

Rt Hon Jeremy Hunt MP  
Secretary of State for Culture, Olympics, Media and Sport  
2-4 Cockspur Street  
London  
SW1Y 5DH

29<sup>th</sup> June 2011

Dear Mr Hunt,

## **A Communications Review for the Digital Age**

### Summary

Current 'first generation' broadband services offer a wide choice of retail ISP services, but approximately 20% of potential consumers in rural areas have no access to services.

The commercial rollout, and potentially even the augmented rollout following BDUK projects will have little impact on access to services in many rural areas.

Maximum geographic coverage requires collaboration in network infrastructure. This means that wholesale competition can be focused in areas where there is sufficient capacity demand.

Collaboration at wholesale level is only possible if retail level competition and choice is maintained.

However technologically "future-proofed" networks are, if they do not support retail competition and choice for consumers they will become commercially redundant.

Mechanisms and regulation are required to allow small networks to connect at wholesale level to ISPs. Currently the domination of BT's wholesale network means that ISPs have no need to look beyond this and their own networks.

## Collaboration and Competition

Retail competition in the communications market has been a critical factor in the development and proliferation of innovative and affordable products to consumers. However, retail competition has been supported by different mechanisms.

In the mobile market, four wholesale competitors have ensured a strongly competitive market, with significant further retail competition. Ofcom have determined that this presence of four retail competitors is vital to effective retail competition in the market<sup>1</sup>. However, they also propose to disrupt this condition in rural areas through the 95% geographic coverage obligation applied to only on frequency band of the 800 MHz spectrum.

In the fixed broadband market, BT's wholesale network has achieved significant coverage for first generation broadband and has open access to all ISPs. However, greater competition at larger exchanges mean that some retail offers are only available to consumers in urban areas. Equally attempts by other network operators to establish open access networks (such as in South Yorkshire) have been largely unsuccessful – BT's coverage is sufficient that there is no attraction to most ISPs to negotiate deals and manage relationships with small network operators when they have access to the majority of the market through one wholesale operator.

These conditions present a very poor environment for the efficient deployment of future networks for both fixed and mobile broadband.

An ideal environment would encourage active competition at wholesale level where demand for capacity is such that multiple suppliers can be sustained. Further retail competition will operate above the wholesale level. In more remote rural areas where capacity demand is low, active collaboration at wholesale infrastructure level is required, with retail competition maintained. Collaboration will allow efficient investment in infrastructure to meet capacity demands, rather than to support geographic coverage requirements of a retail offer.

## 4G Mobile Model

Ofcom's proposal for the 95% geographic coverage obligation of the A3 frequency block of the 800 MHz spectrum goes some way to enabling an efficient infrastructure model. Only one operator will be required to support infrastructure in areas where there is low capacity demand. However, if the A3 block operator is not required to offer access to all retail and wholesale operators, then the other network operators will be required to invest in infrastructure in the same locations to ensure the strength of their retail offer – regardless of the excess capacity this will deliver, and the resulting reduction of overall geographic coverage of the investment model.

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<sup>1</sup> Consultation on assessment of future mobile competition and proposals for the award of 800 MHz and 2.6 GHz spectrum and related issues – Annex 6.

## NGA Fixed Broadband Model

The commercial rollout of superfast broadband is expected to reach approximately two thirds of the UK population. The 'final third' is largely in rural areas. In these areas, approximately 20% may not be able to receive adequate first generation broadband (at 2 Mbps or faster). Typical gap funding projects can increase the two-thirds coverage a bit, but typically still have no impact on the worst areas – 90% may get some form of superfast broadband, but 5% will still have no broadband at all.

Community based FTTH broadband models have been proposed (example from Barry Forde at <http://broadbandcumbria.com/2010/12/15/broadband-nga-fttc-and-the-laws-of-unforeseen-consequences/#more-897>). These attempt to address the problem of FTTC solutions in 'cherry-picking' the most accessible customers and making the most remote unaffordable by delivering a "future proof" FTTH solution at the start, with community involvement to make it affordable. However, these solutions do not address the critical need for retail competition and choice.

In Alston (home of Cybermoor) there are more customers served through BT lines than through Cybermoor. Cybermoor was the first to deliver broadband services in Alston, but as the market developed and technology improved, Alston became viable for BT, and so the exchange was enabled for ADSL broadband – with full access to all retail ISPs. Consumers made their choice. There is nothing to suggest that the same wont happen again. The community FTTH network will be chosen by some above existing ADSL services, and by many with no access to current broadband services. However, in time BT, or Virgin, etc will determine that the central location has sufficient demand to be commercially viable and a wholesale network will be provided – with access to the full choice of retail services. The community network will be used only by those beyond the reach of the wholesale network, and will become commercially unsustainable – technically "future-proof" but rapidly commercially redundant.

## Open Wholesale Access

To ensure access in rural areas for both fixed and mobile broadband, it is essential that retail ISPs have access over the networks present. In this way, wholesale competition is efficient and based on network capacity demands, not the completeness of a retail offer.

In the 4G spectrum, it is relatively simple to augment the A3 block geographic coverage obligation with a further obligation to provide open wholesale access. Regulation will be required for wholesale prices in these areas. However, it would also be desirable for small scale local operators to be able to establish micro networks and offer access to this coverage as a part of a wider retail offer (akin to micro electricity generation).

Fixed broadband services identify the complicating factor. Although networks may claim to be open access, they have too few users to attract ISPs to use them. BT is the only network of sufficient scale to attract ISPs (though Fujitsu have announced their intentions here). INCA have so far failed to establish a credible alternative ISP hub. A mechanism is required that allows small scale network providers to offer their users into a wider wholesale market for ISPs. Any network that cannot offer an adequate choice of ISPs to its users cannot be considered a genuine part of the UK broadband infrastructure.

## Specific Questions

Following are responses to some of the specific questions asked in your open letter. We have focused on those questions specifically related to rural availability:

- Q1. Retail competition is essential to a healthy communications market. Maintaining the UK's strong retail competition is essential. Wholesale competition at network level should be encouraged and supported where there is sufficient capacity demand. In areas where there is low capacity demand (primarily rural areas) collaboration at wholesale network level must be developed to spread network investment as far as possible.
  
- Q5. Widespread take-up of superfast broadband services requires widespread availability. Widespread availability in rural areas demands the integration of multiple networks, and the availability of retail competition and choice across all networks. This requires effective access to wholesale markets for small network providers.
  
- Q7. The A3 block of the 800 MHz spectrum has the 95% geographic coverage obligation. This must also have a wholesale open access obligation.

## Background

GreySky's Consulting is currently supporting the development of superfast broadband projects in a range of urban and rural environments across the UK, including the remote areas of rural Northumberland. We also recently reviewed Ofcom's "Consultation on assessment of future mobile competition and proposals for the award of 800 MHz and 2.6 GHz spectrum and related issues" to respond to the Culture Media and Sport Committee "Inquiry into Spectrum". Our current activity is based on expertise developed in the communications industry and Regional Development Agency development for the first generation broadband rollout.

Our comments are focused on the issues of promoting effective investment in sustainable infrastructure, particularly in rural areas.

Yours sincerely

James Saunby  
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