Future Telecoms Infrastructure Review: Call for Evidence
January 2018

Introduction

Verizon Enterprise Solutions ("Verizon") welcomes the opportunity to respond to the DCMS Future Telecoms Infrastructure Review (the "Review").[1]

Verizon is the global IT solutions partner to business and government. As part of Verizon Communications – a company with nearly $131 billion in annual revenue – Verizon serves 98 per cent of the Fortune 500. Verizon caters to large and medium business and government agencies and is connecting systems, machines, ideas and people around the world for altogether better outcomes.

Please note the views expressed in this response are specific to the UK market environment and regulatory regime and should not be taken as expressing Verizon's views in other jurisdictions where the regulatory and market environments could differ from that in the UK.

In our response to the Review we only focus on those questions which are most relevant to our business in the UK.

What is the existing UK telecoms market structure and policy framework able to deliver?

When will it deliver, and how certain can we be that it will fulfil the Government's ambitions for full fibre networks and 5G deployment?

We make four overarching points that form the basis of our views below:

- **Broadly the current regulatory framework works well and is now delivering desired outcomes on fibre**: there is now ample evidence that the current framework is delivering significant fibre expansion across multiple providers and different geographies in the UK (urban and rural). Key examples include the following:

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669136/20171218_-_FTIR_call_for_evidence.pdf

- Virgin Media is extending its network to additional 4m homes, of which 2m will be full fibre;
    - CityFibre together with Vodafone recently announced plans to roll out fibre to 5m premises by 2025;
    - Hyperoptic aims for full fibre to 5m premises by 2025; and
    - BT Openreach aims for 2m FTTP connections by 2020 and 10m by 2025

  While we welcome the focus on the importance of high capacity (fibre) networks, we consider that this aspiration should be carefully balanced with other aspirations including the promotion of competition in the context of Significant Market Power (SMP) regulation. We consider that the status quo of SMP regulation with access remedies where appropriate strikes the right balance between promoting competition and incentivizing new fibre roll-out.

- **Pressure needs to be kept on BT Openreach to invest in its network**: we remain concerned that BT Group has the power to direct the investment strategy of its network arm (Openreach) through control over its budgetary allowance. This may result in it starving Openreach of funding if its fibre investments do not suit the group as a whole. We explain this further below.

- **The physical access regime is still not good enough:** although we have seen initiatives to improve the ability of communications providers to access land and buildings in order to deploy infrastructure, we do not consider that the current regime of streetworks and wayleaves incentivizes providers adequately. We see a need for a fundamental overhaul from the bottom up, with a bias towards access by default. Below we set out some concrete recommendations in this regard.

- **We need to be more creative and bolder about fibre incentives**: while we support tax relief on new fibre and local funding initiatives, we consider that there are other innovative and creative ideas which could be considered to encourage investment. Examples might include an expansion of testbed environments; permissive regulatory environments on a trial basis; and more explicit support for launching new services which might need full fibre connectivity (such as government being a lead customer itself).

What barriers exist to *long term* investment in the UK telecoms market (beyond work underway by the Local Full Fibre Networks programme to stimulate demand, and by the Barrier Busting Taskforce to reduce build costs)?

What effect do existing revenue streams have on investment plans?

As explained above we consider that the current system of streetworks and wayleaves will be a long-term barrier unless and until it is overhauled. The Barrier Busting Taskforce is a positive initiative, but it needs to have a clear mandate to effect real substantial change if it is to be considered a success. We have previously provided some concrete recommendations to the Taskforce that would have a genuine and immediate beneficial effect to providers and customers:

- **No reference to charging fibre or equipment installation**; charging for the installation of fibre or equipment has a highly detrimental impact on the cost/benefit analysis associated with network deployment and it would seriously discourage the UK government's fibre/broadband connectivity initiatives, as well as hampering Ofcom's desire to see greater network based competition. Ideally, there should be a prohibition on landlords and landowners from charging communications providers for wayleave access, as is the case in certain countries (e.g. in India, charges for wayleaves on government land cannot be required (apart from administrative charges)).[2]

- **Dispute resolution**; a clear, fast and cost effective dispute resolution procedure for access to lay fibre or equipment needs to be established that is user-friendly and practical. The current practice is weighted against the interests of the access-seeking provider. We also consider that transparency could be improved where there have been historic issues with access - for example a web site to post sites that have unreasonably refused to allow a service provider to connect end users. This would greatly help from a planning perspective.

- **Timelines;** we consider that all parties should be required to commit to a target wayleave completion time from engagement to completing a wayleave of 30 days, and if this target is not met then default terms will be deemed accepted and installation can continue on the default basis. This would reduce the cost and time taken to provision customers and rollout infrastructure.

[2] See s.5(3) of the Right of Way Guidelines published by the Department of Telecommunications, India – (page 9): http://www.dot.gov.in/sites/default/files/2016_11_18%20RoW%20Policy.pdf

BT Openreach also has a huge role to play both in delivering on its network investment commitments, and stimulating the necessary competition with other infrastructure providers. We would like to see all of Openreach's substantial profits kept within the division and invested directly back into the network. Given the profits that Openreach makes, this would lead to strong growth in fibre network coverage in the medium to long term.

What changes to spectrum licensing and sharing could foster greater innovation and investment in 5G?

Through our experience in the US we believe the right balance of unlicensed and licensed spectrum will foster innovation and investment. Though we realize that more sharing is inevitable, the system should incorporate the economic benefits of flexible exclusive use licensing model, which permits licensees to mine their spectrum and respond quickly to changes in consumer demand. A good example of US leadership in this regard is its 2016 decision in 28 and 39 GHz to establish a clear sharing protocol with satellite operators and grant mobile rights to incumbent terrestrial licenses (which were already sharing with satellite operators). This has resulted in significant 5G investment by US operators in these two bands.

What can the UK learn from the widespread deployment of fibre networks in other countries?

What factors have led to higher full fibre investment in other countries and how applicable are these to the UK?

The Government wants to consider all market models that will facilitate the next generation of technologies.

What consequences could different market structures, including ones which support longer pay-back periods, have on the investment environment, competition and outcomes for consumers?

While various market models might exist, as explained above we consider that the current framework is fit for purpose, works well and is delivering the necessary outcomes to facilitate new technologies. We are seeing more infrastructure investment than ever before, from multiple providers, across both urban and rural geographies. This flywheel will gain traction and spur continued growth.

Further, the current framework is also well-established and understood by stakeholders and so provides regulatory certainty for investors. As a result we see no need to change the current regime at this stage.

Are the current arrangements for BT legal separation working effectively?

BT occupies a unique status in the UK market. The recent decision to legally separate the Openreach arm of BT Group creates a bespoke structure with specific characteristics. In light of this we make the following observations which, for the avoidance of doubt, apply exclusively to the UK market.

We consider that it is probably too early to be definitive about the effectiveness of the arrangements. However we have enduring concerns about the extent of the separation, made clear to Ofcom at the time of consultation, yet which have not been addressed. We list the key issues below.

- We lack an assurance that BT will not direct Openreach investment strategy and approach through control over Opeanreach budgetary allowance from the BT group. By setting the overall budget envelope, BT will retain an effective veto on Openreach overall direction and decision making: able to starve it of funding if its investments do not suit the group as a whole.

- Openreach Limited will not own the assets used to provide its services: their management will simply be 'outsourced' to Openreach. This is fundamentally inconsistent with the concept of legal separation and profoundly undermines Openreach's autonomy

- The concern still remains that BT Group has the ability to use the substantial profits made by Openreach to further its own interests in other areas of the business, rather than using them to re-invest in the network which benefits all providers (including downstream BT divisions). In this sense, Ofcom does not seem able to achieve its policy aim of improving quality of service in the Openreach network through investment.

- BT has broad step-in rights, which can be triggered by BT even where it simply *anticipates* (in its sole discretion) that action is required to prevent regulatory action. Where they are triggered, BT can take "any such action as it deems necessary". Again, this is simply inconsistent with the aim of legal separation.

- OR will continue to rely on certain employees and other non-capital assets in BT plc (e.g. regulatory, legal, HR), despite the high-level promise to transfer employees to OR.

- It is highly unsatisfactory that providers will continue to have to contract with BT plc, with Openreach merely acting as its agent. This appears not only contrary to the whole principle of legal separation, but raises questions about practicality of the arrangements.

The Government wants to achieve its digital infrastructure goals at the least additional cost. How should new digital infrastructure be paid for?

Are consumers (residential and business) willing and able to pay for new digital infrastructure, given its expected benefits?

Put simply the market should pay for new infrastructure. We see that there is now a strong willingness within the market to fund infrastructure based on the significant number of providers rolling out network. It is also encouraging to see that rural and well as urban FTTP projects are gaining traction which suggests that there is also a sound cost model in less densely populated areas of the country.

With this in mind the role of government and regulators should be limited to ensuring that there are no unnecessary barriers to rolling out the network, and that incentives (such as those outlined above) are offered to encourage this.

What is the potential role of government in stimulating demand or otherwise de-risking new infrastructure investment?

As explained above we consider that the existing framework is delivering, and that the evidence shows a strong increase in infrastructure investment already. We do not see that the government or Ofcom need to make any changes to the regulatory model.

Where we *do* see a role for government is (i) to consider other forms of incentive as mentioned above, such as becoming a customer for launching new services; and (ii) to tackle wayleaves and streetworks which remain an enduring physical bottleneck for all network providers.