



# Designing the broadband universal service obligation

Call for inputs

Call for Inputs

Publication date: 7 April 2016

Closing Date for Responses: 23 June 2016

# About this document

In November 2015, the Government set out its intention to introduce a broadband universal service obligation (USO). This would give everyone a right to a decent broadband connection on request. The Government proposed introducing this universal service obligation in recognition of the increasingly important role broadband plays in people's lives.

Ofcom has been commissioned by the Department for Culture, Media and Sport to provide technical analysis and recommendations to support the design of the broadband USO. This document seeks views on the design of the broadband USO.

We will provide our final advice to Government by the end of 2016.

## Designing the broadband universal service obligation

# Call for inputs

## Background

- 1.1 In November 2015, the Government set out its intention to introduce a broadband universal service obligation (USO) to provide a 'safety net' to make sure that households and businesses can get the broadband speeds needed to do business online, access key services or stream live TV. It therefore set out an ambition to give everyone a right to a broadband connection with a download speed of 10Mbit/s on reasonable request.
- 1.2 The Department for Culture, Media and Sport (DCMS) has since published a consultation on the Government's proposed approach to introducing a new broadband USO.<sup>1</sup> The consultation set out the Government's intention to introduce primary legislation to give the Secretary of State an explicit power to introduce a broadband USO. The scope of the USO – including the minimum speed, quality and other more detailed requirements and guidance– would then be set out in secondary legislation, which Ofcom would be responsible for implementing.
- 1.3 We reaffirmed our support for introducing a broadband USO in our Strategic Review of Digital Communications.<sup>2</sup> We highlighted the importance of ensuring that everyone can access a decent broadband service and committed to work with the Government to implement this obligation. We reiterated our view that 10Mbit/s is the appropriate level at present for a broadband USO but noted that the level of performance delivered by the USO will need to increase over time.

## The purpose and scope of our analysis

- 1.4 DCMS has now asked Ofcom to provide technical analysis and recommendations to support the design of the USO. A final report is requested by the end of the year. We are publishing the letter requesting this advice alongside this call for inputs.
- 1.5 We are seeking views from consumers and industry to inform our analysis of the options for designing and implementing the broadband USO. Responses to this call for inputs will inform recommendations we put to Government. We are requesting input from stakeholders on the following six areas:
  - Specification and scope of the USO;
  - Demand for the USO;
  - Cost, proportionality and efficiency of the USO;
  - The universal service provider or providers;
  - Funding of the USO and potential market distortions; and

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[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/510148/Broadband\\_Universal\\_Service\\_Obligation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510148/Broadband_Universal_Service_Obligation.pdf)

<sup>2</sup> <http://stakeholders.ofcom.org.uk/binaries/telecoms/policy/digital-comms-review/DCR-statement.pdf>

- Review of the USO.

1.6 For each of the above points, we are also interested in whether considerations or concerns are common or specific to one or more of the UK's nations.

## **Specification and scope of the USO**

### How should the minimum technical performance of the USO be specified?

- 1.7 We have said that 10Mbit/s is the appropriate level at present for a broadband USO.<sup>3</sup> This is also the Government's ambition for the USO. However, other factors will also affect how 'decent' a consumer's or business's broadband connection is. These may include upload speed, latency,<sup>4</sup> jitter,<sup>5</sup> contention<sup>6</sup> and capacity.
- 1.8 We are interested in stakeholders' views on the minimum download speed for a broadband USO, as well as which other aspects of technical performance should be specified, and at what level.
- 1.9 We recognise that a variety of technologies, including wireless, are capable of delivering download speeds of 10Mbit/s. We aim to encourage the deployment of the most appropriate technology for different local circumstances so as to achieve the goals of the USO in the most efficient way.

### How should we ensure the USO is affordable?

- 1.10 European and UK legislation requires Ofcom to ensure the universal service is provided at an affordable price.<sup>7</sup> We are therefore considering how we might best ensure that this is the case. Options for achieving this include requirements for uniform pricing of broadband services or caps on charges. We are interested in views and evidence on what measures it may be appropriate to impose, if any, to ensure that services provided under the USO are affordable.

### Should there be a social tariff for broadband services?

- 1.11 A USO may also include particular measures for the benefit of those on low incomes or with special social needs. For example, BT (and KCOM in Hull) provides a 'social tariff' for consumers on certain income-related benefits. We are interested in evidence and views on the extent to which a social tariff for broadband services may also be appropriate.

## **Demand for the USO**

### What might the potential demand for the USO be?

- 1.12 Our Connected Nations report highlighted around 2.4 million (over 8% of) premises could not receive a speed greater than 10Mbit/s in mid-2015, with around 1.5 million

<sup>3</sup> <http://stakeholders.ofcom.org.uk/binaries/telecoms/policy/digital-comms-review/DCR-statement.pdf>

<sup>4</sup> The time it takes a packet of data to travel to a third-party server and back.

<sup>5</sup> Measures the rate of change of latency.

<sup>6</sup> A slowdown in performance caused when multiple users share the same bandwidth within a network and the bandwidth available is less than the aggregate demand.

<sup>7</sup> Previously, in its report on affordability, Ofcom defined affordability as: "a good or service is considered to be affordable for a consumer if the consumer can purchase it without suffering undue hardship." <http://stakeholders.ofcom.org.uk/market-data-research/other/cross-media/affordability/>

(48% of) premises in rural areas affected.<sup>8</sup> Poor rural availability disproportionately affects Scotland, Wales and Northern Ireland as they are more rural than the UK as a whole.<sup>9</sup> A combination of BDUK's superfast broadband programme and continued private investment has since reduced this number but it remains a significant proportion across the UK. We will publish updated coverage data in our Connected Nations report later this year, which will help us further understand the location and characteristics of USO premises.

- 1.13 Take-up of broadband across the UK has been increasing in recent years. Seventy-nine per cent of premises had a fixed broadband connection in 2015. The proportion adopting superfast broadband (capable of delivering speeds of 30Mbit/s or higher) is lower at 27%.<sup>10</sup> BDUK revised its superfast take-up target upwards to 30% from 20% in 2015 in recognition of higher than expected take-up of services in its roll-out areas.
- 1.14 Demand for the USO could depend on the technology used to deliver the service, the technical specification – including the speed it is capable of delivering – and the pricing. We are interested in stakeholders' views on the potential scale of demand for a broadband universal service.

## **Cost, proportionality and efficiency of the USO**

### Cost evidence

- 1.15 It will be important to ensure the overall costs of delivering the USO are both efficient and proportionate. We are interested in stakeholders' views on the most efficient technologies that could deliver the broadband USO. This will depend on views on the technical specification and scale of potential demand. For example, DCMS estimates the number of households that will not be able to access a 10Mbit/s service by 2017 is approximately 1 million, with 100,000 in remote rural areas. We are interested in views on the cost of provision of the USO to those households based on a variety of technologies that are capable of delivering 10Mbit/s. We are also interested in views on how costs may vary depending on stakeholders' own views on specification and demand. We are also interested views on the timescales over which stakeholders might expect such costs to be spread.
- 1.16 Important inputs into any cost estimates will include the typical cost per home connected of a range of technologies, and views on how costs may be affected by using shared network deployments or building on existing network infrastructure.
- 1.17 Only the net costs of providing the USO can be recovered through Government or shared industry funding i.e. the costs over and above customer revenues received by the universal service provider (USP). The additional revenues and any other benefits will therefore also need to be estimated. We are interested in stakeholders' views on and evidence for the possible benefits of providing the USO. We are also interested in views on how any net costs calculation should be made where a network may be shared among multiple end customers (both USO and non-USO) and where the USP may be able to offer a range of retail products beyond just a 10Mbit/s connection.

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<sup>8</sup> [http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2015/downloads/connected\\_nations2015.pdf](http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2015/downloads/connected_nations2015.pdf)

<sup>9</sup> <http://stakeholders.ofcom.org.uk/binaries/telecoms/policy/digital-comms-review/DCR-statement.pdf>

<sup>10</sup> [http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2015/downloads/connected\\_nations2015.pdf](http://stakeholders.ofcom.org.uk/binaries/research/infrastructure/2015/downloads/connected_nations2015.pdf)

## Proportionality and definition of a 'reasonable request'

- 1.18 Under the USO, a universal service provider (USP) is only required to meet requests for a USO connection that are considered 'reasonable'. Defining 'reasonableness' will be an important factor in determining who can benefit from the USO and the overall cost of delivering the USO. We are keen to achieve a proportionate balance between ensuring as many consumers as possible benefit from the USO and ensuring the costs of delivery are not disproportionate.
- 1.19 We want to ensure that the USO is proportionate in keeping costs down and not undermining existing initiatives and competition within existing commercial and community networks, while ensuring that consumers are able to access the connections they need. We welcome stakeholders' views on approaches to achieving this.
- 1.20 Another aspect of the 'reasonable' request is that the cost of provision to the USP (or relevant fund) of providing a connection to individual eligible consumers or groups of consumers should not be disproportionate. The current telephony USO sets a cost threshold of £3,400. For connection costs below this, households pay a standard connection charge to BT, the USP for nearly all of the UK, of £130. For the most expensive to connect premises, consumers have the option of covering any construction charges over this threshold, alongside the standard connection charge.
- 1.21 We are considering what an appropriate cost threshold may be for the broadband USO, balancing the need to ensure that as many consumers as possible are able to obtain a 10Mbit/s connection with a proportionate cost burden. We are interested in views as to how such a reasonable cost threshold might be determined.
- 1.22 A further consideration concerns the manner in which the cost of provision for an individual consumer is calculated. In electronic communications networks many network elements are often shared between multiple end users (e.g. upgrading a cabinet or mobile cell site for one customer benefits all customers covered by that infrastructure), with high up-front fixed costs of building shared network elements and much lower costs for connecting individual customers. We are therefore interested in views on how any shared costs should be reflected when estimating the cost of meeting an individual request.
- 1.23 We are interested in options to maximise the reach of the broadband USO to the hardest to reach areas and consumers while ensuring the cost of provision remains proportionate. Possibilities could include modifying the technical specification for specific circumstances, or options around how consumers can make contributions to excess construction charges. We welcome views on possible options that meet the goal of improving broadband services for the hardest to reach.

## Ensuring efficiency

- 1.24 It will be important to ensure the overall costs of delivering the USO are efficient. For example, it will be important to ensure a least cost approach from the USP and we will consider how to ensure the right incentives and safeguards for the USP to minimise its costs. This will partly be achieved through the reasonable cost threshold, as outlined above, but will also be related to encouraging the deployment of suitable technology for the location and making reasonable assumptions about expected demand. We would be interested in stakeholders' views on how to ensure the USO delivers efficiency, both overall and on a per premises basis.

## **The universal service provider or providers**

### How should the universal service provider be designated?

- 1.25 The USP will have to be capable of delivering a connection on request that meets the technical and is affordable. A single provider may be designated for the whole of the United Kingdom to provide the USO. Alternatively, it is possible for Ofcom to designate more than one USP, for example, for different regions.
- 1.26 In deciding upon who to designate and how, Ofcom may designate a USP(s) directly or a competitive process, such as commercial procurement or a reverse auction, may be used. Our aim, set out in our Strategic Review of Digital Communications, is for a competitive and technology neutral procurement process wherever possible to secure efficient delivery and value for money.
- 1.27 We are therefore interested in views on the extent to which providers may come forward for designation as the USP to allow for a meaningful competitive process. We recognise that certain providers may only be willing or able to serve specific geographic areas and would welcome indications of where providers may seek to be designated.

## **Funding of the USO and potential market distortions**

### Funding of the USO

- 1.28 The USO may result in a cost burden being placed on the USP(s) that is designated. Under the Universal Service Directive, the net cost (i.e. after taking account of any additional revenue or other benefits) may be recovered from public funds, through an industry funding scheme or a combination of both industry and Government. The Government has indicated that its preference is for an industry funded scheme. Participants in such a scheme may include any communications provider or may be more restricted. We are interested in views on who should contribute to an industry scheme, taking into account the need to ensure that the scheme is non-discriminatory, proportionate, transparent and causes the least market distortion. We are also interested in views on the potential effects on consumer pricing of a broadband USO on USO and non-USO customers.

### How could any potential market distortions of competition be minimised?

- 1.29 The USO will aim, wherever possible, to build on existing commercial and community networks, rather than displacing them. Minimising the risk of existing network overbuild is important for retaining incentives for operators to continue to roll out high-speed networks and services. We would be interested in stakeholders' views on options for limiting overbuild and avoiding creating disincentives for investment.
- 1.30 We also have an aim to minimise the risk of distortion to retail competition in broadband service provision. We are interested in stakeholders' views as to how a broadband USO might create such risks, and how they could be minimised.

## **Review of the USO**

### When, and on what basis, should the USO be reviewed?

- 1.31 The USO should allow a typical household to engage in a reasonable level of internet use. But consumer demand for internet services evolves quickly. Both Ofcom and the

Government have recognised that the USO specification must be reviewed periodically to ensure it continues to meet the needs of consumers and businesses that rely on the USO. It is important that the USO can change over time to ensure consumers relying on the broadband USO do not fall unacceptably far behind the rest of the UK. At the same time, the timetable for review should consider the investment lifecycle of the USP's specific USO network investments. Too short a review period could increase costs and might discourage providers from being a USP.

- 1.32 A minimum review period would have the advantage of providing some certainty for bidders and the eventual providers. On the other hand, setting a minimum review period could limit our ability to respond in a timely way to changes in the market and consumer behaviour and ensure the USO continues to deliver a sufficient service. We are interested in views on what an appropriate review period might be and on the process for reviewing the USO over time.

### **Next steps**

- 1.33 The Government has asked Ofcom for a report setting out evidence-based analysis and recommendations on the design of the USO by the end of the year, with a progress report in August. The August report's main function will be to summarise stakeholder responses to this call for inputs.
- 1.34 We would be grateful for responses by 23 June 2016. Guidance for replying to this call for inputs is set out in the annexes to this document.



## Annex 1

# Responding to this consultation

## How to respond

- A2.1 Ofcom invites written views and comments on the issues raised in this document, to be made **by 5pm on 23 June 2016**.
- A2.2 Ofcom strongly prefers to receive responses using the online web form at <http://stakeholders.ofcom.org.uk/consultations/broadband-USO-CFI/> as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), to indicate whether or not there are confidentiality issues. This response coversheet is incorporated into the online web form questionnaire.
- A2.3 For larger consultation responses - particularly those with supporting charts, tables or other data - please email [Broadband.USO@ofcom.org.uk](mailto:Broadband.USO@ofcom.org.uk) attaching your response in Microsoft Word format, together with a consultation response coversheet.
- A2.4 Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.
- Broadband USO team  
5<sup>th</sup> floor  
Riverside House  
2A Southwark Bridge Road  
London SE1 9HA
- Fax: 020 7981 3043
- A2.5 Note that we do not need a hard copy in addition to an electronic version. Ofcom will acknowledge receipt of responses if they are submitted using the online web form but not otherwise.
- A2.6 It would be helpful if your response could include direct answers to the questions asked in this document. It would also help if you can explain why you hold your views and how Ofcom's proposals would impact on you.

## Further information

- A2.7 If you want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Mayuran Sivakumaran on 020 7981 3392.

## Confidentiality

- A2.8 We believe it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk), ideally on receipt. If you think your response should be kept confidential, can you please specify what part or whether

all of your response should be kept confidential, and specify why. Please also place such parts in a separate annex.

- A2.9 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and will try to respect this. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A2.10 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's approach on intellectual property rights is explained further on its website at <http://www.ofcom.org.uk/terms-of-use/>

## Next steps

- A2.11 Following the end of the consultation period, Ofcom will provide its final advice to Government by the end of 2016.
- A2.12 Please note that you can register to receive free mail updates alerting you to the publications of relevant Ofcom documents. For more details please see: <http://www.ofcom.org.uk/email-updates/>

## Ofcom's consultation processes

- A2.13 Ofcom seeks to ensure that responding to a consultation is easy as possible. For more information please see our consultation principles in Annex 2.
- A2.14 If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at [consult@ofcom.org.uk](mailto:consult@ofcom.org.uk) . We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, who are less likely to give their opinions through a formal consultation.
- A2.15 If you would like to discuss these issues or Ofcom's consultation processes more generally you can alternatively contact Steve Gettings, Secretary to the Corporation, who is Ofcom's consultation champion:

Steve Gettings  
Ofcom  
Riverside House  
2a Southwark Bridge Road  
London SE1 9HA

Tel: 020 7981 3601

Email [Steve.Gettings@ofcom.org.uk](mailto:Steve.Gettings@ofcom.org.uk)

## Annex 2

# Ofcom's consultation principles

A3.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

### Before the consultation

A3.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

### During the consultation

A3.3 We will be clear about who we are consulting, why, on what questions and for how long.

A3.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened Plain English Guide for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A3.5 We will consult for up to 10 weeks depending on the potential impact of our proposals.

A3.6 A person within Ofcom will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. Ofcom's 'Consultation Champion' will also be the main person to contact with views on the way we run our consultations.

A3.7 If we are not able to follow one of these principles, we will explain why.

### After the consultation

A3.8 We think it is important for everyone interested in an issue to see the views of others during a consultation. We would usually publish all the responses we have received on our website. In our statement, we will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

## Annex 3

# Consultation response cover sheet

- A4.1 In the interests of transparency and good regulatory practice, we will publish all consultation responses in full on our website, [www.ofcom.org.uk](http://www.ofcom.org.uk).
- A4.2 We have produced a coversheet for responses (see below) and would be very grateful if you could send one with your response (this is incorporated into the online web form if you respond in this way). This will speed up our processing of responses, and help to maintain confidentiality where appropriate.
- A4.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their coversheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A4.4 We strongly prefer to receive responses via the online web form which incorporates the coversheet. If you are responding via email, post or fax you can download an electronic copy of this coversheet in Word or RTF format from the 'Consultations' section of our website at <http://stakeholders.ofcom.org.uk/consultations/consultation-response-coversheet/>.
- A4.5 Please put any parts of your response you consider should be kept confidential in a separate annex to your response and include your reasons why this part of your response should not be published. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only, so that we don't have to edit your response.

## Cover sheet for response to an Ofcom consultation

### BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

### CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

### DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

