
Three response to BDUK Urban Broadband Fund Consultation on Connection Vouchers

Non-confidential.

24 July 2013



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1. Summary.

Hutchison 3G UK Ltd (“Three”) welcomes the opportunity to respond to DCMS’s BDUK Urban Broadband Fund Consultation on Connection Vouchers.

Three welcomes DCMS’s intention to stimulate the market for improved digital connectivity to make the UK a more attractive place for digital companies to come and do business.

Three nevertheless questions whether the voucher scheme is the best way to help smaller businesses, especially by subsidising the upfront installation costs of superfast and ultrafast broadband.

In particular, Three disagrees that the proposed scheme will be technology neutral or that it will maximise competition among ISPs to provide the connectivity solutions that businesses need.

Furthermore, we do not believe that connection charges are a genuine barrier to better digital connectivity, rather than other factors, and therefore that the voucher scheme will be a good use of public funds.

In response to the consultation below, we suggest ways to make the scheme more technologically neutral and less likely to distort competition, if indeed the voucher scheme is needed at all.

2. Three disagrees that the scheme is technology neutral or will maximise competition.

Three agrees with BDUK's stated core design principle that the scheme should work within the existing market and will not favour or discriminate against any particular supplier or types of supplier.

However, Three disagrees that the proposed scheme meets this design principle. Indeed, Three disagrees that the proposed scheme as currently specified is technology neutral.

This is because, by subsidising only upfront installation costs, the scheme will tend to favour technologies with high upfront installation costs. In comparison, technologies with low upfront installation costs, but relatively higher non-installation costs will then be at a disadvantage, in only qualifying for a smaller subsidy, if any.

For example, mobile and wireless broadband technologies tend to have low, if any, installation costs, but high network costs of serving multiple customers. In contrast, fixed broadband technologies tend to have much higher installation costs per customer.

For the same reasons, Three disagrees that the proposed scheme will maximise competition among ISPs to provide the connectivity solutions that businesses need.

On the contrary, the proposed scheme as currently structured, will tend to favour fixed broadband solutions over mobile/wireless and favour high cost over low cost broadband solutions.

This may lead SMEs to choose products that they do not need, rather than other products that may be more cost effective. This will discourage investment by lower cost or alternative providers. In many cases, the voucher will simply be funding a "step-change" in broadband capability that is not needed.

Indeed, the BDUK consultation paper provides no evidence why a step-change in broadband connection from under 30Mbps to over 30Mbps is critical to so many SMEs. On the contrary, in our experience, low cost, ease of connection and mobility are much more important than headline connection speed to SMEs, especially for smaller SMEs, including the "Small Office/Home Office" (SOHO) segment.

However, even if SMEs do need a faster broadband connection, the voucher subsidy may simply disappear in higher prices, benefitting only the broadband provider, not the SME end-user. While the consultation states that it is a "demand-side" initiative only, not a "supply-side" initiative, there is a large risk that it will have no demand-side benefits.

Namely, the voucher subsidy will simply be passed on in higher prices to broadband suppliers.

An SME may also use the voucher to fund a new broadband connection and then be unable to afford the ongoing service charges, thereby leading to further wasted resources and taxpayers' money.

Overall therefore, we strongly disagree that the proposed scheme is technology neutral or will not lead to large potential distortion of competition.

3. We do not believe connection charges are genuine barrier to digital connectivity.

Three agrees on the need to promote digital connectivity, especially among SMEs.

We nevertheless do not believe that connection charges are a real barrier to digital connectivity, and indeed the consultation offers no evidence that connection charges are a barrier. On the contrary, the main barriers to digital connectivity, if any, are lack of availability (where applicable), overall cost or lack of information. We do not believe that subsidising connection charges will meaningfully address any of these issues.

First, while lack of availability can still be a problem in rural areas, we are not clear how lack of availability is a problem in urban areas, especially, where consumers, SMEs and larger businesses have a range of fixed and mobile/wireless broadband solutions available to them.

Second, while overall cost may make certain broadband solutions prohibitive for SMEs, subsidising upfront connection charges will not necessarily make these materially cheaper.

Moreover, lower cost solutions are available, such as mobile broadband, which is more than adequate for many SMEs, especially SMEs that need the flexibility of operating from multiple locations and on the move.

Subsidising connection charges will therefore tend to distort competition in favour of more costly and possibly unnecessary solutions and against more cost-effective and better suited solutions for SMEs.

Third, we agree that lack of information might be a barrier to digital connectivity. In this case, subsidising connection charges is not likely to be a proportionate or appropriate solution to addressing this problem. Instead, BDUK should focus on information campaigns and other ways of raising awareness among SMEs about available broadband solutions and their business benefits.

We note the many of these points were also made by others at BDUK's recent Super Connected Cities consultation forum event on 10 July.

4. Response to consultation 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?

Information and awareness campaigns targeted at relevant SME segments.

*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?*

Three would be interested in principle to participate in the scheme. We nevertheless believe that the scheme as currently specified considerably favours fixed broadband providers and therefore does not make attractive for mobile-only broadband providers to consider participating.

(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)?

Considerable changes would be needed for us to consider participating in the scheme, in particular, moving away from subsidy of upfront installation costs only.

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

No comments.

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

To be genuinely technology neutral – consistent with BDUK’s second core design principle that the scheme will not favour or discriminate against any particular supplier or types of supplier – the costs eligible for funding should not distinguish between installation or ongoing costs, nor between provider capital or operating expenditure.

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

No comments, other than it is unclear what this range is based on and how it will be set.

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.

Yes, end-users should make a contribution to the costs of connectivity. Otherwise, the scheme may be providing connectivity to end-users who little or no value for it.

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'?

No specific comments.

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?

Broader information and awareness campaigns targeted at relevant SMEs.

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

Yes, for the reasons described above.

(b) Whether the operation of the proposed scheme is likely to give rise to any regulatory concerns.

None, other than the competition concerns highlighted above.

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

No specific comments.

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

No.