

Your response

By way of introduction, I have over 30 years consultancy experience in the telecoms sector working for a diverse range of blue-chip clients in more than 50 countries world-wide. For many years I was an expert advisor to the European Commission on telecommunications policy and liberalisation.

I have direct experience of costing of universal services in several countries and equivalent network costing programs in more than 25 other countries.

For brevity, I would like to comment only on a small number of the questions that you pose in the consultation. For the other questions, I either have no substantially relevant opinion, or I broadly agree with the position that you propose.

My comments are below.

Question	Your response
<p>Question 1: Do you agree with our proposed procedures for commencing a review of a net cost of complying with universal service conditions?</p>	<p>Confidential? – Y / N</p>
<p>Question 2: Do you agree with our proposed procedures for making an application requesting compensation for any unfair burden?</p>	<p>Confidential? – Y / N</p>
<p>Question 3: Do you agree with our proposed procedures when making determinations when assessing a net cost claim, including our proposed approach to finality?</p>	<p>Confidential? – Y / N</p>
<p>Question 4: Do you agree with our proposal on the information the Universal Service Provider should provide alongside an application to review a net cost?</p>	<p>Confidential? – Y / N</p>

Question 5: Do you agree with our proposed approach to calculating, verifying and auditing a net cost?	Confidential? – Y / N See response below.
Question 6: Do you agree with the proposed factors we will consider when assessing an unfair burden?	Confidential? – Y / N See response below
Question 7: Do you agree with our proposed approach to determining whether an industry fund should be set up?	Confidential? – Y / N
Question 8: Do you agree with our proposed approach to determining which providers will contribute to any industry fund?	Confidential? – Y / N
Question 9: Do you agree with our proposed approach on calculating contributions from fund contributors?	Confidential? – Y / N
Question 10: Do you agree with our proposed approach to collecting contributions to an industry fund?	Confidential? – Y / N

Question 11: Do you agree with the proposed process by which we would compensate the Universal Service Provider?	Confidential? – Y / N
Question 12: Do you have any comments on the specific provisions of the draft funding regulations?	Confidential? – Y / N
Question 13: Do you agree with our proposed approach to the choice of the counterfactual for the calculation of a net cost of the broadband USO?	Confidential? – Y / N
Question 14: Do you agree with our proposal to use a NPV methodology to calculate a net cost of the broadband USO?	Confidential? – Y / N
Question 15: Do you agree with our proposed reporting requirements in respect of the broadband USO?	Confidential? – Y / N
Question 16: Is there anything else you would like to tell us about the proposals set out in this document?	Confidential? – Y / N



Question 5: Do you agree with our proposed approach to calculating, verifying and auditing a net cost?

In my opinion, the details set out in section 9 are substantially deficient and will not allow you to derive an unambiguous value of the NPV for the USO. If you inadequately define the parameters for the calculation, the range of possible results for the calculation, as derived by the various parties, can differ by orders of magnitude. In these circumstances, coming to an agreed outcome, without the risk of robust challenge from one side or the other, will prove nearly impossible.

Therefore, I have summarised below a number of key points that, as a minimum, I believe you should add:

- the net cost to the USO provider should be based on modern equivalent asset costs for assets that existed prior to the Universal Service Provider being designated. These should include ongoing operating costs associated with services to subscribers that existed prior to the Universal Service Provider being designated.
- for new subscribers that are designated as USO subscribers after the Universal Service Provider is designated, the net cost to the USO provider should only include marginal costs for network facilities (including ducts, cables and equipment) that existed prior to the Universal Service Provider being so designated
- it is necessary to assess the net costs to the USO provider of BOTH individually unprofitable customers, AND unprofitable groups of customers (which may include customers who were in service prior to the Universal Service Provider being designated) up to and including whole areas. This is necessary because, absent the designation of USO providers, it is reasonable to assume that a commercially rational company would either raise the charges for unprofitable subscribers and in unprofitable areas, or would simply not serve uneconomic areas and individually uneconomic subscribers (or a combination of both). Therefore, it is appropriate (and necessary) to measure net cost both at a subscriber and at an area level
- in performing the calculation in the above point, uneconomic subscribers and uneconomic areas should be defined as those whose long-run avoidable incremental costs exceed their equivalent direct and indirect revenues
- in assessing both unprofitable customers in otherwise profitable areas, and unprofitable areas, the individual subscriber profitability calculation should be performed first, potentially resulting in fewer uneconomic areas and thereby reducing the opportunity for the profits of commercially viable subscribers to disguise the losses made by commercial non-viable subscribers in otherwise profitable areas.
- for unprofitable areas, the viability needs to be assessed at every level in the relevant network hierarchy in order to identify uneconomic network elements. This is an iterative process since the size of the upstream avoidable costs will change as the number of downstream customers and their corresponding network facilities would be affected if there was no USO obligation i.e. the appropriate counterfactual
- the net costs of the provision of USO services should be assessed based on the most efficient means of delivering services to those customers, not necessarily using the technology that the USO provider chooses to use. That could include technologies that are not available to

the USO provider; for example, a radio technology using frequencies that are not allocated to the USO provider.

Question 6: Do you agree with the proposed factors we will consider when assessing an unfair burden?

In addition to the factors listed, I propose adding the following...

- In the absence of any USO funding arrangements, the extent to which the burden of the costs of the USO on the USO provider distorts the tariffs charged to the generality of their customers.