



# Compensating providers delivering universal services



## UKCTA Response to Ofcom

Submitted to Ofcom: January 2020



## Introduction

1. UKCTA is a trade association promoting the interests of fixed-line telecommunications companies competing against BT, as well as each other, in the residential and business markets. We advocate regulatory outcomes designed to serve consumer interests, particularly through competition to Ofcom and the Government. Details of the membership of UKCTA can be found at [www.ukcta.org.uk](http://www.ukcta.org.uk). We welcome the opportunity to comment on Ofcom's proposals for Compensating providers delivering universal services.

### **The desire to improve UK Connectivity**


2. UKCTA supports initiatives to improve access to connectivity for the UK's consumers and businesses. High-speed connectivity is important for enterprise and commerce, delivering public services, social participation and community engagement as well as becoming a key means to receive content on demand.
3. The timing and scope of this consultation are a matter for concern. At this stage, we have no clear view on the size of any broadband USO shortfall, nor who will be compelled to contribute. In particular, there are a number of initiatives underway that will have consequences for broadband delivery in the hardest to reach locations, not least BT's copper switch off, WLR withdrawal and projects to extend rural mobile coverage, which may allow wider rural use of Fixed Radio Access ('FRA') services in hard to serve locations and so reduce the total number of qualifying USO premises. In light of this backdrop, we are concerned that this consultation is taking place before any determination on a net cost burden has been conducted. It may be better to wait until a more complete picture is known before making any final policy decisions in this evolving area.

### **Ensuring CPs are treated fairly**

4. It is clear the costs to connect the deepest rural premises to higher speed services are greater than in urban and suburban areas of the country, where concentrations of demand over a reduced distance cut down the cost to serve by a considerable margin. However, even deep rural connectivity can prove profitable over a longer time horizon, provided scale efficiencies are present elsewhere. There are therefore considerable long-term commercial benefits for BT in providing a national network to all parts of the United Kingdom<sup>1</sup>. These national network and brand benefits have previously been recognised when Ofcom has considered issues around universal service in the past.


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<sup>1</sup> Excluding Hull

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5. In 2006, Ofcom concluded that: *“Benefits from providing universal services arise primarily from brand image and advertising on PCBs. Ofcom estimated that the benefits have remained broadly stable. We estimated the current costs of USO for BT are around £57-74m and the benefits are around £59-64m. Ofcom has concluded that these estimates are reasonable and believes that there is unlikely to be an undue financial burden currently on BT as a result of USO”*<sup>2</sup>.
  6. While additional capex will be needed to ensure the broadband USO can be delivered, the commercial benefits of supplying robust connectivity to premises will be reaped for many years to come. In addition to private investment, initiatives like Emergency Services Network (ESN) and the Single Rural Network (SRN) reducing the number of partial and total not spots on the UK’s mobile networks through a mixture of state aid and private investment will make it considerably easier to serve the deep rural customers with broadband USO speeds.
  7. Given the considerable benefits flowing to BT through providing universal connectivity and large-scale initiatives like SRN are likely to cut down or eliminate the need for any additional USO funding, we remain concerned over the prospect that other CPs will be asked to part fund a competitor’s network while alternative providers are deploying networks at the same time. Indeed, while we recognise the requirements placed on Ofcom through the USO Order, it remains the case that this approach will dampen the prospects for investment and innovation as industry is forced to fund the USP’s network expansion rather than allocate capital towards new projects which may have been contemplated. Furthermore, it is still unclear who the final contributors to the USO funding will be.
  8. At a time when Ofcom is trying to encourage investment in the industry, the predictable certainty of future costs and revenues are important. Unfortunately, this consultation adds uncertainty to those decisions.
  9. While taking account of initiatives like ESN, SRN as well as the brand and commercial benefits flowing to BT over a considerable time horizon from rural customers, we believe the net cost burden may well be zero. However with Ofcom setting a £3,400 cost threshold it could lead to up to £150million (40,000 connections X £3,400) surcharged to the industry and channelled towards BT.
  10. Placing the uncertainty of as a yet to be determined cost to currently unknown operators at a time yet to be determined will do little to help generic investment within the industry. At this point, it is unclear who will fund the Broadband USO. Will it be Government, Fixed Operators, Mobile providers and OTT players?

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<sup>2</sup> 1.17: [https://www.ofcom.org.uk/\\_\\_data/assets/pdf\\_file/0021/34266/statement.pdf](https://www.ofcom.org.uk/__data/assets/pdf_file/0021/34266/statement.pdf)

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11. Of particular concern is the impact on providers who serve other sectors, such as large business providers, whose customers are outside of the scope of the USO and where the specification of the USO would be inadequate. We believe it would be inappropriate to source funding from such providers, and that they should be excluded from any industry USO fund.
  12. While we are pleased Ofcom has sought to restrict claims to a once a year basis, we are concerned that BT could spend considerable amounts connecting customers believing it can re-charge these amounts to other industry players. This approach does not lead to cost control or accountability. Likewise the SRN project is likely to follow behind the USO obligation, so if a FRA solution is the most cost effective, but is likely to arrive a year or two later, then it would make no sense to invest in an expensive fixed solution.
  13. Ofcom also need to be mindful that BT's copper switch off and WLR withdrawal could end up leaving customers who currently enjoy a reliable telephone services over copper without a line. This would require them to have a broadband replacement to emulate their line. Under no circumstances should this be re-charged back to an industry fund. Likewise, any industry funding should not be available in a situation where BT has removed a functioning exchange line.
  14. There needs to real accountability and transparency around all the money spent. This means clarity on ensuring the most cost effective technology solution is used in each case and accountability for every pound spent. We must learn lessons from the BDUK project, which offered poor accountability, with no peer review to scrutinize the cost effectiveness of the work undertaken.
  15. We consider that appropriate safeguards are needed to prevent BT from over-recovering costs. We have concerns regarding Ofcom's approach to finality, not re-assessing the scope of any cost burden risks over compensation of funding. The NPV calculation is set up in such a way to weight towards the B-USO provider over-recovering their initial network costs rather than under-recovering.

### **The need to re-consult at the appropriate time**

16. As highlighted above, the consultation is currently unclear about the potential scale of premises that will require universal service provision and, therefore, the scope of the net cost, the size of the industry fund and who should contribute. Ofcom's consultation principles (which follow Article 6(2) FD) – as well as its overriding public law duty to act fairly when exercising a regulatory function – require it to be clear and transparent about the question on which it is consulting. To enable industry to respond in a meaningful way, Ofcom needs to be more precise and give more detail about these important questions before deciding on the way forward. This is particularly because Ofcom's decision may have direct financial implications on CPs. We therefore request that Ofcom issue a fresh



consultation setting out these issues in more detail before taking a decision to establish an industry fund.

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