



HYPEROPTIC
VOUCHER CONSULTATION
RESPONSE

24th JULY 2013



About Hyperoptic

Hyperoptic is a UK Internet Service Provider (ISP) and network operator providing Fibre To The Home (FTTH) to large residential and business developments. Our first customer was installed in Q4 2011 and since then we have passed 21,000 homes in London. We offer both business and residential dual play (telephony & broadband) products allowing customers to take advantage of unmatched synchronous speeds of 1000 Megabits per second (1 Gigabit), 84 times the national average.

Specialists in multi-dwelling residential and business units, we dedicate our proven network and ISP experience to the rollout of fibre technology. Our primary focus to date has been in London where we are now available in over 40 developments.

Introduction and general points

The information within this response is specific from Hyperoptic however we have been working with ISPA and the other ISPA consortium ISPs, industry representatives, government and local authorities to help provide our views on how the Voucher Scheme should work.

We appreciate and are aware of the challenges that the super-connected cities fund has had and that the vouchers scheme is now aimed at a specific customers, SMEs. However, it is important that public money does not distort competition and that the overall benefits of the scheme are made clear.

Hyperoptic is interested in being part of the scheme if issues related to competition and scheme design are addressed. It is important that providers should have access to demand statistics local authorities have put together as part of the connected cities fund. The more information is made available the stronger the process will be. Individual ISPs can then put a suitable offer together for prospective customers using the existing data. A minimum number of quotes should be sourced to maximise competition.

Each city has different amounts of funding allocated. It is not clear if there is a process in place when the funding runs out in one city? Similarly, it is not clear what happens if there is an underspend of the allocated funds and whether the vouchers have an expiry date?

We would also encourage the promotion of the scheme beyond SMEs and other enterprises to include residents where there is a demonstrable market failure or a common interest objective as set out in paragraph 2.2.4 of the consultation paper. Hyperoptic does not believe that this funding should include rural areas as the levels of competition in these areas are considerably less and will monopolise funds to only a small number of ISPs.



Questions

Question 1: What methods do you consider most useful and practical in the context of stimulating awareness and demand for a broadband connection scheme?

General awareness raising of the benefits of broadband and superfast broadband to SMEs would be helpful. This should be aimed at those most likely to benefit and who are not yet aware of the full benefits. To help with this it is important to work with organisations like the Federation of Small Businesses and others to reach the right people. This could also include wider work around digital inclusion.

In order to adequately reflect the breadth of the market and the availability of different solutions tailored to the needs of business, any programme must stress the breadth and variety of providers and that in choosing a package price is only one consideration.

Question 2: If you are an SME, ISP or network operator: (a) would you be keen to participate in the voucher scheme on the basis that we have set out in this consultation? (b) In addition to the elements described in this consultation document, what further steps, if any, would BDUK need to take to ensure your participation in the scheme (e.g. broadening the categories of eligible end-users)?

In principle Hyperoptic is interested in being part of the scheme if issues related to competition and design of the scheme are addressed. We touch on some of these points in response to the other questions.

Question 3: Does BDUK need to place any conditions or criteria on the vouchers to ensure effective Take-up by end-users?

Hyperoptic feels that the vouchers should be focused all urban areas within the designated Voucher Scheme cities. This will allow businesses to take full advantage of the broadband products available without the barriers of connection charges. This should include areas where super-fast FTTC and FTTH are already available.

This should include areas like business parks and multi occupancy and multi dwelling buildings, which often have multiple uses. Given the more modern flexible ways of working – particularly for SMEs – home workers and sole traders should also be considered. End users will have the ability to work from home with the same levels of connectivity available at their workplace, reducing the need to commute daily with all the resulting environmental as well as work/life balance advantages.



Question 4: Which costs do you consider should be eligible for funding by the connection voucher?

We agree with definitions outlined in the proposal where the connection charge only should be eligible under the voucher scheme. However, the definition of connection charge should be more heavily defined. Installation costs such as Cat5e cabling from NTE to business faceplate should not be included, as well as equipment charges such as switches, routers or other equipment. We believe this cost should be picked up by the ISP. The scheme should only cover standardised or regulated products to avoid unfair competition.

What should be included in the scheme should only be the connection cost of connecting a business to the local exchange. All backhaul connection charges should also be excluded to avoid ISPs taking advantage of the scheme.

Question 5: Do you think the current value range proposed for the connection vouchers (£250 to £3,000) is appropriate?

Whilst we understand the rationale for the range as set out, we feel there is scope to increase the minimum and maximum range from £500 to £4000. This would help widen the scheme somewhat, particularly as there are only a handful of existing products available. The slight increase would help take the cost down for more complex and larger bits of installation and by increasing the minimum and maximum range, business will be able to cover the full cost of existing market products.

We strongly recommend that more thought is given to how ISPs don't overly benefit from the scheme as the market norm is for ISPs to waive the connection charge for leased lines if the business takes a 3 year term. Will the ISP be profiting from this scheme rather than making it easier for business to obtain superfast broadband?

Question 6: Should a contribution to the connectivity costs be required of end-users or should the scheme support the total costs of connectivity? If you consider a contribution to be appropriate please explain why and confirm which end-user should be required to contribute (e.g. SMEs, residents etc.), and what the minimum contribution should be.

Given that public funding is being made available for demand-side superfast broadband connectivity, we do not think it would be appropriate to ask end users to make additional contributions for connectivity. Customers will have to pay subscription and other ongoing costs once connected, so to ensure maximum take up of the scheme the voucher should pay for as much of the connection charge as possible.

The scheme could look to enforce terms and conditions on the voucher whereby the business would need to sign up for a period of time (e.g. 3 years) rather than take advantage of a short term free



connection charge product for only 12 months. Business applying for the free connection charge and only taking the BB product for 12 months will have taking scheme money which could have been better spent on businesses looking to benefit from long term connectivity.

Question 7: Do you agree that a 'portal' (web based interface) providing is the best mechanism to enable end-user's to meet potential suppliers? If so, what information do you consider should be provided on the 'portal'?

We believe that a portal will allow businesses to understand which ISPs they can approach in their area. Without a central portal, it will be difficult for smaller ISPs to market their products and services to drive awareness within cities.

Question 8: Other than the use of a portal, what steps could be taken by BDUK to maximise the effectiveness and efficiency of the scheme for suppliers and end-users?

We do agree that a web based portal is the best mechanism to enable end-users to meet potential suppliers. However, this is not a simple undertaking and there will be lots of work involved to ensure that it is fit for purpose. It should:

- be easy to use regardless of speed of connectivity
- use easy-to-understand and jargon-free language
- allow equal presentation of all eligible providers and,
- allow potential customers to search by various fields, including user need, product, capability, etc

In the interests of competition it is important that a mechanism exists for end users to obtain quotes from a variety of service providers. The end user should have to obtain quotes from a minimum number of different participants in the scheme to ensure a competitive quote as possible. One possible solution could be that the details of end users who register on the site are made available to all eligible ISPs in the region. With the relevant information they could then provide a quote. This would have to respect existing data protection and privacy obligations but a competition-based approach should be used.

Beyond the portal, ways to maximise the efficiency of the scheme include making the process less bureaucratic for smaller ISPs than is currently drafted. The billing and invoicing involves local authorities and the DCMS and has the potential to very cumbersome. For smaller providers cash



flow is very important. Payment should therefore be timely on completion or the voucher should be processed during installation and paid before final completion.

It is important that there exists a robust audit involved so that there is no scope for abuse within the process. Any public money spent should be audited against a supplier invoice. The importance of this is reinforced given the criticism of other aspects of the broadband programme by the National Audit Office.

Question 9: The measures that BDUK is proposing are designed to stimulate the take-up of High-grade connectivity demanded by SMEs. These measures and the voucher scheme in particular have been formulated to work with the current regulatory framework and State aid rules. Please confirm: (a) Whether and how you consider these measures might result in a distortion to competition; and what, if any, adjustments to the scheme might serve to correct for such distortions; and (b) Whether the operation of the proposed scheme is likely to give rise to any regulatory concerns.

Competition is key and as the internet industry in the UK is broad and diverse, it is important that any public money reflects the existing competition framework. One way to help bring about competition is a requirement for SMEs to obtain a minimum number of quotes for a job wherever possible. This could be set at 3-5 quotes so that various options are sought and considered. Further, SMEs who wish to spend public money should be making an informed decision, looking at the offering as a whole and not just on price. This should be stressed in any awareness raising by government or local authorities.

We strongly recommend that further policing be done on ensuring that inflated connection charges are not created to offset the ongoing monthly rental. For example, ISPs may artificially increase the connection charge to reduce monthly rental making their quote more appealing to businesses.

Question 10: What methods do you consider might be most useful and practical to monitor the Voucher Scheme and evaluate its outcomes?

There are a number of monitoring approaches which can be taken. Due to the limited number of products on the market, connection charges should be relatively static amongst most, if not all ISP quotes. Monitoring these will be key to ensure ISPs are not taking advantage of the scheme.

This scheme should not be designed to benefit ISPs but rather businesses. Therefore, monitoring of what the connection charge is used for is key. For example, when installing into a business park, one EAD could serve multiple businesses. An ISP should be acting as an additional gatekeeper to ensure the scheme funding can be spread as widely as possible and therefore more scrutiny should be given



where one ISP is installing into the same business park to understand how the scheme's money is being invested.

Aside from this, more general points include levels of underspend, which areas are benefitting over others and feedback from end users.

Question 11: Are there any other aspects that directly relate to BDUK's proposed demand-side measures that you would like to raise?

We would ask that processes and governance be put in place to monitor the end products ISPs are offering to ensure they are regulated and have a competitive wholesale price to allow ISPs to compete in marketplace.