spectrum fee from 2018 onwards and confirms its willingness to pay such fee in accordance with the principles of Administered Incentive Pricing.

## Appendix 1

[Redacted.]

## Appendix 2

[Redacted.]