



**Consultation by the Department for Digital, Culture, Media & Sport (DCMS):
Statement of Strategic Priorities for telecommunications, the management of radio spectrum
and postal services.**

Response from Telefonica UK:

Introduction

Telefonica UK welcomes the opportunity to respond to the Government's consultation on its Statement of Strategic Priorities (SSP) for telecommunications, the management of radio spectrum and postal services.

O2 is a mobile network operator and the principal commercial brand of Telefonica UK, which is part of the global telecommunications group Telefonica S.A, headquartered in Spain and operating in Europe, and North, Central and South America.

O2 was awarded Best Network Coverage in 2018 and 2019 by uSwitch and won Best Network Performance in the 2019 Mobile News Awards. The company has over 32 million connections to the network, running 2G, 3G and 4G services across the UK, as well as operating its nationwide O2 Wifi service.

The company is the network of choice for mobile virtual network operators such as giffgaff, Sky Mobile and Lyca Mobile and manages a 50:50 joint venture with Tesco for Tesco Mobile.

O2 has around 6,700 employees, over 450 retail stores and sponsors England Rugby, The O2 in Greenwich and nineteen O2 Academy music venues across the UK. Through a comprehensive sustainability strategy O2 is also creating work experience opportunities for 16-24-year olds via its GoThinkBig platform, enabling customers to reduce their impact on the environment by recycling their old devices through O2 Recycle and, in partnership with the NSPCC, helping parents to keep their children safe online.

O2 is the only mobile operator to be included in the 2017 and 2018 Social Mobility Employer Index and was named one of the best places to work in the 2018 Glassdoor Employees' Choice Awards.

In our submission we have addressed those parts of the Statement that are of greatest interest and relevance to Telefonica.



World Class Digital Infrastructure

Telefonica shares the Government's commitment to provide the UK with world class connectivity across the UK (para. 11). It is for this reason that Telefonica has increased investment in its network to over £3m/day, providing 4G indoor and outdoor coverage to almost 99% of UK properties and voice and text coverage to in excess of 90% of UK landmass.

Similarly, Telefonica shares the Government's ambition for the UK to be "a world leader in the next generation of 5G mobile technology, with deployment to the majority of the country by 2027" (para. 11).

Effective access to passive Infrastructure in telecoms and other utilities

Telefonica welcomes the efforts that have been made by the Government and by Ofcom "to implement unrestricted access to Openreach's physical infrastructure from spring 2019, so companies have greater flexibility to lay fibre networks that serve residential or business customers, including mobile backhaul" (para. 16).

It is crucial that the contractual and commercial conditions put forward by Openreach to deliver duct and pole access to mobile operators are practicable and reasonable. We welcome and support the Government's view that "enforcing workable ducts and poles mechanisms will require rigorous and close monitoring by Ofcom" and agree that "if the duct and pole remedies imposed by Ofcom are not being fully implemented by Openreach, then all options should be considered to ensure compliance" (para. 17)

In January 2019 O2 and Vodafone announced a strengthening of our network sharing partnership through CTIL, the 50:50 joint venture company that owns and manages the parties' passive tower infrastructure. Our plans include an intention to upgrade our transmission networks with higher capacity fibre cables. In this context, we welcome the Government's view that "where access to Openreach's ducts and poles is not available or effective, there should be other options to support competitive network deployment, for example, dark fibre access" (para. 18).

We agree that "access to telecoms infrastructure can be complemented by access to passive infrastructure owned by utilities (e.g. water or energy) and by transport infrastructure providers such as Network Rail" (para. 19). We support the Government's view that Ofcom should "work collaboratively with other regulators... to ensure opportunities for passive infrastructure sharing with other utilities are explored and barriers addressed" (para. 19).



Stable and long-term regulation that encourages network investment

We support the Government's view that "promoting investment should be prioritised over interventions to further reduce retail prices" (para. 20). Investment in mobile infrastructure networks is made entirely by the private sector. The regulatory regime managed by Ofcom, therefore, must support and incentivise continuing investment to enhance coverage, to keep pace with rapidly rising customer demand and to ensure that the UK is a global leader in 5G technology.

We agree with the Government that ensuring "fair and effective competition" is "essential" and, like the Government, "we expect Ofcom to be vigilant and use its full range of powers to address any anti-competitive behaviour" (para.21).

Mobile and 5G connectivity

Following the deployment of a coverage obligation in the 2013 4G spectrum auction, we note the Government's view that improving mobile coverage "should be the key priority" for Ofcom in the forthcoming auction of 700 MHz spectrum and 3.6-3.8 GHz spectrum (para 58). We believe that attaching a coverage obligation to a spectrum licence can be an ineffective tool to improve coverage. If the coverage obligation is set at a level that is impracticable, industry demand to bid for the licence will be diminished – and possibly choked off entirely. Such an outcome would reduce the revenue raised for HM Treasury by the spectrum auction, negatively impact on investment and, most importantly, not deliver the desired outcome of improved coverage.

We consider that the efficient allocation of spectrum and the maintenance of strong competition in mobile markets are properly Ofcom's principal objectives in the award of spectrum. While improving mobile coverage is a desirable outcome, there are better means of achieving that objective than through the spectrum auction. We believe that the most efficient and effective way of improving mobile coverage is through an industry arrangement such that:

- in areas in which fewer than all operators provide coverage (partial not spots), passive infrastructure is shared; and
- in areas where there is no mobile coverage (total not spots), a Single Rural Network is built with support from the public purse.

Our modelling suggests that under this approach geographic coverage for voice, data and text by all operators could reach 90% at minimal expense to the public purse. As Ofcom is aware, the four mobile operators are discussing this initiative at the moment. Telefonica is firmly of the view that



this would be a far better approach than Ofcom’s proposal to sell coverage lots in the forthcoming auction.

Under the Single Rural Network plan being developed by operators and under discussion with the Government, operators will work collaboratively to build infrastructure, which they would then all use to install their equipment and improve rural coverage. The Single Rural Network will deliver coverage at a reduced cost, strengthening the case for investment in locations where it may be weak or absent. We believe the Single Rural Network is a more effective way to support investment and deliver better coverage than coverage obligations imposed by Ofcom through the spectrum auction process.

We note the Government’s view that “roaming in rural areas also has the potential to improve consumer choice and address partial not spots” and that Ofcom should “maintain the option of requiring roaming by including appropriate provisions when granting rights of use for spectrum” (para. 31).

Roaming has been considered and rejected by Ofcom, the Government and the mobile industry in the past, most recently in 2014, when Sajid Javid – the then DCMS Secretary of State – considered roaming, before opting instead for a binding agreement with mobile operators to deliver voice and text coverage to 90% of UK landmass by the end of 2017.

Telefonica does not believe that roaming offers an effective way to improve coverage for three principal reasons:

- It will be a poor consumer experience, because mobile phone batteries will run down faster as they constantly search for the network with the strongest signal; and calls will be ‘dropped’ as they jump from one operator to another.
- Roaming does nothing to address total not spots, where no operator provides coverage (in September 2018 Ofcom estimated that 7% of UK landmass was a total not spot).
- It will be a disincentive to investment. Operators currently compete on the perceived strength of their networks, as this is the factor that most influences the choice of network made by consumers.

We strongly agree with the Government’s assessment that if the UK is to be a world leader in 5G, it needs to be made “easier and cheaper to deploy mobile infrastructure, including the implementation of the wide-ranging Electronic Communications Code (ECC) on site access, and consideration of further planning reforms in relation to England” (para.33).



Spectrum Management

We support the Government's "key objectives {of} ensuring the efficient use of spectrum (including preventing under-utilisation of spectrum)... encouraging innovation and investment in new 5G services to meet future demands; and promoting competition in mobile markets" (para. 35).

We support the emphasis on ensuring effective spectrum utilisation. For example, we welcome the Government's support for "'use it or lose it' conditions related to individual spectrum rights" (para. 38); its expectation that "Ofcom should report on the utilisation... of spectrum bands [to] identify ... where spectrum in each band is not being utilised" (para. 39); and its view "that there should be greater liquidity in the spectrum market and barriers to spectrum trading should be removed" (para.40).

Furthering the Interests of Telecoms Consumers

We strongly disagree with the assessment that "the consumer experience in the telecoms sector is lagging behind that of other essential services" (para. 45). The January 2019 UK Customer Satisfaction Index (CSI) identified 'Telecommunications and Media' as one of three sectors that "have seen the biggest positive movement in customer satisfaction" and placed 'Telecommunications and Media' *above* 'Utilities'. Far from lagging behind other essential utility services, telecommunications is ahead of them.

Furthermore, the CSI 'Telecommunications and Media' sector aggregates mobile network operators with fixed broadband providers. We believe the customer satisfaction with the mobile sector would be shown to be significantly higher if it was not bundled together with fixed broadband providers.

In its May 2018 report, 'Pricing Trends for Communications Services in the UK', Ofcom concluded that "consumers are using their mobile more, but paying less" and found that "since 2013 the average amount of mobile data consumption has increased five-fold, while the weighted average cost of the average basket has fallen by 11.5%".

In its most recent quarterly report on 'Telecoms and Pay-TV Complaints' (July- September 2018), Ofcom found that for fixed broadband it received an industry average of fifteen complaints for every 100,000 subscribers; for landline it received an industry average of eleven complaints for



every 100,000 subscribers; while for Pay-monthly mobile it received an industry average of just four complaints for every 100,000 subscribers (it received three complaints for every 100,000 O2 customers).

We note that almost 77% of the alleged £1.3bn telecoms 'loyalty penalty' identified by the Competition and Markets Authority (CMA) and referred to in para. 48 is accounted for by broadband providers.

Addressing harmful business practices

We introduced O2 Refresh in 2013, under which our customer bills are clearly split in to two parts: the device plan (cost of the phone or tablet) and the airtime plan (cost of data, minutes and texts). When the device is paid off, we automatically stop charging for it. This level of transparency and clarity was unrivalled at the time we launched O2 Refresh six years ago and remains so.

Since then we have introduced further fairness, flexibility and transparency in to our tariffs and last year launched O2 Custom Plans, which allows customers to customise their contracts to meet their own particular needs. Customers can choose the length of their contract up to 36 months; choose how much of the device they pay for up front and how much is spread over the remainder of the contract; and choose their data allowance which they can vary month to month as they move through their contract.

We note that the Government believes that moving customers "from bundled contracts on to fairer tariffs... would be the ideal outcome and will consider legislation if Ofcom's view is that its regulatory powers are insufficient to address this fully" (para.52).

Access to better data & information for consumers

We see no significant benefit in Ofcom "including data on consumer complaints made directly to telecoms providers as well as to Ofcom" in its Quality of Service reports, as suggested by the Government in para.54. We suspect this would merely confirm trends that are already clearly defined in its quarterly 'Telecoms and Pay-TV Complaints' report, while imposing an unnecessary administrative burden on providers.

The Government suggests that "Ofcom should also review how access to better data and information could benefit consumers... for instance by helping them understand the different types of technologies available, and supporting them to match those technologies to their needs" (para. 55). Telefonica already works hard to ensure customers are aware of all options and select



the one that best meets their needs. Customers can consult with an O2 Guru technology expert through website online chat or in store and via social media. Written information is also available in-store and online and a helpline is available as part of our partnership with NSPCC to help to give advice on online safety and digital confidence.

The Government expresses the view that “data portability has a potentially transformative role to play in telecoms.... It is important that telecoms consumers benefit from data portability and that digital intermediaries can use data to make it easier for consumers to navigate the market” (para. 56). O2 customers can track their phone usage and data consumption in real time 24/7 on the My O2 app. We do have reservations over the potential security risk of about releasing customer data direct to a third party.

Supporting telecoms consumers, including the vulnerable

Like the government, we believe it is important “to take all opportunities to improve the consumer experience in the telecoms sector, particularly for vulnerable customers” (para. 59). Mobile operators already compete strongly on consumer experience, as this is key to customer retention and growth. In a market as competitive as the UK, we are fully aware of the value and benefit of providing a positive experience for our customers and are in discussion with Citizens Advice and other consumer organisations about this agenda. The arrival of ‘Text to Switch’ from July 1st 2019 will further incentivise operators to focus on customer service for all customers, “including those with disabilities” and “consumers with mental ill health, cognitive impairments and dementia” (para. 59).

In October 2018 Ofcom introduced updates to its General Conditions, including some to the way in which mobile operators should provide service to vulnerable customers. In preparation for this, we introduced new and strengthened processes to ensure high quality of service for vulnerable customers. These include:

- Offering customers who may require extra support the opportunity to register for our Access for You service, which will alert our staff to any special needs or disabilities they may have, whenever they contact O2.
- Ensuring that hearing impaired customers are able to contact us via Next Generation Text Service (NGTS) and enabling customers who use British Sign Language to contact us via SignVideo.
- Sending bills and documents in alternative formats (Braille, Large Print & Audio), when required.



- Ensuring our stores are accessible to all.
- Allowing customers the right to add a third party to be responsible for managing the account.
- Compulsory core training for staff on Disability Awareness and Identifying & Supporting Customers in Vulnerable Circumstances.

Secure and Resilient Telecoms Infrastructure

We welcome the Government's support for "an engaged, pro-active regulatory approach to the security of communications networks and services [to] incentivise networks and service providers to respond to identified threats and risks, and lead to higher standards across the sector in the management of cyber security and resilience" (para 61).

We await the findings of the Government's Telecoms Supply Chain review with interest.

March 2019