



[INCA response to Ofcom's Consultation:](#)

Promoting competition and investment  
in fibre networks

Initial consultation on the approach to  
modelling the costs of a fibre network

August 2019

## 1 Introduction and background

1. INCA is a trade association. Its members are supporting, planning, building and operating sustainable, independent and interconnected full fibre and wireless networks that advance the economic and social development of the communities they serve and permit the provision of applications and services through open competition, innovation and diversity.
2. INCA's aims are to:
  - a. support the development of sustainable independent networks through collaboration on the provision and procurement of products and services and adoption of common standards.
  - b. support collaboration between members to create new, independent digital infrastructure that can be shared by operators and suppliers.
  - c. support mutual trading between members.
  - d. represent the interests of independent networks.
  - e. promote the advantages and successes of independent networks.
3. INCA has more than 130 members, including: network owners, operators and managers; access and middle mile networks; public sector organisations actively promoting the development of 21st century digital infrastructure; vendors, equipment suppliers, and providers of services that support the sector.
4. Although this response focuses primarily on the conditions for building competing fibre networks, many of INCA's members build both fibre and wireless networks or wireless networks only. It is important that Ofcom does not focus only on the benefits of fibre networks and effectively ignore the benefits of very high speed and high quality fixed wireless networks.

## 2 Context and general comments

5. INCA represents a wide variety of alternative network operators (altnets), many of which are focused at network deployment in smaller towns and/or rural areas. INCA members have a track record of bringing quality and choice to many consumers where they would otherwise be left with only the most basic service offered by BT.
6. To build commercially viable networks in smaller communities and in rural locations, it is necessary to develop very specific business models as conventional telecoms network deployment business models would not work in many such locations. It is therefore important that any analysis performed by Ofcom is able to recognise that there are providers offering real value to consumers in small towns, villages and rural areas, where the conventional business models may show that commercial deployment is not viable. It is the experience of those INCA members that network deployment costs can be reduced substantially by using tailored network designs and business models, rendering otherwise commercially unviable locations viable.
7. INCA welcomes Ofcom's initiative to build a model that calculates the costs of fibre network deployment in the UK, with the explicit objective to calculate costs of network deployment at different scales and in different geographic locations. INCA is, however, concerned that there

is only a single network costing module, which appears to reflect the network architecture of BT.

8. INCA urges Ofcom to extend the scope of this initiative to embrace the many and valuable smaller providers, which, it appears, have been largely overlooked in Ofcom's earlier consultation as part of the preparation of the fixed telecoms market review (FTMR), due to be completed by March 2021. INCA has already expressed its severe concerns that Ofcom proposes that the vast majority of the UK landmass and more than 30% of total UK premises cannot be subject to competition and should be treated as a de facto BT monopoly. INCA has demonstrated clearly, in its response to Ofcom's 'Approach to Remedies' consultation, the net benefits of treating the whole of the UK as prospectively competitive and only resorting to monopoly-style regulation of BT when it has been proven that no competitive investment will be made in specific areas.
9. INCA does not have the resources to undertake a detailed analysis of Ofcom's draft model, but is aware that other providers have done so and found that the model is difficult to use and is unsuitable for running scenarios, due to it producing results that are at times counterintuitive, even nonsensical. It has been suggested that Ofcom has perhaps issued the model before completing its own internal quality checks. Therefore, the most appropriate course of action for Ofcom would be to work on improving the model and reissuing it in order that respondents can make informed responses to Ofcom questions.
10. Although INCA has limited resources, it would welcome the opportunity to share with Ofcom how some of its members have successfully deployed fibre networks in small towns, villages and rural areas, in order that Ofcom can develop an analysis module to ensure that such deployments are recognised when Ofcom considers what type of regulatory intervention is in the best interests of consumers in those types of locations. Many of these operators will participate in INCA's Conference on 16<sup>th</sup> and 17<sup>th</sup> October, in Manchester. Jonathan Oxley and Markham Sivak from Ofcom will speak at the conference, alongside DCMS officials, investors and vendors. The conference offers a good opportunity for Ofcom officials to gain a more nuanced understanding of the different commercial approaches operators are taking.

### 3 Ofcom's specific Questions

11. Ofcom only asks 4 very broad questions in this consultation and they relate to the workings of the model. As INCA has not been able to analyse the model in detail (but has benefitted from analyses performed by some of its members and other altnets), it can only provide limited comments to those questions.

#### 3.1 Does INCA agree with Ofcom's general approach to modelling

12. INCA agrees with Ofcom that a bottom-up modelling approach is appropriate, but urges Ofcom to reflect different deployment scenarios including different network topologies and business models. Without doing so, Ofcom will not be able to make informed decisions

regarding where competition is likely to emerge and what regulatory interventions are most appropriate in specific locations.

13. INCA understands that Ofcom's model is intended to allow for costing of smaller networks (as opposed to full national coverage), but that the model does not allow altnets to select specific locations (or types of locations). Instead, INCA understands that it is possible to select the proportion of total UK premises a network should cover, and the model will calculate the costs for that. INCA is concerned that this will not allow for understanding the specific cost dynamics for smaller areas where different types of equipment and network topologies can be used successfully to reduce costs and still deliver excellent quality services.
14. Further, INCA understands that, when selecting the proportion of premises a network will cover, the model automatically selects the lowest cost premises, with no option to select the type of premises profile the network is intended to cover. This approach will almost certainly produce misleading results for smaller network deployments like those made by INCA members.
15. INCA also understands that Ofcom's 'scorched earth' option in the model is in fact not a scorched earth option as generally understood by that term (that is a greenfield network deployment without existing infrastructure to reuse). INCA considers that Ofcom must offer the possibility for the model to reflect costs other than those of an operator using a network designed like that operated by BT (which we understand is what the model currently reflects).
16. INCA agrees that the model should assume that new fibre network provides will re-use existing physical infrastructure (BT's ducts and poles) where available and cost-effective, but alerts Ofcom to the fact that INCA members with experience in using the current product is finding it not fit for purpose. Further, INCA considers that altnets will only use existing physical infrastructure where this does not result in the new fibre network architecture being compromised.
17. With regards to calibration and verification of the model inputs and outputs, Ofcom need to understand that the type of model developed by INCA is not the kind of model a telecoms provider would build to review investment opportunities and to attract investment. Such networks calculate the net present value (npv) of the investments and include revenues in order to calculate the discounted cash flow (dcf) in order to understand whether the investment is viable.

### 3.2 Does INCA agree with Ofcom's approach to forecasting service volumes?

18. Having reviewed Ofcom's proposals for service volume forecasting, INCA does not agree with the proposed approach. INCA does not agree that there is a fixed relationship between FTTP and leased lines across towns, cities and locations of different sizes and demographics. That ratio is likely to vary geographically and also over time.
19. In particular, INCA does not agree with a constant relationship between FTTP and leased lines over time, given that developments such as 5G and different applications within the concept

of the internet of things are likely to require an increased number of high-reliability leased lines connections.

20. INCA agrees with Ofcom that it is unlikely that altnets will offer DPA services at any scale that makes it necessary to include those costs in this model. It is, however, important that the costs of DPA are included in the BT/Openreach costing model.
21. As set out above, INCA agrees with Ofcom in principle that the model should be able to reflect deployments at different scales and also reflect different levels of expected penetration for the network being modelled. The issue INCA has identified, however, is that the model automatically selects the lowest code postcode sectors for deployment, and that is not how altnets select how to deploy network. Altnets look for contiguous areas that match the profile they are specifically targeting, whether large urban towns/cities, smaller towns and villages or rural locations. For the model to be able to generate realistic outputs for smaller network deployment, it should enable the selection of a specific network topology as well as a profile of customer/premises characteristics/density.

### 3.3 Does INCA agree with Ofcom's approach to network dimensioning and costing?

22. INCA does not agree with Ofcom's proposal to only dimension the network for FTTP requirements and treat all leased lines requirements as incremental. INCA considers that this is likely to result in inappropriate initial network design and dimensioning and could result in overstated costs over time.
23. INCA is also concerned at Ofcom's approach to modelling opex as a fixed proportion of capex/gross replacement costs. The experience of INCA's members is that the opex percentage of total costs can vary substantially depending on the business model and network architecture and on the size of the deployment. INCA encourages Ofcom to introduce more flexibility in the modelling of opex.

### 3.4 Does INCA agree with Ofcom's approach to cost recovery?

24. INCA has not been able to undertake detailed analysis to review Ofcom's different options for depreciation, but notes that its members would typically use models that calculate npv and dcf, rather than using depreciation methods to calculate annual unit costs.
25. With regards the WACC to be used in the model, INCA considers it important that Ofcom enables the use of different WACC values between BT and market entrants. INCA looks forward to reviewing Ofcom's proposals for WACC in the December FTMR consultation.
26. Finally, with the recovery of shared and common costs, INCA is concerned that Ofcom proposes to allocate by far the largest portion of costs in the model using mark-up methods.



Whilst Ofcom does not set out which approach it intends to use and it seems that Ofcom may use different approaches for different inter and intra-service group allocations, INCA urges Ofcom to consider whether very large shared costs (such as the cost of ducts) could be attributed using causal drivers instead of a relatively arbitrary mark-up approach.