

**Consultation title:** Non-domestic rates and the price for regulated Dark Fibre

**To (Ofcom contact):** catherine.warhurst@ofcom.org.uk

**Name of respondent:** Martin Deacon – Chief Technology Officer

**Representing:** Capita Networking Solutions (Udata Infrastructure UK Ltd)

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**Consultation Question:**

*Q: Do you agree with our proposal for the adjustment of the price of dark fibre to take into account the NDRs paid by CPs and our assessment of its impact on the costs and benefits of dark fibre? If not, please set out your reasoning, including supporting evidence, and explain: (i) how Ofcom should approach making the adjustment to the price of dark fibre in a manner which takes into account the Determination, and (ii) how that alternative approach would impact on the costs and benefits of dark fibre.*

**A:** No.

**Reasoning:**

1. Capita Networking Solutions (Udata Infrastructure UK Ltd) (CNS) is a successful and well established managed network communications and service provider. CNS has built and operates over 20 autonomous 'regional' networks serving a combined total of over 10,000 end-point sites. CNS predominantly provides services in the Public Sector, but does have Private Sector contracts.
2. CNS offers best value and competitive services for a given customer by having the commercial flexibility to be network provider agnostic and free to fully benefit from an open competitive market. In many cases CNS would not be able to attribute the contiguous Network Route Distance for the VOA Fibre Rate Scale to the overall aggregation/backhaul network it has deployed/acquired. However, there will be strong cases to exploit Dark Fibre within the overall service mix. Without a large contiguous Network Route Distance, Dark Fibre once fibre taxed, would be expensive and no competitive. CNS believes Ofcom should seek to emulate the model of Local Loop Unbundling and define a Dark Fibre variant whereby Openreach pays and bundles the Non-Domestic Rates based on their overarching network scale. There are two scenarios:
  - a) All Dark Fibre is priced with tax included
  - b) An additional variant, say '**Dark Fibre Connect**' with tax included, is offered alongside the non-taxed Dark Fibre currently proposed by Ofcom.
3. Whilst CNS has scale, our business model is not underpinned by building a single 'national' network. Therefore, whilst CNS sees great value and potential in Dark Fibre, we believe that the proposal to use a Network Route Distance of 1000km within the VOA Fibre Rate Scale does not reasonably reflect our scale on a per network basis, and hence we will be disadvantaged when Non-Domestic Rates fibre tax is introduced to our Dark Fibre cost base.

4. As an example, a typical existing regional network (and candidate for evolution to Dark Fibre) can be summarised as per Table 1 below:

| Typical Regional Network |             |            |             | Dark Fibre Scope |           |            |            |
|--------------------------|-------------|------------|-------------|------------------|-----------|------------|------------|
| Circuit                  | Type        | QTY        | Split       | Aligned          | Total     | Typical Km | Route Km   |
| Bonded Copper            | EFM         | 175        | 35%         | 0%               | 0         | 2          | 0          |
| Copper                   | ADSL2+/VDSL | 190        | 38%         | 5%               | 10        | 2          | 19         |
| Fibre Ethernet           | 100M        | 100        | 20%         | 10%              | 10        | 4          | 40         |
| Fibre Ethernet           | 1000M       | 25         | 5%          | 30%              | 8         | 20         | 150        |
| Fibre Ethernet           | 10000M      | 10         | 2%          | 50%              | 5         | 20         | 100        |
|                          |             | <b>500</b> | <b>100%</b> |                  | <b>32</b> |            | <b>309</b> |

**Table 1 – Typical Regional Network vs Dark Fibre Evolution Potential**

(i) How Ofcom should approach making the adjustment to the price of dark fibre in a manner which takes into account the Determination.

#### Dark Fibre Variant with Bundled Fibre Tax

5. Create a variant of Dark Fibre that bundles fibre tax at a rate aligned to the overarching scale of Openreach; similar to how Local Loop Unbundling was defined.

#### Network Route Distance

6. Ofcom's approach of using a Network Route Distance within the 2017 VOA Outside London Fibre Rate Scale is valid.  
7. A Network Route Distance of **300km** should be used.

(ii) How that alternative approach would impact on the costs and benefits of dark fibre.

#### Local Access Example

8. Table 2 below shows the very high fibre tax rates payable when a small Network Route Distance applies; significantly higher than the suggested £95.80 for the DFA LA Single Fibre and £119.75 for the DFA LA Fibre Pair

| <b>2017 Fibre Rent Scale</b> |                |                 | <b>1 Fibre</b>  | <b>2 Fibre</b>  |
|------------------------------|----------------|-----------------|-----------------|-----------------|
| O/S London                   | RV/Rkm         | RV/Rkm          | <b>Tax Rate</b> | <b>Tax Rate</b> |
| Total Network Route Km       | <b>1 Fibre</b> | <b>2 Fibres</b> | <b>47.9%</b>    | <b>47.9%</b>    |
| 1                            | £ 1,500        | £ 2,000         | £ 718.50        | £ 958.00        |
| 2                            | £ 850          | £ 1,167         | £ 407.15        | £ 558.83        |
| 3                            | £ 633          | £ 889           | £ 303.37        | £ 425.78        |
| 4                            | £ 525          | £ 750           | £ 251.48        | £ 359.25        |

**Table 2 – Dark Fibre Tax with Small Route Distances**

Defining a Dark Fibre variant with a bundled tax rate will stop CPs who build multi-supplier networks being disadvantaged by uncompetitive Dark Fibre fibre-tax costs.

#### **Network Route Distance**

9. A VOA Network Route Distance of **300km** should be used to derive the Second Component of the Active Differential
  
10. Using the standard non-domestic rating multiplier in England 2017/18 of 47.9p, the per-km fibre tax cost for single and dual fibre outside London would change:
  - a. Single fibre, from £95.80 to **£143.70** per km
  - b. Dual fibre, from £119.75 to **£212.89** per km
  
11. Using a **300km** VOA Network Route Distance would offset the disadvantage faced by CPs who, whilst operating at scale and well placed to drive uptake and wider business benefits of Dark Fibre, do not have the combined network route distance of larger national players. The uptake of Dark Fibre will be accelerated and more widespread.

**END**