

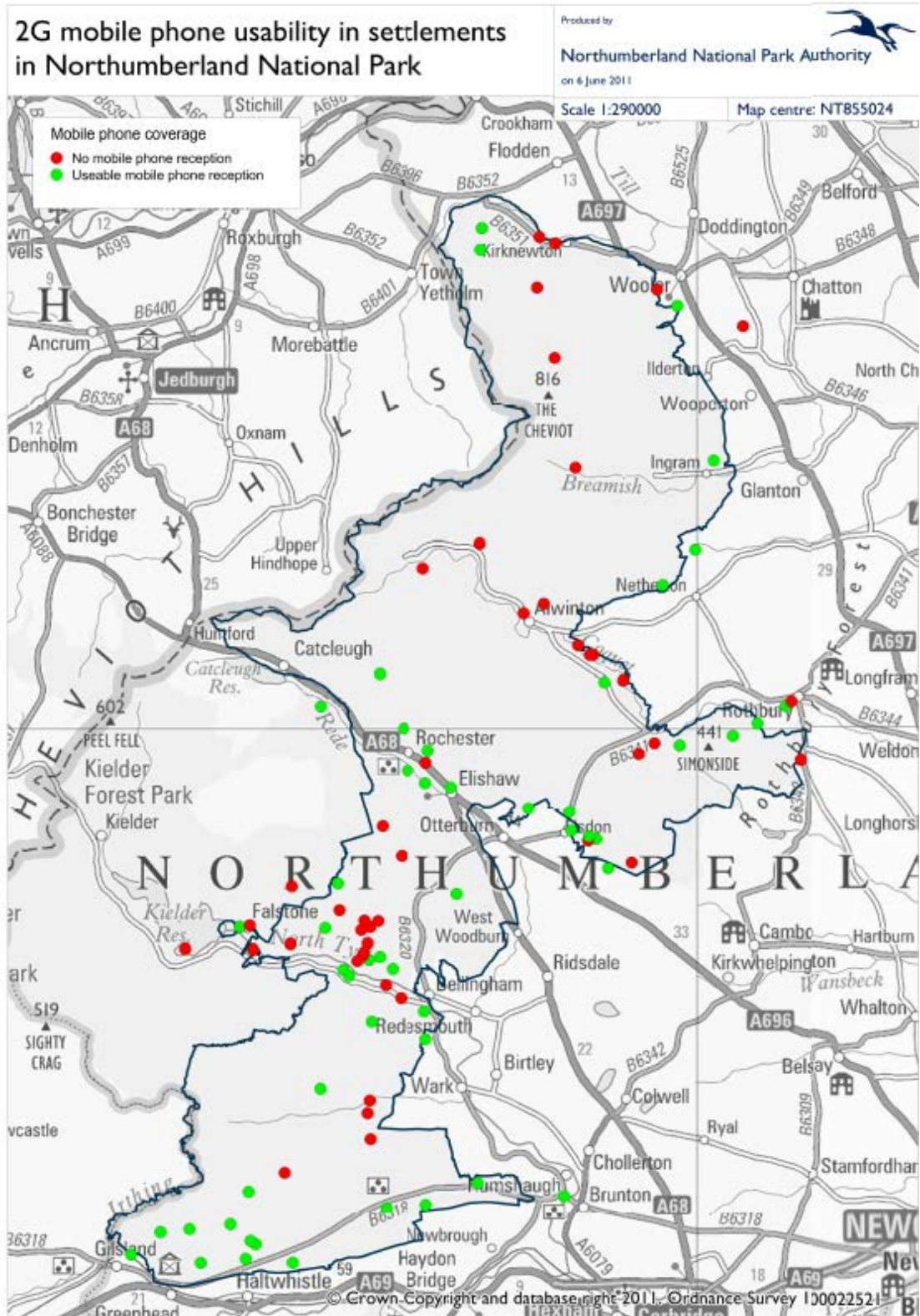
Culture, Media and Sport Committee – Inquiry into Spectrum

1. Submission

- 1.1 This submission is provided by the Northumberland National Park Authority (NNPA).
- 1.2 NNPA has the responsibility to look after Northumberland National Park - one of ten national park authorities – special purpose local authorities established to conserve the landscape, heritage and wildlife of the area and to provide opportunities for people to enjoy and understand it. We are also committed to supporting the local economy in and around our borders to ensure a thriving, living countryside for future generations. The issues and suggested solutions NNPA raise for Northumberland National Park are relevant to the other English National Parks and this submission is made on behalf of the English National Park Authorities Association.
- 1.3 Our concern is specifically focused on the question of whether the upcoming auction can deliver improved mobile broadband coverage in rural areas.
- 1.4 NNPA was advised by GreySky Consulting Ltd on the specific technical issues involved in this submission.
- 1.5 Our submission is informed by data on 2G and 3G mobile service access obtained as a part of our residents' survey completed as part of our intelligence used to update planning policies under the local development framework for the Northumberland National Park. This survey shows that many of the communities in the National Park suffer from an absence of any mobile phone coverage (see Map 1 page 2).
- 1.6 We believe that without changes to the current proposals the communities of our rural areas are again likely to miss-out from access to modern communication technology which is ironically becoming increasingly necessary in these areas as the cost of providing essential public services in the more traditional manner becomes less cost effective.
- 1.7 In addition, England's National Parks offer recreational and holiday experiences for over 100m visits pa. This forms a vital component of the national tourism offer. This business sector is increasingly competitive and without access to new generation technology the sector (dominated by private sector micro-businesses) will undoubtedly suffer and miss growth opportunities.
- 1.8 We also believe that with a small number of modest but important changes the current draft proposals offer a generational opportunity to enable rural areas to move forward with the rest of the country and address past inequalities.

Map 1

Lack of Mobile Phone Usability in Northumberland National Park 2010



2. Summary

- 2.1 Ensuring the maximum geographic coverage of the 800 MHz spectrum is of critical importance to rural communities and the rural economy.
- 2.2 We support Ofcom's proposal to include a geographic coverage obligation with the A3 frequency block of the 800 MHz spectrum as an effective way of ensuring efficient investment in infrastructure in the 4G mobile market.
- 2.3 We support Ofcom's proposal to set the level of the obligation at 95% of the UK population and 2 Mbps downlink speed.
- 2.4 We suggest that bidders for the A3 frequency block of the 800 MHz spectrum are required to submit plans as to how they will achieve the 95% coverage obligation. These should be detailed to local (county) level to enable more equitable solutions to be delivered across the whole of the country. The plans for the winning bidder would form an integral part of the specification of their obligation.
- 2.5 To improve verifiability of the obligation, we recommend changing the specification of the obligation to require a minimum signal strength, rather than 90% probability of indoor reception.
- 2.6 We do not support Ofcom's belief that ensuring four credible national wholesale competitors is sufficient in itself to ensure retail competition in rural areas.
- 2.7 We believe that the holder of the A3 frequency block in the 800 MHz spectrum must be required to provide open retail access to the wholesale services delivered over this frequency.
- 2.8 We suggest that bidders for the A3 frequency block of the 800 MHz spectrum should be required to submit details of how they will deliver open retail access to the wholesale services they provide over this frequency block, and to allow wholesale providers of geographically complementary services to access this open retail market.
- 2.9 It is important that the terms, conditions and obligations of the licences are effectively enforced. We support Ofcom's proposals to include effective and proportionate penalties to ensure their ability to enforce the licence requirements.

3. Overview

- 3.1 Our review of the approach proposed by Ofcom for the upcoming auction of 800 MHz and 2.6 GHz spectrums is focused on their impact in rural areas, and whether the approach is appropriate to the specific demands of rural areas.
- 3.2 Two issues are of paramount concern in our review – the impact of the approach to maximise geographic coverage of services to consumers, and the impact of the approach on competition, particularly retail competition, and specifically in rural areas. Our comments are principally focused on these two areas, with additional comments regarding enforceability.
- 3.3 The 800 MHz spectrum is of greatest significance in rural areas due to the technical characteristics of the frequency compared to the 2.6 GHz spectrum. Our comments are restricted to the auction of the 800 MHz spectrum.

4. Competition

- 4.1 Retail competition is essential to the provision of affordable, innovative services to consumers. The consultation document focuses on the requirement to have four credible national wholesale competitors as a means to ensure wholesale competition, and as a result retail competition. We believe this is credible for urban areas. However, in rural areas we believe this is unlikely to serve the needs of consumers in the short term, or be sustainable in the long term.
- 4.2 We believe it is unlikely, and undesirable that four credible national wholesale competitors will exist in rural areas.
- 4.3 The expectation that four national wholesale competitors is sufficient to maintain retail competition in rural areas appears to require the assumption of a single UK-wide market to be correct. We believe this assumption is already fragile, and will not be sustained in the medium and long term without additional measures to those proposed.
- 4.4 We believe that the approach to ensure widespread geographic coverage will put direct pressure on the single UK-wide market at the wholesale level, forcing a split between urban and rural markets. This position is already beginning to emerge in the fixed broadband market and we expect 4G mobile services to follow without further measures to avoid this.
- 4.5 If the rural provision of wholesale 4G mobile services becomes a separate market at wholesale level, then the current proposals appear to have no mechanisms to ensure any retail competition in this market.
- 4.6 Since wholesale providers maintain 42% and retail providers only 17.5% of the overall value in the mobile communications market, we believe that even if a level of retail competition is maintained, it may not be sufficient to ensure competitive pricing in rural areas without an effective UK-wide market condition.
- 4.7 The A3 block in the 800 MHz spectrum is critical to the provision of rural services. The factoring of the geographic coverage obligation into this frequency block ensures that the holder will be required to deliver services to many rural areas. It will be inefficient if competitive forces require other wholesale operators to replicate this service provision in areas of low demand capacity. Better to encourage them to provide geographically complementary service provision.
- 4.8 We believe that the geographic coverage obligation of the A3 block in the 800 MHz spectrum should also have an obligation to provide wholesale access to these services to all retailers – including the retail arms of their wholesale competitors. We believe this is necessary to maintain a single UK-wide market at retail level, and central to maintaining effective retail-level competition.

5. Geographic Coverage

- 5.1 The principal objective in terms of geographic coverage is to achieve maximum geographic reach for the majority of consumers.
- 5.2 We are concerned that the past arrangement for 2G and 3G failed to address issues of market failure in deep rural areas – including the 10% of England covered by the national parks. In Northumberland National Park many of the communities suffer from an absence of any mobile phone coverage. This information is from our residents' survey completed as part of our intelligence used to update planning policies under the local development framework. In some cases those areas without mobile phone coverage are where mobile phone masts were granted planning permission but the telecom companies failed to install the infrastructure – i.e. clear evidence of market failure.
- 5.3 The consultation document suggests that 2G mobile services have achieved 97% coverage of the UK population. This is not supported by our research. We believe that this is the aggregated coverage of all wholesale service providers and does not represent the coverage achieved by consumers. We suggest that coverage should be measured in terms of what a normal consumer with a single retail contract can experience. Our research identified that in many areas that do have some mobile phone coverage, local businesses are required to have up to five handsets to ensure access – this clearly is no way to expect businesses to operate in the 21st Century.
- 5.4 2G mobile services are delivered principally by four national wholesale competitors. These are supplemented by many more retail competitors. This is very effective in urban areas, but far less effective in rural areas. Retail choice for rural consumers is constrained by the coverage profile of wholesale providers in their area. We suggest that this situation should be avoided as far as possible in the mechanism for the 4G spectrum auction and subsequent management.
- 5.5 The proposal for a geographic coverage obligation on only one frequency block in the 800 MHz spectrum presents an opportunity for a far more efficient infrastructure investment model for rural areas than is currently observed in UK mobile markets. This proposal will also enable government to focus its 'subsidy' incentive to the areas of greatest market failure.
- 5.6 To ensure effective bidding for the A3 block, it is important that the cost and commercial return of satisfying the geographic coverage obligation is easily evaluated as part of the bidders' preparations. Ofcom's analysis suggests that 95% of the UK population can be covered using the 800 MHz spectrum from existing mobile sites. We support Ofcom's proposal that 95% coverage of the UK population is an appropriate level for the obligation.
- 5.7 For the obligation to be effective, it must be clearly specified, verifiable and enforceable. Ofcom's proposed specification is largely effective:
- 5.8 "An obligation to serve by the end of 2017 an area in which 95% of the UK population lives, while providing a sustained downlink speed of 2Mbps with a 90% probability of indoor reception."

- 5.9 However, the “90% probability of indoor reception” element of this specification is not easily verifiable. We suggest that this is better defined as a minimum signal strength. This can be calculated to correspond to 90% probability of indoor reception for the 800 MHz frequency, and so represent the same level of coverage, but in a more easily verifiable form.
- 5.10 Although the 95% national coverage is verifiable, this verification would represent a significant undertaking at national level. We suggest that a local (county) level breakdown of the overall national delivery will allow effective verification at local level.
- 5.11 Imposing geographic coverage levels at local levels will impose different restrictions for different potential bidders depending on the distribution of their existing sites – essentially imposing a greater than 95% coverage obligation. This is not considered appropriate.
- 5.12 We suggest that bidders are required to submit plans at local (county) levels as a part of the bidding process for block A3 of the 800 MHz spectrum. This would seem to be consistent with the government’s wider localism agenda. These plans will present how they will achieve 95% coverage of the UK population. This flexibility will allow all bidders to compete on an equal basis, and the submitted plans will form a part of the specification of the locally verifiable coverage obligation for the winning bidder.
- 5.13 Ensuring access by all retail providers to wholesale services in the A3 frequency block is necessary to ensure efficient market investment in infrastructure in rural areas. We believe this will allow further investment in rural areas to be geographically complementary, though further measures will be required to encourage this.
- 5.14 In the UK fixed broadband market, BT is the dominant operator of infrastructure in rural areas. Because BT wholesale allows retail access to their infrastructure, strong retail competition persists and good utilisation is made of their infrastructure. However, other wholesale providers are not able to access this retail market. Consequently there is little wholesale competition in rural areas and differential retail pricing is emerging between rural and urban areas. It is also difficult for small-scale infrastructure projects to provide greater geographic reach because they do not have access to the retail ISPs to sell services over their networks.
- 5.15 Obliging the A3 frequency block holder to provide retail access to its services will ensure that 4G services match the position of the fixed broadband market by ensuring all retail service providers have access to good geographic coverage through a single efficient infrastructure investment.
- 5.16 We believe it is also highly desirable to encourage other wholesale operators to provide geographically complementary infrastructure, and selected areas of competitive infrastructure in rural areas where there is strong capacity demand. We believe this will be most strongly encouraged if other wholesale providers can access the full retail market.
- 5.17 In the fixed broadband market, BT does not allow other infrastructure providers to use its platform for connecting ISPs (the retail providers) with its infrastructure.

- 5.18 We believe that provision of 4G services in rural areas will be significantly enhanced by establishing a central trading capability. This capability will allow all retail providers to access wholesale services delivered through the A3 block. It will also allow other wholesale operators to “sell in” wholesale capacity into the single platform used by retail providers to obtain services – providing a trading mechanism to ensure efficient utilisation of geographically complementary infrastructure investment. We believe this will encourage innovative solutions to evolve and for them to be commercialised across the whole of rural England.
- 5.19 We believe it is appropriate to include all requirements associated with achieving strong geographical coverage with the A3 block of the 800 MHz frequency. Hence we believe it is appropriate to include the requirement to provide retail access to wholesale services in rural areas with the other obligations associated with this block.
- 5.20 As with achieving the 95% coverage requirements, we believe it is appropriate to require bidders to submit proposals as to how they will deliver these obligations. We suggest that bidders for the A3 block of the 800 MHz spectrum should be required to submit as a part of their bid the technical and operational details of how they will ensure open retail access to services delivered over the A3 frequency block, and how they will allow wholesale providers of geographically complementary service to access the same retail market.

6. Enforceability

- 6.1 It is essential that the obligations associated with the spectrum licences are effectively enforced. We support Ofcom’s proposals to include measures that ensure the achievement of all obligations are verifiable and enforceable.
- 6.2 Effective enforcement requires proportionate penalties to be available. We support proposals to allow spectrum allocations to be revoked at any time for significant failures to meet obligations. We also support proposals to allow fines to be imposed where these represent a more proportionate approach.

Submitted by

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