



KCOM's response to Ofcom's request for expressions of interest in serving as Universal Service Provider for broadband

Summary

- 1.1 KCOM Group PLC ('KCOM') welcomes the opportunity to respond to Ofcom's call for expressions of interest ("Request for Expressions of Interest").¹
- 1.2 We support the introduction of a broadband USO as a 'safety net' used to ensure customers have access to reliable and affordable broadband with a baseline speed of 10Mbit/s. In our view, the baseline speed and other operational parameters required by the USO will need to increase over time and as these parameters move it will have implications for the underlying technology used to deliver it.
- 1.3 As we have previously submitted, we have a clear interest in the application of the broadband USO and USO policy more generally as we are both the current USP designate for basic telephony and functional internet access in the Hull Area, and a supplier of network services in the rest of the UK.
- 1.4 Through the deployment of our fibre-based Lightstream broadband service in the Hull and East Yorkshire ('HEY') area we are already delivering speeds far in excess of the 10Mbit/s minimum download and 1Mbit/s upload required of the designate USP.² Indeed, this will ensure universal services are available at superfast/ultrafast broadband speeds, with common standard connection costs and uniform monthly prices.
- 1.5 We agree with Ofcom's provisional assessment that the direct designation of KCOM as the USP for the Hull Area is likely to be the quickest and most efficient solution to delivering the broadband USO to the area.
- 1.6 We note that any direct designation of KCOM as a USP would be subject to a robust net cost assessment to establish whether it represented an unfair burden and hence qualified for appropriate compensation.
- 1.7 While recognising the need for a burden assessment we would like to express an interest in being the designated broadband USP for the Hull Area.

¹ Ofcom (2018), *Implementing the Broadband Universal Service Obligation: Request for expressions of interest in serving as Universal Service Provider for broadband*, Call for Expression of Interest, 19 June 2018, available at: https://www.ofcom.org.uk/data/assets/pdf_file/0013/115042/implementing-broadband-uso.pdf

² KCOM's superfast broadband commitment applied the more stringent EU target of providing min 30 Mbit/s services over our Lightstream Next Generation Access infrastructure. This was a conscious decision to use this higher baseline as opposed to the 24Mbit/s definition used elsewhere to define superfast broadband services.

Ofcom's assessment of suitable prospective USP designates – Information

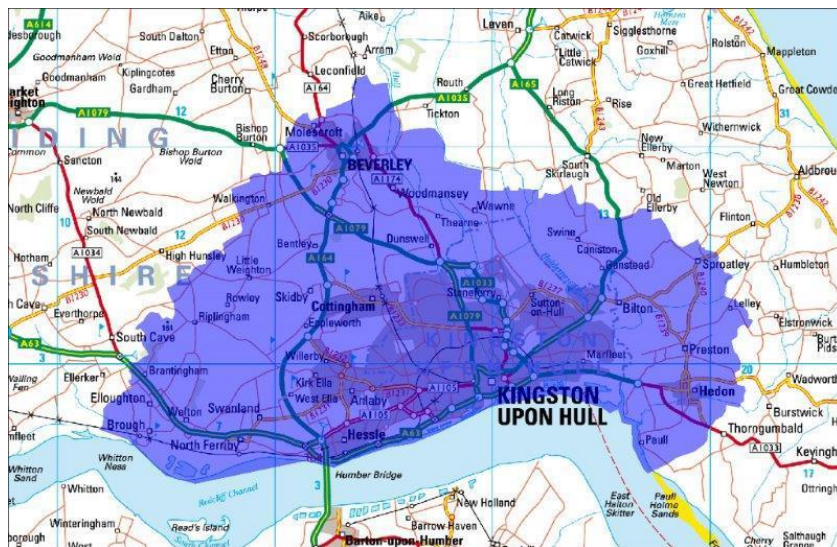
Geographic Areas

Please provide information on which geographic areas you are interested in being designated as the USP. If you are interested in providing the USO on a sub-national basis, please specify the regional areas – based on local authority boundaries – where you are interested in being the USP.

KCOM is interested in being designated as the broadband USP solely for the Hull Area.³ The Hull Area accords with the geographic boundary that is defined by KCOM's original license granted on 30 November 1987 by the Secretary of State under Section 7 of the Telecommunications Act 1984 to Kingston upon Hull City Council and Kingston Communications (Hull) plc (KCOM).

The blue shaded area depicted in Map 1 below details the geographic scope of the economic markets where KCOM holds Significant Market Power (SMP) and the scope of its current USO obligations.

Map 1: The Hull Area



³ KCOM's network extends beyond the Hull Area and into the East Riding of Yorkshire. BT is the USP for basic telephony (and functional internet access) in this area.

Delivery of the USO

Checking that premises are eligible to receive a USO connection

A USP may receive numerous requests, in different geographic areas, at the same time. This may particularly be the case when consumers are first able to request a USO connection.

We are keen to understand how you would manage requests for USO connections and assess which premises are eligible for connections. Please provide any information relevant to your assessment of whether a premise:

(a) falls within the definition of eligible premises (fixed location which is a residence or place of business);

(b) does not (and could not) already access a connection that meets the USO specification;

(c) would not be covered by a publicly-funded broadband rollout programme in the 12 months from the request being made; and

(d) would cost under £3,400 to provide a USO connection, taking account of the extent to which the cost of providing a connection could be shared between multiple locations.

It is KCOM's intention to be designated as the USP for the Hull Area and for that reason we do not envisage a scenario in which we would be managing numerous simultaneous requests made of us in different geographic areas across the UK.

Only those permanent (fixed) business or residence that are assigned a postal address and are billed council tax should be eligible. Therefore, temporary site locations and mobile home locations should be considered ineligible for a USO connection.

To the extent that requests for USO connections were made within the Hull Area then we would expect these to be limited to those Hull Area locations where there are exceptions being cleared following the completion of our main fibre deployment at the end of March 2019.⁴ Assuming that Ofcom operates to its proposed decision timeline we would expect ~60% of these exceptions to be outstanding by the summer of 2019 (August 2019).

We consider that USO eligible fibre-based broadband services are already available to the majority of residential and business customers in the Hull Area.

We did not benefit from the publicly-funded broadband rollout programme undertaken by DCMS (BDUK) so this is not a consideration for us.⁵

⁴ KCOM estimates that these exceptions could total [X].

⁵ European Commission (2012), *State aid SA.33671 (2012/N) – United Kingdom National Broadband scheme for the UK - Broadband Delivery UK*, 20 November 2012, available at: http://ec.europa.eu/competition/state_aid/cases/243212/243212_1387832_172_1.pdf; European Commission (2016), *SA. 40720 (2016/N) – National Broadband Scheme for the UK for 2016-2020*, 20 June 2016, available at: http://ec.europa.eu/competition/state_aid/cases/263954/263954_1760328_135_4.pdf; and European Commission (2018), *State Aid SA.49445 – Modification of the National Broadband Scheme for the UK for 2016-2020 (BDUK – SA.40720) - United Kingdom*, 15 January 2018, available at: http://ec.europa.eu/competition/state_aid/cases/272281/272281_1962816_175_2.pdf



The costs of providing a USO connection to businesses in the Hull Area may cost more than the £3,400 given the exceptions are disparate in nature. [3].

Technology and network build

We are interested in understanding how you would approach designing and delivering the USO in areas in which you are designated, including:

- (a) which technologies you would use to deliver the USO in areas you have identified and how you would ensure they meet the technical specification in all cases;
- (b) what the main steps and timeframes are to provide connection (including both network infrastructure build and customer connection phases) using the technologies that you are likely to deploy, including any information which affects these timeframes;
- (c) how your resourcing needs and costs might change in order to provide connections at a faster rate.

It would be KCOM's intention to meet the broadband USO requirement in the Hull Area by using either Fibre to the Premise (FTTP) or Fibre to the Cabinet (FTTC) technologies. We are proposing to use these fibre technologies to deliver the broadband USO at fixed locations as this is both consistent with our commercial deployment plans and provides us with the ability to upgrade the baseline broadband service in line with future changes to the specification of the broadband USO.

The technical configuration of the above fibre technologies meets and exceeds the current broadband USO specification detailed in the Request for Expressions of Interest and the Electronic Communications (Universal Service) (Broadband) Order 2018 ("the Order").⁶ In advertising our broadband services we specify the parameters of operation (e.g. download and upload speeds, throughput etc.) for the broadband services that we offer. These details are complemented by technical notes on our pricing pages⁷, which include minimum access speeds and data allowances. Our service promise for fibre services means that in all instances the technical performance of the network will exceed the currently specified USO in all cases.

Whether, the broadband connection is delivered an FTTP or an FTTC solution both are capable of allowing the end-user to make and receive voice calls over the connection effectively. In the case of FTTP/C, we provide a Publically Available Telephone Service (PATS) qualifying voice service using either a paired copper service, or as a voice over fibre (VoIP) solution.

In terms infrastructure deployment, in November 2017 we announced our commitment to complete our main Next Generation Access (NGA) fibre deployment by the end of March

⁶ Schedule 1 of the Order specifies the broadband connections and services must be provided throughout the United Kingdom, having the characteristics of — (a) a download sync speed of at least 10 megabits per second; (b) an upload sync speed of at least 1 megabit per second; (c) a contention ratio of no higher than 50:1; (d) latency which is capable of allowing the end-user to make and receive voice calls over the connection effectively; (e) the capability to allow data usage of at least 100 gigabytes per month. See, *Electronic Communications (Universal Service) (Broadband) Order 2018*, Statutory Instrument 2018 No. 445, 23 April 2018, Schedule 1, available at: http://www.legislation.gov.uk/uksi/2018/445/pdfs/uksi_20180445_en.pdf

⁷ See: http://pricing.kcomhome.com/media/1507/p05-s22_limitededitionconsumerbroadbandpackages.pdf



2019⁸, which we are on track to do⁹. This will ensure ~95% all of our on-net customers will have access to the full range consumer and business fibre broadband packages. (Over 75% of our on-net customers already have access to these fibre broadband packages.) By the end of March 2020, we expect 100% of our on-net customers to have access to our fibre-based services and have made financial provision for this deployment.¹⁰ The efficiency and associated costs of addressing exceptions to the main deployment could be impacted by imposing the broadband USO in mid-2019 as we would have to react to individual customer demands.

Once the network deployment is complete we apply standard fibre connection times. In terms of our:

- Residential FTTP deployment we pre-build to our pole infrastructure (overhead fed deliver) and once we receive an order for full fibre services we respond by sending out engineers to build the final drop and to undertake the installation activities. In terms of our underground fed delivery we pre-build to the wall mounted external Customer Splice Point (CSP).
- Business FTTP deployment, this is categorised based on the phasing of the main deployment.

We use business and residential installation diaries to manage connection lead times.

If we were required to provide connections at a faster rate than we currently provision broadband services then we would need to employ external contractors to do so. Depending on the uplift in demand, we may also need to add additional operational resources.

Quality of service

We expect that premises connected under the USO will receive the same quality of service levels as premises elsewhere in the UK. We would also expect prospective USPs to meet the standards of the automatic compensation industry scheme. We would therefore be interested to know what quality of service levels (e.g. repair lead times) you would offer were you to be designated as the USP.

Our Service Promise sets out our aim of providing broadband services within six working days (Monday to Friday 08:00 to 17:00, excluding bank holidays), but recognises that Lightstream broadband and some (VoIP) telephone services take longer to provision because of the work we need to do to complete the installation and therefore agree bookable appointment dates with customer prior to the completing the order. With excepted provision we will not be in a position to know the composition of the exceptions connections until we finalise our deployment.

⁸ KCOM full steam ahead for fibre deployment, 28 November 2017, available at: <https://www.kcomplc.com/business-insight/news-and-media/kcom-full-steam-ahead-for-fibre-broadband/>

⁹ KCOM (2018), KCOM: Connected with our customers: KCOM Group PLC, Annual report and accounts 2017/18, 12 June 2018, available at: https://www.kcomplc.com/media/1743/kcom-group-plc-annual-report-and-accounts-2017_18.pdf

¹⁰ The vast majority of the deployment is FTTP. However, we have deployed a small estate of FTTC services as part of our fibre deployment.



We note Ofcom's expectation that automatic compensation would apply in the provision of USO broadband services. We therefore need to consider carefully a specified lead time for excepted provisions.

Pricing of USO connections and services

The Order includes requirements for USO connections and ongoing charges to be priced affordably and uniformly. Please provide information on the services you would expect to offer to premises connected under the USO and how you intend to price connections and ongoing charges.

In meeting the broadband USO it is our intention to make available at our fibre broadband services to both consumer and business customers at common prices in the Hull Area and at our standard connection charges. These charges are broadly comparable with those available nationally through BT Retail.¹¹

For the avoidance of doubt, we are not currently proposing to introduce either a copper-based 10Mbit/s broadband service, or a fibre-based 10Mbit/s broadband service. We consider that further investment in legacy copper technology to be inefficient and are therefore not currently proposing to utilise copper technology to deliver the USO broadband service. Moreover, we consider that our entry level fibre service (Basic Fibre Broadband) provides the capability to meet the objectives of the current broadband USO, and our decision to upgrade our NGA network is consistent with Ofcom's broader strategic objectives concerning the deployment of full fibre networks.

We would note that under the provisions of the Order Ofcom has the ability to deviate from the application of uniform pricing throughout the UK where it has determined that there is clear justification for doing so. To the extent that Ofcom interprets our Basic Fibre Broadband service as one that is required to provide a 100GB monthly data allowance we do not consider it appropriate for Ofcom to mandate a price change to ensure parity with BT Retail's copper product for the purposes of 'affordability'.¹² Rather, we consider that Ofcom has clear justification for providing an appropriate degree of pricing flexibility where the underlying technology being deployed in the Hull Area (and potentially elsewhere) is not only capable of meeting the objectives of the current USO but is also scalable so will be able to support future changes to the operational parameters of the broadband USO.

¹¹ For example, we offer consumers an entry level fibre service in the form of our superfast 'Basics Fibre Broadband' (FTTP) service (30Mbit/s / 15Mbit/s), with various data allowances. Our entry level service is priced at £22 per month, with a 20GB monthly data allowance and a standard connection fee of £50. This service is capable of being upgraded to support high levels of data e.g. 100GB monthly data allowance. We currently price our 100GB variant at £32 per month. This compares with BT Retail's 'Superfast Fibre Essential' (FTTC) service (36Mbit/s), with an unlimited data allowance and a standard connection fee of £29.99. BT Retail currently prices this service at £29.99 per month. Similarly, at the upper end, we offer consumers our 'Everything' (FTTP) solution. This provides consumers with an ultrafast service (400Mbit/s / 35Mbit/s), which has an unlimited download allowance for £65 per month and zero connection charge. BT Retail, by comparison, offers its 'Ultrafast Fibre 2 Plus' (FTTP), which is a superfast service (300Mbit/s / 10Mbit/s) with an unlimited download allowance for £59.99 per month and a £59.99 activation charge.

¹² BT Retail currently offer their copper-based basic 'Broadband' service (10Mbit/s / 1Mbit/s), with no specified data allowance. This is priced at £24.99 per month and a £19.99 activation fee.

Complaints handling procedures

USP(s) will have to manage complaints specific to the USO, for instance relating to eligibility disputes, the time taken to build network infrastructure or the quality of the connections and services. We are interested in to know how you would handle the potential increase in the complaints numbers as a result of USO specific complaints, and what procedures you intend to follow to resolve the complaints.

We do not envisage a significant increase in the volume of complaints resulting from the potential designation as the USP for the Hull Area. It would be our intention to manage any such complaints in line with our standard complaints handling procedures, which already deal with technical aspects to complaints. We publish our complaints code of practice¹³ and are a member of an adjudication scheme (Ombudsman Services¹⁴).

In the event that Ofcom specifies an alternative set of complaints handling procedures specific to the USO, including the referral to a dispute resolution body then as the designated USP we would need to comply with those procedures. In considering these procedures, balancing the requisite level of competence in adjudication with the costs of compliance are clearly critical considerations.

Financial and governance arrangements

Corporate structure and management

Please provide evidence to demonstrate that you have the expertise, capacity and experience to be able to effectively deliver the USO in the geographic areas that you have expressed an interest in.

KCOM is a longstanding¹⁵ and financially stable business¹⁶, whose core business includes the provision of fixed line broadband services in the Hull Area.

We are already the USP designate for the Hull Area, required to provide basic telephony and functional internet access and has the requisite experience in delivering a USO both in terms of service and in the relevant geographic area.¹⁷

In November 2017, we confirmed that we would complete our fibre broadband deployment, covering approximately 200,000 properties, by March 2019.¹⁸ On completion, this will mark the culmination of an £85m investment. This deployment is capable for meeting the technical requirements of the broadband USO for today, and into the future. Indeed, we have already passed over 75% of all our on-net premises in the HEY area, with more customers using our Gigabit capable full fibre (FTTP) broadband

¹³ <https://www.kcomhome.com/media/2827364/complaints-code-of-practice.pdf>

¹⁴ <https://www.ombudsman-services.org/>

¹⁵ KCOM, *Business insight: Our history*, available at: <https://www.kcomplc.com/business-insight/our-history/>

¹⁶ KCOM (2018), *KCOM: Connected with our customers: KCOM Group PLC, Annual report and accounts 2017/18*, 12 June 2018, available at: https://www.kcomplc.com/media/1743/kcom-group-plc-annual-report-and-accounts-2017_18.pdf. Details of our leadership and governance can be found at: <https://www.kcomplc.com/business-insight/leadership-and-governance/>

¹⁷ Ofcom (2006), *Review of the Universal Service Obligation*, Statement, 14 March 2006, available at: https://www.ofcom.org.uk/data/assets/pdf_file/0021/34266/statement.pdf

¹⁸ As we noted in the summary and as detailed in footnote 4, while our main fibre deployment programme will be complete by the end of March 2019, our team will still need to clear the outstanding exceptions. We plan to have completed this work by the end of March 2020.



lines than our copper-based (ADSL) broadband services.

Sources of funding

Please provide evidence to demonstrate your ability to effectively finance the delivery of the USO in the geographic areas that you have expressed an interest in, recognising that there will be a lag between network infrastructure build and cost recovery.

As we have noted above, KCOM has already provided funding for our on-net fibre deployment in the Hull Area thereby demonstrating its ability to deliver a network that is capable of delivering the broadband USO in that area.

Furthermore, to the extent that there is a 'gap' between our main fibre deployment and addressing exceptions, there are two key points for Ofcom to note:

- (i) As noted previously, we have a financial commitment to deliver our main fibre deployment by March 2019 and by the end of March 2020 expect to be able to provide 100% of our on-net customers with access to our fibre-based broadband services.
- (ii) Not all of the post March 2019 exceptions will be solely in the Hull Area. For this reason not all these exceptions would be relevant to our potential role as the broadband USP.