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**Review of Universal Service Obligation – a Further  
Consultation**

Response by Centrica

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## EXECUTIVE SUMMARY

1. Centrica welcomes Ofcom's current proposals to leave the Universal Service Obligation (USO) relatively unchanged and is broadly supportive of the minor amendments suggested.
2. However, Centrica restates its belief that it is premature to assess future funding options when Ofcom's own analysis estimates that there is no net cost associated with its provision. Any further cost benefit analysis of the provision of the USO (such as Ofcom intends to conduct in 2006) should bear this out. Centrica urges that the work is conducted in an open and fully consultative manner to ensure that all benefits and costs are estimated appropriately.
3. Schemes aimed at tackling issues of affordability need to be targeted effectively to ensure take-up by low income customer. The current Light User Scheme (LUS) has had limited success and Centrica hopes that the new proposals realise greater penetration amongst its intended user group.
4. Centrica sees the Public Call Box (PCB) proposals redefining what constitutes a Site, local veto and consultation period for proposed removals as engendering efficiencies in the delivery of the USO. One reservation being that changing a Site from 100 to 400 metres may provide greater challenges for disabled users and, thus, undermine Ofcom's proposals on accessibility of PCBs. Centrica hopes that the local veto process provides the necessary checks to mitigate this risk.
5. Funding of the text relay service is subject to a dispute between BT and some industry players due to a 1900% hike in what BT charges communications providers for access to the service. Establishing a Stakeholder Advisory Panel for the relay service will go some way to obviating such incidents in the future through greater transparency and accountability.
6. Centrica agrees with Ofcom's proposals to allow non-uniform charging by BT where the installation cost of a new line exceeds £3,400 and to retain the benchmark minimum speed of Functional Internet Access (FIA) at 28.8 kbit/s.

## GENERAL ISSUES

Centrica welcomes Ofcom's assessment that the USO is unlikely to be unduly burdensome on the Universal Service Providers (USPs), namely BT and Kingston. Given these findings and that the relatively minor alterations proposed within the current consultation<sup>1</sup> are likely to reduce the level of Universal Service Cost (USC), Centrica expects that Ofcom's intention to undertake a more formal cost benefit analysis in 2006 will be just the start of a lengthy period of evaluation which should take into account how USO will be provided within BT's new structure. If the current review is focused on the next two to five years whilst the Telecoms Strategic Review is concerned with longer term issues, then it would be prudent to assess cost and benefits over a period of a few years from 2006. Ofcom recognises the considerable operational impact such a data gathering exercise would have on a USP and, as such, ensuring that the data capture period is the most relevant for the analysis is essential. Any cost benefit assessment would be greatly enhanced once the effects of the current proposals, particularly concerning PCBs and affordability schemes, become apparent.

Centrica urges Ofcom to make the cost benefit analysis an open and inclusive process. Provision of the USO impacts on all stakeholders, not just current Universal Service Providers. Centrica believes that there are elements of the USO cost benefit analysis that warrant scrutiny and debate amongst all stakeholders. For example, through NCCN 599 BT currently bundles access to a relay service with the operation of that relay service so that other operators are charged for the costs of both elements. It only requires a brief look at the RNID's Text Direct website<sup>2</sup> to realise that BT gains considerable retail brand awareness from its facilitation of the service and that it is inappropriate for it to charge other communications providers further. Centrica understands that there is currently an open dispute<sup>3</sup> in relation to NCCN 599 and awaits the outcome of that investigation. Whilst Centrica welcomes the establishment of the Stakeholder Advisory Panel as a positive move towards providing greater transparency in the Relay Service's management processes, this group cannot resolve the fundamentals of appropriate, allowable universal cost recovery.

In its response to the initial USO Review earlier in 2005<sup>4</sup>, Centrica outlined its thoughts on the calculation of costs and benefits as well as the impact of establishing a Universal Service Fund (USF) should the USO prove unduly burdensome. An extract from that response is included below for completeness.

- *“Centrica believes that, where possible, Universal Service Providers (USPs) should fund any net costs. Whilst increased competition has introduced downward pressure on higher margin products, those with SMP status are able to charge higher prices and leverage economies of scale so it can be expected that their margins remain higher than most of their competitors.*
- *But, Centrica maintains that it is not sufficient to merely suggest that as competition erodes high margins in the services typically used to fund the USO, such as international calls, there will come a point where providing the USO will become an undue burden. Cross-subsidisation from higher margin services is a notional concept but formal evaluation of whether USO*

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<sup>1</sup> <http://www.ofcom.org.uk/consult/condocs/uso/statement/statement.pdf>

<sup>2</sup> <http://www.rnid-typetalk.org.uk/frame.html>

<sup>3</sup> [http://www.ofcom.org.uk/bulletins/comp\\_bull\\_index/comp\\_bull\\_ocases/open\\_all/cw\\_847/](http://www.ofcom.org.uk/bulletins/comp_bull_index/comp_bull_ocases/open_all/cw_847/)

<sup>4</sup> <http://www.ofcom.org.uk/consult/condocs/uso/responses/centrica.pdf>

*provision represents an “unfair burden” to an operator should be considered in light of the overall, blended margin position of the business as a whole.*

- It is important to note that BT, as the largest market player, will gain the greatest benefit from the market externalities generated by the USO. It could even be argued that the greater uptake of telecommunications products that the USO delivers will continue to benefit BT through its wholesale operation long after its retail arm has lost dominance. Therefore, Centrica would urge Ofcom to assess all of BT’s business activity when assessing whether any potential, future net costs are unduly burdensome.*
- If such a situation were to arise where there are both significant net costs and they are unduly burdensome, then Centrica would caution against the indiscriminate introduction of a direct levy on communications providers. The current Ofcom levying regime discriminates in favour of vertically integrated operators because they can effectively redeem their levy by passing the cost onto their wholesale customers. Putting it another way, service providers effectively pay twice; once directly to Ofcom and again to their wholesale provider. Should Ofcom seek to adopt a further levy based on the existing process than it will exacerbate the problem further.*

## **CONSULTATION ISSUES**

### **Q1 OFCOM IS SEEKING VIEWS ON THE PROPOSAL THAT BT SHOULD PROCEED WITH THE REVISED TARGETED SCHEME AND ON OFCOM’S PROPOSED MEASURES TO ENSURE TAKE-UP.**

Whilst understanding the challenges in encouraging take-up of affordability schemes, 60% of LUS is disappointing, Therefore, Centrica believes that the new proposals are a step in the right direction and that the improved Inclusive Call Allowance and Early Payment Discount may result in a greater penetration of the target market.

However, caution should be exercised in evaluating the targeted households. In proposing criteria based on Income Support and both Pension Credit and Housing Benefit, Ofcom estimates a target market of over 3m households (approximately 10% of the addressable residential market). In excluding those utilising IA or PCS from the scheme, it is unlikely that adoption rates will ever exceed 60%. IA and CPS products can offer considerably lower tariffs to certain call types and, as such, will prove more attractive to some low income households. Coupled with the availability of very competitive two-stage dialling products and pre-pay calling cards aimed at a significant proportion of international callers who are of low income, Centrica expects the proposals to meet with limited take-up success.

Centrica believes that consumers’ interests would be better served through targeting a smaller demographic and measuring success by more than overall penetration into that market.

### **Q2 OFCOM IS INVITING VIEWS ON AMENDMENTS PROPOSED IN ANNEX E TO THE USO DESIGNATION TO IMPLEMENT THE CHANGES TO THE DEFINITION OF SITE?**

Centrica recognises that the USO should not be unduly burdensome by ensuring that expenditure is efficiently targeted towards social need. Where cost is inefficiently incurred there are lowered social benefits. Clearly some PCBs fall into this category whereby considerable cost is expended with limited discernable benefit. By redefining a Site from 100m to 400m greater efficiency will be introduced into PCB expenditure. In general it seems reasonable extend the minimum distance between PCBs to 400m.

**Q3 OFCOM IS INVITING VIEWS ON AMENDMENTS PROPOSED IN ANNEX G TO THE DIRECTION ON PCBs TO IMPLEMENT THE CHANGES TO:**

- **THE DEFINITION OF SITE**
- **THE PUBLIC BODIES WITH THE LOCAL VETO**
- **THE EXTENDED CONSULTATION PERIOD**
- **THE RULES ON CASHLESS PCBs**

As indicated in the previous question, Centrica is supportive of the proposals laid out in Annex G in relation PCBs and the definition of Site. Further refinement in the operation of the local veto further cements the streamlining of PCB removal. Consumer interests can still be protected through the requirement on unitary bodies to fully consult with stakeholders and by extending the consultation period to 90 days in order to accommodate the amended process.

**Q4 OFCOM IS INVITING VIEWS ON GUIDANCE PROPOSED IN ANNEX H**

Centrica is unable to comment further on the finer points of the PCB removal process.

**Q5 OFCOM IS INVITING VIEWS ON AMENDMENTS PROPOSED IN ANNEX F TO GENERAL CONDITION 6 TO IMPLEMENT THE CHANGES TO THE ACCESSIBILITY OF PCBs.**

Whilst Centrica believes that the proposed amendments to General Condition 6 will aid accessibility to PCBs, it is important that the benefits for disabled users are not undermined by the proposed amendments to Annex G and, in particular, redefining Sites and streamlining the local veto.

**Q6 OFCOM IS INVITING VIEWS ON AMENDMENTS PROPOSED IN ANNEX I TO GENERAL CONDITION 15 TO IMPLEMENT THE CHANGES RELATING TO OBLIGATION TO PROVIDE:**

- **BILLS AND CONTRACTS IN ACCEPTABLE FORMATS**
- **SHORT CODE NUMBER ACCESS TO A DIRECTORY ENQUIRY FACILITY**

Centrica welcomes the aligning of General Condition 15 with the Order and the Disability Discrimination Act 1995. It feels that such an amendment will remove any ongoing

confusion. As part of general housekeeping, the removal of the obligation on providers to provide short code access to a Directory Enquiry Facility for users of the Relay Service is a suitable reflection of the withdrawal of the 192 short code and the introduction of 118 xxx Directory Enquiry numbers.

#### **Q7 OFCOM IS INVITING VIEWS ON THE CONSENT TO NON-UNIFORM CHARGING PROPOSED IN ANNEX J**

Centrica is fully supportive of the principle of non-uniform charging on the basis that only excess charges can be levied over the threshold. However, it is recognised that the threshold of £3,400 has been unchanged for several years and it may be appropriate to revisit the suitability of this figure again in the mid term.

#### **Q8 OFCOM IS INVITING VIEWS ON GUIDANCE ON REASONABLE REQUESTS PROPOSED IN ANNEX K.**

The clarification of the rules surrounding reasonable requests is welcome. Centrica sees the rule that BT does not have the right to require developers to build out copper as part of new housing projects in order to fulfill its own Universal Service Requirements as fundamental in encouraging competition in access infrastructure. However, this may prevent IA and CPS operators from being able to address certain elements of the market and, thus, consumers will be deprived access to a greater choice of telephony providers.

#### **Q9 OFCOM IS INVITING VIEWS ON AMENDMENTS TO GUIDELINES ON FIA PROPOSED IN ANNEX M.**

Again, the amendments to the guidelines on FIA appear to be a pragmatic way forward. Whilst it is preferable that line share through DACS becomes less prevalent in BT's network, the benefits of an extra 5kbit/s is unlikely to be material enough to warrant the additional investment. It would be preferable to continue to monitor whether broadband provision should become a basic tenet of the USO at some point in the future.

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