

WHOLESALE LOCAL ACCESS MARKET REVIEW - RECOVERING THE COSTS OF INVESTMENT IN NETWORK EXPANSION

Consultation Response by Irish Central Border Area Network Ltd. (ICBAN)

Thank you for the opportunity to respond to the consultation on the proposed BT network extension in lieu of the USO. Irish Central Border Area Network Ltd. (ICBAN) has been charged by its three local authority members in Northern Ireland to help seek answers and solutions to the gaps in service left by an over reliance on a fibre to the cabinet solution deployed and subsidised in Northern Ireland. We are a local authority development organisation which works in the cross-border areas of Northern Ireland and Ireland. The three local authority member Councils from Northern Ireland are: Armagh City, Banbridge and Craigavon Borough Council; Fermanagh and Omagh District Council; and Mid-Ulster District Council, and all are located on the border with the Republic of Ireland.

We are making these comments in the absence of seeing the detail of BT's offer.

ICBAN's main observation is that Ofcom has not yet evaluated the potential to use the £150m election agreement funds to deliver 'Ultrafast' broadband in Northern Ireland. We acknowledge that these proposals are not available yet in significant detail but nevertheless we would have expected that the outline proposals would and should have been taken into account, as these will have a major impact on the proposed network extension. ICBAN's second concern is that BT's investment in Northern Ireland has not been assessed or verified and Ofcom have failed to take note of BT's submissions to the CMS Select Committee Inquiry, where BT's capital investment in Northern Ireland is significantly less than the numbers portrayed in the 'fair bet' analysis. This was the subject of ICBAN's response to the WLA Consultation on the proposed market, market power determinations and remedies, also dealt with in the organisation's report 'Fibre at a Crossroads, Part II - The need to confirm BT's Capital Contribution in NI's Subsidised Broadband Infrastructure'. We cannot understand therefore why Ofcom is not taking account of the information already in the public domain.

It is assumed that any network extension offer is against a not wholly defined Broadband USO specification where a 10Mbps access speed is set as a benchmark. The 10Mbps benchmark, like the call for the separation of BT by Parliament, is a consequence of frustration with BT's lack of investment over several years. There is a danger of therefore responding to the sentiment rather than addressing the underlying problem. This is exacerbated by the Digital Economy Bill being subject to a 'wash up' process prior to the election. While the proposed amendment for a 1Gbps USO was included, the relative role of the proposed B-USO to completing existing BDUK work was not.

The notion of 10Mbps as a goal, is itself pre-set by the expected distance limitations of copper gain technology while most of the task in hand needs to address the holes in service left by the same copper gain technology. Any proposal focusing on LR-VDSL or G-Fast copper gain technologies will still leave some of the problem to be solved, with many still excluded and the USO unmet.

This proposal from BT would appear to be quite simplistic and devoid of a detailed evidence base, thus requiring more detailed workings.

Question 3.1: Do you agree with our approach to assessing the number of qualifying premises to include in our analysis? Please provide reasons and evidence in support of your views.

The methodology and numbers needs further iterations. The following could be examined in the next round of modelling. It is good to see scenario 2 reduce from the original 2.6m premises to between 600k and 800k.

The DCMS USO consultation suggests that some 48% of remaining Scenario 2 problem in 2020 is in urban areas. This may be because of BT's preference for supplying private circuits as a solution to fixing a distance related problem. Where this arises, a duty to respond to a 'reasonable request' for superfast or indeed ultrafast broadband would seem more appropriate than a USO meant for serving rural areas.

Ofcom acknowledge they have not assessed the plans in Wales or Scotland or indeed the impact of the £150m set aside, as part of the Conservatives /DUP election agreement for fixing the less than 100k premises in Northern Ireland who cannot get a superfast service. The BT commitments in Wales include the promise of Fibre on Demand, which point to a willingness by BT to support FTTP-GPON extensions to the existing subsidised infrastructure where they are needed. This offer is consistent with the fibre extension activity referenced in the BDUK 2012 framework requirements, and which forms the primary means which other EU operators such as Openeir (Eircom) are using to overcome the shortcomings of copper gain technology.

There is a case that the B-USO should not be applied until BDUK funded activity included all clawback is exhausted. Ofcom should seek and be granted that flexibility, as the B-USO in its current form is likely to divert resources from BDUK activity to deliver less future proof solutions.

Furthermore, Ofcom could refine their quantities by geography taking into account the plans to 2020-2022. Thinkbroadband publish regular updates on the matter and now include premise counts.

Ofcom have not done any real assessment of how far the BDUK programme can go. BT has capital accruals of £463m (Q1 2017) in its accounts. £130m of this has been released and Openreach in their 2015 pledge have said the £130m would permit

coverage of 96%¹. This leaves a capital deferral of £333m plus the underspends and balances in investment accounts held by UK Local Authorities. Given the information already made available to Ofcom on this matter it should be possible to make a more complete use of the information available and refine the numbers downwards from the current c800,000 for scenario 2.

It could be argued that the frustrations expressed by Parliament are not due to a shortage of funding but a shortage of resource and wherewithal to conduct a deeper fibre rollout. These issues have been expressed to ICBAN as challenges by observers to the delivery of the network in NI.

It may well be the case that Ofcom could conclude that the need for 10Mbps USO will not exist by 2020-2022, but the dividend arising from the BDUK activity could be in the form of a Fibre On Demand service². The public investment to date, the lower than expected costs and the higher take up, makes possible the addition of FTTP-GPON fibre extensions where copper gain technology cannot deliver superfast or ultrafast speeds.

In turn this would help NI and the UK keep pace with international broadband ambitions. In Ireland the National Broadband Plan is intended to deliver at least 30mbps to every premise by 2022, and similar is targeted by NI's most recent draft Programme for Government. Meanwhile the EU's Gigabit Society ambition is that every household will have 100mbps by 2025.

ICBAN supports The Bit Commons paper on 'Fibre Path Facility,' which identifies a more complete alternative to the 10Mbps proposal. This is consistent with the ambitions expressed by ICBAN in the 'Fibre at a Crossroads - Part I' report.

In the absence of formally reviewing the BT offer, there is a natural caution or fear that copper gain technology is being pushed to serve commercial needs, rather than securing the best digital infrastructure for the NI and UK economies. There is also a fear that a rush to meet a USO requirement in the short term, using the same resource as that used by BDUK, will result in less full fibre than might otherwise be, which is opposite to the outcome being sought by Government and Ofcom.

Question 4.1: Do you agree with our approach to assessing the technologies and technology mix that should be used as the basis for calculating the costs of BT's proposed rollout? Please provide reasons and evidence in support of your views.

The technology assessment cannot be complete because the geographic challenges are not concluded. FTTC deployment costs have been about half those predicted in the 2009 BSG report. In announcing Openreach's FTTP consultation, CEO Clive Selley has also quoted FTTP costs as half of what they were.

¹ £130m to achieve 96% in outlined BT's Openreach Charter.

² Fibre on Demand (FTTP-GPON extensions is attached as a separate document entitled -Fibre Path Facility

The broadband service gaps are being created by copper gain technology, and thus proposing more copper gain technology needs to be re-examined when a more complete picture of the geographic challenge is available.

This could lead to a greater use of fibre extensions, using (up to 8km) fibre segments, primary and secondary splitters connecting to spare fibres put in place with BDUK funding.

The FTTP modelling is very useful as it would permit Ofcom to agree an FTTP volume for rural, needed for where copper gain technologies do not work. This volume can be informed by BT's ability to deliver in rural areas and included in the charge control.

Question 5.1: Do you agree with our proposed approach to modelling the costs of BT's proposed network expansion? Please provide reasoning for your answer.

As preliminary workings the approach is ok but there is much that can be done. What Ofcom has usefully proven in this preliminary work is that the regulator could agree a FTTP-GPON volume target for difficult to serve areas, without impacting greatly the wholesale price for all broadband lines. This should be considered alongside the 'fibre path' paper submitted by The Bit Commons.

Ofcom needs to conduct a full reconciliation of all BT expenditure and the £1.1bn of public subsidy so far. It would also allow Ofcom to assess early BDUK contracts where BT headline investment number is less than half³ that which Ofcom used to assess the fair bet and set the price control. In so doing it is likely that Ofcom could propose supporting a bigger volume forecast for FTTP in their modelling with only minor modifications to the charge control. The challenge of assessing BT's resource remains and this should be modelled in line with any volumes which increase the proposed charge control.

ICBAN would therefore contend that BDUK's programme should be exhausted before any new support measure is overlayed. This would become even more self-evident if Ofcom examined the resourcing issue and did a more complete reconciliation.

Question 6.1: Do you agree with our proposal to recover the costs over all broadband lines?

The preliminary modelling has demonstrated a very useful way of agreeing on FTTP-GPON volumes for rural areas where copper gain technology will not work. Ofcom may conclude that the scale of the BDUK funding is such, that changes to

³ Welsh contract points to <£40 capital per premise passed. Early Northern Ireland contracts show a similar low level of capital investment. BT Commercial investment in these geographies was much less than 50%.

the charge control to fund more work in rural is not needed until the next price review.

Question 6.2: Do you agree with our proposed approach to implementing recovery from all broadband lines?

In principle Ofcom have shown it is possible. What the modelling is yet to show and determine is what is truly incremental to business as usual. The impact of the BDUK programme should be assessed more fully and allowed to finish before a new level of support is put in place. This includes the exhaustion of European funding.

The overlay proposal in its current form favours copper gain technology in support of a 10Mbps USO, a target that fixed wireless and mobile broadband providers can meet using an appropriate antenna in most cases, which means it does not need to be legislated for. The reliance on copper gain solutions needs to be challenged given the high number of urban premises appearing in the DCMS analysis.

Finally, the potential exists for Ofcom to show that the 10Mbps proposal is potentially out of date or will be, but the sentiment expressed by Parliament/Government would be better met by formalising the supply of, from a regulatory perspective, the provision of direct fibre access, where copper gain technology cannot match the performance of a direct fibre connection.

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