

KCOM Group PLC response to the Digital Britain Interim Report

Background

We welcome the publication of the Interim Report as it addresses issues that are of key importance for the future of the communications industry and the overall economic and social development of the UK. In particular, its focus on the vital question of potential stimuli for “Next Generation Network” investment comes at a critical time for the industry, as current concerns with the global economy are bringing the commercial viability of such plans into sharper focus.

KCOM operates the incumbent core and access networks in and around the Hull area, and provides consumer and business broadband services to its customers in the region. KCOM also provides a range of converged communications services nationally through our own core network services, wholesale access services brought from BT and other providers, and range of hosted and enterprise service solutions. KCOM is currently a member of a consortium, led by Thales, which is preferred bidder for the South Yorkshire Digital Region (SYDR) project that is seeking to deliver next generation broadband services in Sheffield, Barnsley, Doncaster and Rotherham. As a result, we have a keen appreciation of NGN investment issues, particularly in the increasingly important access element.

The report makes a number of recommendations under the key themes of Digital Networks, Digital Content, Universal Connectivity and “Equipping Everyone to Benefit from Digital Britain”. The first category includes most that is directly relevant to KCOM, although it also covers mobile, TV and radio networks. The notes below cover only those actions and recommendations that are directly relevant to us, although we have made a number of comments about the report’s general sentiments and findings. We have also taken the opportunity to comment on the complementary points made in the Government’s response to the “Caio Report”, published last year.

Before we examine these recommendations, we would make two points.

Firstly, KCOM’s position as incumbent in the “Hull area” offers both the company itself and Government policy makers some unique challenges. Whilst we are happy that the services we provide are fit for purpose and offer real value for money, we are not blessed with the scale and in depth resources of the UK’s other incumbent, BT. In the regulatory world, the doctrine of “proportionality” has allowed Ofcom to develop and apply regulatory obligations and remedies that recognised these differences and have not generally been unduly burdensome. We would urge Government to adopt the same approach when considering new policy initiatives; it would be very easy to draw conclusions about the UK environment as a whole from a “BT centric” perspective that would not be at all appropriate for what Ofcom continues to conclude is an essentially separate market. We will seek to engage with the Digital Britain team at all levels to ensure that our unique position is properly represented.

Secondly, much of the report is centred on the social and economic implications for the mass market of “citizen-consumers”. Most of the KCOM business overall is focussed on delivering communications services into business and corporate users. As a recent paper from the CMA has pointed out, the UK’s electronic communications sector contributes around 2.3% of GDP with an industry turnover of £38.8 billion in 2007. The contribution of multi-national enterprises and their supply chains which rely on these facilities approximates to 35% of GDP.

“About two-thirds of the revenues received by the telecoms industry come from public and private enterprise. The disparity in contribution is in inverse ratio to the political and regulatory focus which embraces protection of the “citizen-consumer” rather than supporting, or even recognising the needs of the business user”

The CMA presents a clear vision as to how the government should be working to improve people’s economic and social well-being by addressing the needs of enterprise customers to help generate growth, provide jobs and provide wealth creation. We would note that the UK Competitive Telecoms Association (UKCTA) is likely to be making a submission that emphasises that an appropriate balance needs to be struck between this goal and the issues already directly touched on in the Interim Report. As a member of UKCTA with particular interests in the business sector, we would endorse that view.

Digital Networks

ACTION 1

We will establish a Government-led strategy group to assess the necessary demand-side, supply-side and regulatory measures to underpin existing market-led investment plans, and to remove barriers to the timely rollout, beyond those declared plans, to maximise market-led coverage of Next Generation broadband. This Strategy Group will, by the time of the final Digital Britain Report, assess the case for how far market-led investment by Virgin Media, BT Group plc and new network enterprises will take the UK in terms of roll-out and likely take-up; and whether any contingency measures, as recommended by the Caio review, are necessary.

Caio Report response:

“The Government welcomes Francesco Caio’s report. It accepts his analysis of the broadband market and the high costs of that act as a barrier to deployment of next generation access and that Government should act to minimise these costs. The Government also accepts that the market should continue to lead on NGA deployment and commits to monitoring market and international developments, and act to remedy genuine failures in order to protect the UK current good competitive position in broadband.”

Comments

The Government’s starting point is that NGAs are an increasingly important part of national infrastructure with a key role to play in ensuring economic success and social well being. They are, at this stage, of the opinion that the

private sector should be given the opportunity to meet the challenge of deploying NGAs on a commercial basis, but accept that this will likely lead to a digital divide which could extend to 40% or more of the population who do not have access to “next generation services”. We concur with this view, but would emphasise both the downside risk of neglecting the digitally excluded, and the competitive and structural problems that will continue to jeopardise even the 40% goal in current economic conditions.

Whilst some commentators have adopted a stance of “never mind the evidence base, we need it now”, the BSG report released last year concluded that there is no proven case that early NGA investment conferred economic advantage, and that there are market structure and competition condition differences between the UK and the early adopters that explained our position. The overall message seemed to be, “let’s leave time for the business cases to be built and in the meantime try and remove impediments to investment”.

The subsequent publication of the Caio Report confirmed this analysis and emphasised that looking at how potential barriers to private sector investment in next generation access to broadband can be removed should be the priority. The Interim Report clearly continues this vein of thinking, which we are broadly in agreement with. In our comments later in this document, we offer our views on some of the concrete suggestions now being considered

The UK broadband market is highly competitive, with a wide range of providers providing services at relatively low cost. Competition has driven service take up and use, with a wide range of service options and price points. Service availability is amongst the highest in the world, and both price and take up benchmarks compare well with other developed economies.

Unfortunately, consumer sentiment is not entirely positive. Fundamental concerns about real world broadband service performance have emerged that show little signs of diminishing. Consumer expectations are changing. The intensity of broadband use has increased, and the applications used, such as P2P file sharing and video streaming, demand higher bandwidth for longer periods. Meeting these expectations is proving difficult – many consumers are complaining about poor or variable performance having a detrimental effect on their user experience.

This may be a natural consequence, perhaps, of such dynamic market conditions. The performance problems reflect two main factors, firstly the existence of contention at a number of points in the service providers infrastructure and/or the Internet overall, and secondly, for DSL based services, the variability of peak line speed associated with line length, line condition and static and dynamic noise levels. The former is predominantly the result of investment decisions made by service provider in order to deliver commercially viable products; the latter is the result of the “laws of physics”. With current network topologies and technologies, whether cable modem, MDF based ADSL or wireless, these factors will remain, and, unfortunately, many customers feel let

down by the user experience they actually have, compared with the marketing promises apparently made.

Clearly there is a latent, unsatisfied demand for higher bit rate and more consistent services. Only NGA solutions will enable this, whether FTTK (which includes re-engineered HFC cable networks) or FTTH. The issue is whether, in current economic and market conditions this demand can be met. Only a few months ago, BT stated categorically they could see no short term business case that would justify large scale NGA investment. Whilst they apparently contradicted this position only a few weeks later with their proposed deployment of FTTK to cover 40% of the UK population over the next few years, later comments suggested that even this is in jeopardy in the light of current concerns about economic recession. Our own analysis suggests that the current investment case for NGA is marginal, given current perceptions of customer propensity to purchase and is only likely to make sense in certain circumstances, with relatively high penetration rates in a given area being a prerequisite. Virgin Media have started deploying the next generation of cable modem technology (DOCSIS 3.0), but whether this actually delivers “real” NGA capability (consistent and sustainable actual bit rates in excess of 20 Mbps for all) without significant additional infrastructure investment remains unclear, and VirginMedia’s ability to finance any significant investment may also be questionable in the current economic climate. In this context, it is unclear what NGA investments will materialise in the UK in the short term and what impact, if any, will there be on the UK “e-economy.”

It is worth noting that the BSG and Caio work identified a number of factors that are linked to early NGA deployment and successful take up. These may prove useful in determining whether or not the UK may suffer some form of NGA market failure, and if so, what, if anything, Government should seek to do about it.

Internationally, most, if not all, of the successful private sector funded NGA initiatives are in markets where significant incremental revenue opportunities exist over and above conventional broadband access and voice. Most commonly this is IPTV and generally this is where no strong DTH satellite operator is established. This leaves the opportunity for “triple and quadruple plays” in competition with HFC cable operators of varying financial strength and footprint coverage. This is clearly not the case in the UK where IPTV is competing against a very strong DTH sector, with VirginMedia and Freeview mopping up the rest of what may be close to a saturated multi-channel TV market. (Although, as media consumption evolves towards more “non-linear” models, this situation may change.)

It is worth noting that, increasingly, consumers will expect to have several applications running concurrently, whether to service multiple individuals or devices in the household, or to support multiple service requirements. This aggregation effect will itself drive demand for higher bandwidths.

There has been some speculation about the incremental revenue opportunities in the small business sector, but there is little evidence to date that this has sufficient scale and scope to justify extensive NGA deployment. In the

Teleworker/SOHO context, increasing use of converged network productivity tools, such as Microsoft OCS and Sharepoint will have an important role in driving demand for more consistent and symmetrical connectivity, as will take up of “cloud computing” or other hosted applications.

Allied to the IPTV opportunity in some ways, the existence of strong and ambitious cable TV operators (e.g. Comcast in the USA), may encourage incumbent telcos to invest in NGA to maintain or gain competitive advantage. As noted earlier, VirginMedia’s status in this context is rather more questionable.

However, too much competitive pressure on current generation products may have a negative effect and chill the prospects for NGA investment; it is arguable that the atypically high number of ISPs active in the UK market falls into this category, with oligopolistic price stability the likely result. In this model, the pursuit of market share prevents the establishment of a rational differentiated service pricing regime attracting a premium price for the higher performance service NGA will enable.

There has been a significant amount of recent activity seeking to “monetise” the increasing bandwidth demand in various ways. Unfortunately, due to the effects noted, most mass market providers have been unable to raise prices for enhanced services as many consumers are still focussed on the apparent attractions of “all you can eat” at the lowest possible price. In our incumbent “Hull area”, our ISP, Karoo is, to an extent, insulated from this phenomenon. This has allowed us to introduce more rational pricing models, with usage caps and an element of “pay as you go”. We are, however, still subject to pressure from comparisons with the rest of the UK market and may struggle to raise prices to generate sufficient capital to fund NGA deployment in isolation.

Along with most other CPs active in this market, we continue to explore other ways in which revenues and costs can be better matched to this increase in end user demand. This could be through content provider generated revenues or cost reduction through “two sided” business models, or through end user added value services such as behavioural advertising. In either case, it is important that policy makers and regulators should do nothing to prevent their development, other than to ensure that appropriate consumer protection measures are put in place, concentrating on ensuring transparency of information provision by CPs. In particular, they should resist the imposition of “net neutrality” obligations that could severely restrict such developments and reduce the availability of the funding needed to drive NGA investment. Whilst there are some real privacy and “barriers to innovation” concerns, existing regulatory powers through Communications, Data Protection and Competition legislation provide more than adequate protection.

ACTION 2

Between now and the final Digital Britain Report, the Government will, while recognising existing investments in infrastructure, work with the main operators and others to remove

barriers to the development of a wider wholesale market in access to ducts and other primary infrastructure.

Caio Report response:

“Ofcom has begun exploring the possibility of sharing existing ducts and those of alternative infrastructure owners as way of minimising the barriers to deployment of NGA and will continue to do so.....

The Government welcomes the suggestion from Caio that it may be possible to reduce cost of NGA through using alternative ducting, such as sewers and also welcomes Ofcom’s recent NGA consultation, in which they state that they had held discussions and reached agreement with Ofwat and Water UK that there was no reason in principle why the sewer network could not be used for deployment of fibre networks.

The government will, with Ofcom, continue to explore further with other relevant regulators where opportunities may exist for use of alternative ducting and where appropriate hold informal consultations with industry groups. The results of Ofcom’s current survey of the BT duct network may also have an important role to play, and Government is looking forward to the outcomes of this."

Comments

FTTX deployment costs are dominated by the civil works problems associated with deploying ubiquitous fibre networks, whether to the kerb or the premise. Access to existing duct significantly reduces this problem, with the most obvious example being the deal done by Free in Paris to gain access to the municipally owned sewers.

This is an area Ofcom have been looking at but it is not clear that existing telco duct has sufficient capacity or is extensive enough. Whilst it is true that there are significant assets of this nature already in the ground, it is not clear that they form an essential economic bottleneck for FTTK or FTTH solutions. In many instances, they are not in the right place to serve appropriate street cabinet sites and are very rarely engineered to provide secure, multi user occupancy. Our own analysis of both the SYDR and Hull opportunities suggests that a new duct overbuild will be necessary to deliver the appropriate “backhaul” infrastructure to meet real NGA service needs.

In addition, any “passive” access obligations imposed on NGA deployments may only dilute the investment case and diminish the likelihood of such initiatives taking place. In time, as SMP is gained in downstream markets, active wholesale service obligations should be imposed, with a clear requirement that these should be engineered to be as flexible as possible.

Non-telco assets may offer more opportunity but are typically privately owned and, hence, less likely to be available at attractive prices without primary legislation constraining existing property rights. It should be noted that the commercial rates quoted by H2O (who have struck commercial deals with several water companies for access to the sewers) are not particularly attractive.

ACTION 3

The Valuation Office Agency has provided new, clear guidance which addresses the problem of clarity over business rates identified by Francesco Caio in his report, and will ensure that they respond to any queries from existing and new investors and maintain clear, helpful guidance. For its part, the Government will ensure that the guidance is widely understood by potential investors.

Caio Report response

“The Government accepts that business rates as applied to fibre networks has been contentious and in some instances litigious issue, and that improving clarity around the application of rates to new networks would be beneficial for industry in assessing the business case for deployments.

We are pleased therefore to announce that the Valuation Office Agency, which has responsibility for setting the rates for telecommunication networks, has provided new clear guidance on the application of rates. The VOA will ensure that it responds to any queries from existing and new investors. For its part, the Government will ensure that the guidance is widely understood by potential investors.”

Comments

In earlier inputs to both the Caio report and the Ofcom NGA consultation we made the point that Government should:

"Review the application of the network rates regime so that, at the very least, incremental fibre access should not attract incremental hereditament. Ideally, the removal of network rates completely from those CPs investing in NGA might actually provide sufficient funding to make it happen!"

The position proposed by the VOA is to apply the same approach to NGAs as currently adopted for cable TV networks, with an annual “rental value” per home passed of £7.50. This would result in an actual rate charge of around £3.50 per home passed, with current calculation methodologies. This does have the apparent merit of putting all NGAs on the same rating basis.

However, it is not clear at this stage how existing incumbent networks currently rated on the “receipts and expenditure” approach would be treated during this transition, and the apparent incentive is currently only confirmed to be available until 2011. The downside is both this apparently short window and the uncertainty of what will replace it. We would continue to maintain that a more permanent or more radical rating reduction would be preferable.

ACTION 4

We will, by the time of the final Digital Britain Report, have considered the value for money case for whether public incentives have a part to play in enabling further next generation broadband deployment, beyond current market-led initiatives.

Caio Report response:

“The Government accepts Caio’s contention that better metrics by which to assess not only the spread of next generation broadband, but also the impact it has on the

economic output of companies and individuals, would be valuable. It will aid policy makers in determining when and how Government might be required to intervene to stimulate the deployment of next generation broadband. Government also recognises that assessment of the macro economic value of high speed broadband is difficult, not least at this relatively early stage of network deployments. Nevertheless Government is committed to carry out benchmarking of NGA and its economic impact and agrees that this should be linked to scenario and remedial actions, should they be required to progress the rate of next generation broadband deployments.....

The Government will therefore set out, in consultation with Ofcom and industry experts, a range of metrics to measure the progress and value of next generation broadband, in particular: the pace of roll-out and announced investments; the take-up of NGA and the development of content and services that are likely to benefit from NGA; regulatory developments and pricing of available NGA services; and, where possible, international comparisons. The Government will also engage in contingency planning to identify appropriate mechanisms and remedies in the event they should be required.”

Comments:

This is perhaps the most opaque of the conclusions/recommendations. Government are clearly not promising any money at this point but are concerned that in current economic circumstances, the private sector might not be able to commit to the investment levels necessary. They will therefore establish a set of metrics to measure progress and a justification for intervention if they believe it becomes necessary.

In principle, provided that a clear economic case can be made justifying it, such intervention would be beneficial. The economic and social advantages of early NGA deployment have been widely analysed, and it would be an entirely proper public policy outcome if this led to public sector initiatives to encourage deployment in those areas where it seems unlikely that the private sector will oblige.

Many of the most obvious examples of widespread and early NGA deployment such as Japan, Korea and, to a lesser extent, Sweden have resulted from specific national or regional government initiatives. These have either covered the capital cost of NGA deployment through a new “AccessCo” vehicle, or provided some form of subsidy for existing market players. It seems unlikely that, outside SYDR, funding sources for equivalent interventions will be found in the UK, unless a radical reassessment of “public sector broadcasting” value and funding recipients takes place, as discussed below.

However, we would note the interest of more regional government agencies in exploring mechanisms to enhance “ICT Connectivity” in their areas, and there may be merits in the development of a public/private funding model.

Much of the mass market “need” for NGA bandwidths is predicated on increasing “non-linear” consumption of multi media or video content. Given this trend, the “two sided business model” discussion is of increasing importance. If

content businesses are going to profit from NGA enabled infrastructure, should they not have a role in paying for its deployment?

One UK specific variation of this is to look at the changing concept of “public service broadcasting”. It is quite clear that PSB content will increasingly be consumed non-linearly and/or over broadband connections. The rise of the BBC iPlayer is the most obvious example. In this context, is it appropriate for the BBC to help fund NGA deployment, or, more likely, for Government to switch some PSB funding (whether from the BBC licence fee or otherwise) into some form of NGA intervention? A more palatable option for broadcasters might be to realise the “digital dividend” through the sale of the old analogue TV spectrum and invest the proceeds into NGA.

ACTION 5

The Government will help implement the Community Broadband Network’s proposals for an umbrella body to bring together all the local and community networks and provide them with technical and advisory support.

Caio Report response:

“The Government agrees that it is in the interest of the national broadband infrastructure to bring some degree of coordination to local and community projects. There is benefit in the sharing of best practice and provision of guidance on common practices to maximise the opportunities for competition, for both consumer benefit and for the avoidance of investment in legacy technology in sub-optimal markets.

To improve the chances of projects attracting a wide range of suppliers of broadband services, it would be appropriate for them to use an open access approach, where the issues of interoperability, wholesale products and administrative functions are all based on common industry standards. This would minimise the costs of service provision and maximise the attractiveness of supplying services.

Where projects involve public bodies or the use of public funding, the Government will mandate that public investment in projects is conditional on the basis of these networks being based on the open access model.

In addition, to help the understanding of open access, the Government is working on the publication of guidance with local and community groups to help deliver efficient investment that will benefit consumers and suppliers. “

Comments:

The investment requirements for NGA are such that deployment is likely to begin in small developments. In terms of the required investment, even the Ebbsfleet development is not of a sufficiently “critical mass” size that would justify standalone development of a CP’s systems and processes to provide service there. This is new ground as it is likely that not only the USO operators

will deploy NGA technology but that “fibre loop” deployment will be undertaken by other CPs, some of whom may be completely new to the market.

Clearly standards are key to meeting both regulatory and competition requirements. KCOM note that the development of apparently appropriate standards for NGA has been taking place in the DSL Forum. Agreement of the underlying CP product set requirement may be an area of activity for NGNUK, with NICC actioned to define the product architecture and standards required for services. NICC is generally biased toward the Network-Network interface set but does address access in the DSL-WG. The logical way forward would be for NICC to develop the DSL-WG into a loop access WG and provide a reference product that draws on the available international standards. The status of such a product, and particularly if sponsored by Ofcom, would be a set of recommendations that would be in place as a regulatory or recommended access product. Should Government or Ofcom consider that appropriate standards will not be available in due time, then it will be because there are barriers to their generation and any action to address the situation will have to consider the actual issues. KCOM sees a period of transition where the ideal standards may not be in place (but that they would be visible in the pipeline) and the publication of End User interfaces coupled with CP Wholesale Service Interfaces and Descriptions, fully describing the technical aspects of the services will be appropriate and adequate.

In this context, it is difficult to see what role the CBN based initiative will fulfil.

There are a number of other Caio Report responses that are also relevant to KCOM’s specific fixed network interests. These include a number of measures that are specifically aimed at lowering barriers to NGA deployment:

Lower cost of civil works through a better coordination of streetworks

.....The Government welcomes this recommendation, and to support this principle, has already sought to address this issue by implementing a number of regulatory reforms in spring 2008 to encourage greater efficiency and co-ordination by all.....

The Government will also engage industry through an informal consultation process to continue to identify innovative techniques or methodology that will minimise the costs of installing new or upgraded apparatus.

Relax constraints on overhead deployment of telecoms lines

.....In order to identify the appropriate balance between the differing viewpoints, the Government will undertake an open consultation looking at whether amending the Electronic Communications Code in order to give local communities the choice of allowing this type of deployment is feasible, or indeed desirable.

Support an agreed minimum specification for new build NGA

.....We welcome this recommendation, and are pleased to announce that Government will be supporting this proposal, along with both the construction and communications sectors. We will work to develop a publicly available specification that will inform developers, and allow them to make reasoned choices in order to make their homes more desirable, and facilitate the roll out of NGA.

Comments:

In our input to both the Caio Report and Ofcom's NGA consultation we noted:

“Reducing non-telecoms regulatory barriers

The most obvious initiatives that Government could take to encourage NGA investment would include:

- Simplifying planning regulations applicable to NGA street works and waiving the application of “lane rental” and/or administrative charges due to be introduced shortly.
- Extend the right of CPs to “fly wires” so that fibre can be deployed as overhead rather than underground connections in the “middle mile” or customer drop. (This is happening in the USA and Japan.)”

The overhead fibre planning relaxation is obviously welcome, but will face a tough battle in the face of the conservation lobby. If it succeeds, it will tip the balance more in favour of FTTH, but may pose some challenges with regard to working practices and physical network deployment. The street works co-ordination may mean very little, unless other utilities are obliged to allow access to their trench routes on a purely incremental cost basis, and they are working in the right places. The “new build NGA” standards may constrain innovation with regard to greenfield developments but will at least establish ground rules about what we will be expected to do as an incumbent. They will clearly need to be integrated with the general work on NGA standards noted earlier.

Digital Content

In relation to **Rights and Distribution:**

ACTION 11

By the time the final Digital Britain Report is published the Government will have explored with interested parties the potential for a Rights Agency to bring industry together to agree how to provide incentives for legal use of copyright material; work together to prevent unlawful use by consumers which infringes civil copyright law; and enable technical copyright-support solutions that work for both consumers and content creators. The Government also welcomes

other suggestions on how these objectives should be achieved.

ACTION 12

Before the final Digital Britain Report is published we will explore with both distributors and rights-holders their willingness to fund, through a modest and proportionate contribution, such a new approach to civil enforcement of copyright (within the legal frameworks applying to electronic commerce, copyright, data protection and privacy) to facilitate and co-ordinate an industry response to this challenge. It will be important to ensure that this approach covers the need for innovative legitimate services to meet consumer demand, and education and information activity to educate consumers in fair and appropriate uses of copyrighted material as well as enforcement and prevention work.

ACTION 13

Our response to the consultation on peer-to-peer file sharing sets out our intention to legislate, requiring ISPs to notify alleged infringers of rights (subject to reasonable levels of proof from rights-holders) that their conduct is unlawful. We also intend to require ISPs to collect anonymised information on serious repeat infringers (derived from their notification activities), to be made available to rights-holders together with personal details on receipt of a court order. We intend to consult on this approach shortly, setting out our proposals in detail.

Comments:

We note that ISPA, of which we are a member, has already had significant engagement with BERR/DCMS over these issues and we endorse their submission. We recognise the concerns of content rights holders with regard to protecting their assets from illegal copying of their copyright material and recognise that CPs have a role in encouraging users to desist from such activities. At the same time, we are reluctant to become an unpaid enforcement agency for such civil rights and welcome the indication that Government believes that schemes of this nature should be funded by the content industry in the first instance.

Universal Connectivity

In relation to **Network Universal Connectivity** on Digital Networks:

ACTION 17

We will develop plans for a digital Universal Service Commitment to be effective by 2012, delivered by a mixture of fixed and mobile, wired and wireless means. Subject to further study of the costs and benefits, we will set out our plans for the level of service which we believe should be universal. We anticipate this consideration will include options up to 2Mb/s.

ACTION 18

We will develop detailed proposals for the design and operation of a new, more broadly-

based scheme to fund the Universal Service Commitment for the fully digital age – including who should contribute and its governance and accountability structures.

Comments:

This initiative has already been well signaled elsewhere and Ofcom have launched a work programme to take this forward, which we are engaged with. We are already examining the implications for our incumbent business in the “Hull area”. Due to the relatively compact and predominantly urban/suburban nature of our “Hull area” network, there may be relatively few areas where we cannot deliver the defined baseline broadband, but this remains subject to further study. If the minimum is set at 2 Mbps, there may be more concerns, particularly if we cannot get cost effective access to radio based solutions. The proposal to establish a USO fund will mean that any costs should be more widely spread and we believe that an equitable approach would spread such costs around the wider range of CPs, including mobile providers.

The Government clearly see the mobile sector as having a key role to play, particularly in filling “not spots”. This may be useful when we look at a new broadband USO but the issue will always be what will the price of suitable spectrum be? If open auctions are the only way in which spectrum can be released (and the MNOs would seem likely to appeal any other approach on the basis of discriminatory behaviour), prices are likely to remain high.

In relation to the **take-up of universally available broadband:**

ACTION 19

We will encourage the development of public service champions of universal take-up. The Digital Inclusion Action Plan recommended the appointment of a Digital Inclusion Champion and expert taskforce to drive the Government’s work on digital inclusion. Clearly, the work of the Champion will be important in encouraging take-up.

ACTION 20

We are inviting the BBC to play a leading role, just as it has in digital broadcast, through marketing, cross-promotion and provision of content to drive interest in taking up broadband. With other public service organisations, the BBC can drive the development of platforms with open standards available to all content providers and device manufacturers alike.

ACTION 21

A Public Service Delivery plan: we commit to ensure that public services online are designed for ease of use by the widest range of citizens, taking advantage of the widespread uptake of broadband to offer an improved customer experience and encourage the shift to online channels in delivery and service support.

Comments:

KCOM sought for some time to establish mechanisms to enfranchise the digitally excluded, in the context of our world leading KIT IPTV initiative. The Interim

Report recognises something that we predicted at that point, that consumer ability to afford and propensity to use conventional “PC mediated” broadband services would ultimately result in a significant proportion of the population being potentially disadvantaged. Government has ostensibly been exploring ways in which this could be addressed for some time as well; unfortunately our experience of such programmes to date has been that they are long on rhetoric, short on achievement. Our analysis of the Interim Report’s conclusions in this area does, however, suggest that Government are grasping that this gap can only be met by intervention, possibly be subsidising or paying for connectivity and access for the “digital have nots”. We would concur, whilst noting that such access may be provided through less “conventional” means of access such as mobile devices or some form of set top box.

In the latter context, the role of the BBC is rightly stressed as a provider of key content and expertise in delivering it through multiple channels. We have had extensive experience in working with the BBC on the KIT service and agree that they have a particularly important role to play. In particular “ Project Canvas”, which looks to turn iPlayer related technology into a UK standard for streaming video and other content to the TV may prove crucial. Ensuring access to this capability on a non-exclusive and equitable basis for both content and access providers should clearly be mandatory.