

Common Wholesale Platform response to Ofcom Equinox consultation

The Common Wholesale Platform (CWP) is pleased to respond to Ofcom's Equinox consultation but wishes to register its very deep concerns with both the proposed Equinox terms and the manner in which Ofcom has conducted the consultation process so far.

Introducing the CWP

CWP is a UK altnet initiative, led by four altnet but with wide support across the UK altnet sector. The CWP participants are Airband, County Broadband, ITS and WightFibre.

The CWP has jointly invested a considerable sum over the past year in producing a coordinated project between project partners and external consultants. The project has included engaging with multiple stakeholders and the production of a major requirements specification and the management of a full tender process. This has proceeded to supplier selection and most recently system development in readiness for a Q1, 2022 launch. The result will be a wholesale platform that can be used by multiple altnets to offer wholesale access to their networks for retail ISPs.

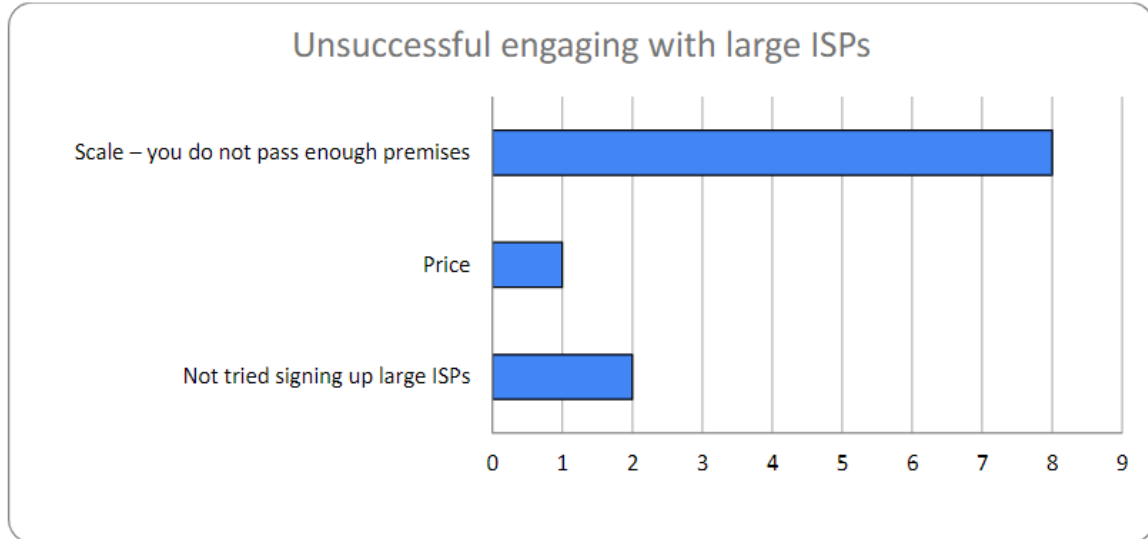
Whilst many altnets wish to offer wholesale access to their networks, the majority of retail ISPs are not interested in engaging with altnets unless they can offer access to a large number of premises. In our discussions with retail ISPs, one mentioned 100,000 premises passed as the minimum level they would consider, whilst another mentioned 250,000 premises passed.

In a recent survey conducted by GOS Consulting¹ (GOS Research), altnets wishing to provide wholesale services to large ISPs responded as set out below:

¹ A confidential copy of the research results has been included in the INCA and altnet response to the Equinox consultation.

2.2.4 If you have tried and have been unsuccessful in signing up large ISPs, what are their main reasons for not taking your services?

8 responses

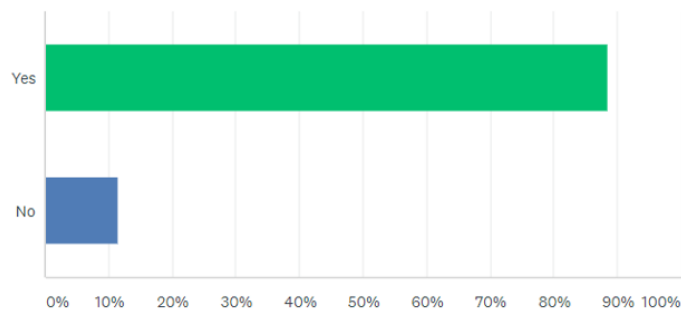


Source: GOS Consulting Limited ©

Similarly, a survey carried out by CWP in Q3, 2020 demonstrated the demand anticipated for a Common Wholesale Platform as follows:

Do you support the creation of a common Wholesale Platform for National CPs, or CPs of scale, to access and consume products and services offered by INO networks ?

Answered: 61 Skipped: 5



The reality is that the Equinox proposal comes at a time when the market is preparing itself to meet the challenge of wholesale delivery both in competing with the Openreach platform, and with necessity to meet the scale requirements of the larger ISPs. The vast majority of altnets are still, individually, too small to attract any interest from larger ISPs, but collectively they would become interesting to those ISPs and that is the driver behind the CWP. Recent

INCA / Point Topic research² quantifies 2.5m homes and businesses can now connect to altnet networks.

Wholesale is important to most altnets. Although many start as retail-only provider, the vast majority plan to introduce wholesale once they have more scale. In the GOS Research, all respondents that did not currently offer wholesale stated that they plan to do so later and this is entirely supported in our own independent survey. The reasons for that vary, including the need for wholesale services to achieve the necessary scale, the wish to offer consumers choice, and the difficulty in competing with the large ISPs that offer triple- and quad-play packages that altnets cannot replicate.

As is apparent from the above, despite willingness and, in many cases, a desire, to offer wholesale services, altnets are faced with many barriers to access the wholesale market. Scale is one obvious barrier which the CWP is created to overcome, but others exist, and the introduction of Equinox would introduce further and very significant barriers that, we believe, could foreclose the wholesale market.

Equinox

Equinox consists of several elements, whilst we have concerns with others, we focus this response on three elements that offer ISPs discounts on the BT³ wholesale FTTP list prices, namely the Product Mix element, the ARPU-related revenue share element, and the New to Network (NTN) element.

The Product Mix element

This element offers up-to 30% of BT's wholesale FTTP list prices if the ISP orders to BT for qualifying new connections⁴ consist of at least 80% FTTP orders. The issues with this element have been highlighted in INCA and altnet submissions to Ofcom over the past two months since the publication of the proposed Equinox offer⁵. CWP agrees with the issues detailed in those other submissions and the CWP founders have participated actively in the formulation of those submissions.

it is our view that the Product Mix element is likely to foreclose the wholesale market. ISPs already find it challenging to start using multiple wholesale providers, but as we are working to overcome those barriers the Product Mix now introduces a risk to the ISPs that, if they use the CWP (or individual altnets) that increases the risk that they will not meet the 80% threshold and thus lose all those rental discounts nationally.

In our view, ISPs are risk-averse and cannot afford to have a substantially higher cost base than their competitors. As using altnets is already a challenge, this additional (and very substantial) risk will likely tip them towards the safety of just continuing to use BT.

² [Investment in independent operators crucial to creation of Gigabit Britain | INCA](#)

³ When we refer to BT, we mean BT and/or Openreach. As BT is the entity that has been found by Ofcom to have SMP, we believe it is most appropriate to refer to BT.

⁴ Qualifying new connections are connections to premises that have been released by BT as ready for service for FTTP.

⁵ The INCA and altnet CFI response can be found here:

https://www.ofcom.org.uk/data/assets/pdf_file/0023/222980/INCA-and-Altnets.pdf. The follow-up response submitted after a meeting with Ofcom is re-submitted as an annex to the main INCA and altnet response and will be published alongside that document.

If ISPs do consider altnets they will expect altnets to offer prices significantly below the discounted BT process, in order to attract the business of the ISP.

The ARPU-related revenue share element (ARPU element)

This element offers a 50% revenue share to ISPs whose ARPU on qualifying new connections with BT exceeds £17/month. that threshold reduces over time at CPI-2%, whereas rental prices for higher speed connections reduce by CPI-1.25% only. this results in the ARPU threshold becoming easier to reach over time, which is strongly loyalty-inducing.

For altnets, this means that those ISPs that decide to consider using the CWP or individual altnets (despite the risk of not meeting the Product Mix 80% FTTP threshold), those ISPs will be anticipating what overall reduction they will likely achieve by exceeding the ARPU threshold and demanding that altnets offer lower prices in that in order to entice the ISPs over to their networks. This puts further downwards pressure on altnet wholesale pricing in order to attract the ISPs.

The NTN element

The NTN element allows ISPs to offer a 12-months rental discount to retail customer that move from an altnet network to the BT network. the rental discount offers customers the 550Mbps service for the rental price of the 160Mbps service for 12 months.

Although the NTN element appears to be primarily targeted at tempting away retail customers that are currently connected to altnets (which we believe has exactly the same effect as a geographically targeted discount and must therefore be blocked by Ofcom), this element also has an impact on the wholesale market.

Any ISP using altnet networks will want to compete with ISPs using BT's network and will demand that the altnets match and better any offers made by Openreach. The NTN element will therefore result in yet another reduction in the wholesale prices altnets can expect ISPs to pay to use their networks.

The compound effect of the three Equinox elements

The Product Mix element would be a significant deterrent to ISPs using altnet wholesale services, simply due to the increased risk that the ISP would not meet the 80% FTTP product mix threshold and thus lose up-to 30% discounts from BT and as a result being at a competitive disadvantage compared to ISPs that use BT only.

If any ISPs do decide to proceed with using altnet access, their pricing demands will be extremely challenging in order to in any way compensate for the increased risk. this means that altnets would need to meet the prices the ISP anticipates it would achieve from BT and then better them by between 10 and 20%.

In the GOS Research, 71% of respondents stated that the anticipation of equinox had already resulted in changes in their negotiations with ISPs. Those changes included demands for lower prices and simply stalling negotiations until the ISP was certain whether the Equinox offer would be allowed to proceed.

Ofcom's conduct

The INCA and altnet response sets out detailed observations and critique of Ofcom's conduct with regards to the introduction of the Equinox offer. The CWP agrees with those

observations and conclusions and urges Ofcom to put the Equinox on hold while it conducts a comprehensive, transparent, and legally compliant review of the Equinox offer and its potential impact on competition and investment in FTTP services across the UK.

The WFTMR put network investment and infrastructure competition front and centre of policy and Objectives (which is entirely consistent with Government policy and with the Statement of Strategic Priorities with which Ofcom must comply).

Conclusion

The CWP and its members are active contributors to the INCA and altnet discussions and responses to Ofcom's Equinox consultation, so this response has focused on the specific concerns for the viability of the CWP and altnet participation in the FTTP wholesale market. Many altnets need wholesale customers and revenues to be long-term viable and the GOS Research confirms that all respondents plan to introduce wholesale once they have achieved a certain scale⁶ so that they can attract wholesale customers and managed the increased complexity resulting from running both a retail and a wholesale business.

⁶ Note that those altnets that have benefited from public funding have an obligation to offer wholesale access but face the same challenges in attracting wholesale customers due to lack of scale.