

Cynulliad Cenedlaethol Cymru	National Assembly for Wales
Pwyllgor yr Economi, Seilwaith a Sgiliau	Economy, Infrastructure and Skills Committee
Blaenoriaethau ar gyfer Pwyllgor yr Economi, Seilwaith a Sgiliau	Priorities for the Economy, Infrastructure and Skills Committee
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Committee Clerk
Economy, Infrastructure and Skills Committee
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Three's Response to Economy, Infrastructure and Skills Committee's Call for Inputs: Priorities for the Fifth Assembly

Dear Mr George,

Thank you for your invitation for Three to set out our priorities for the new Welsh Assembly Economy, Infrastructure and Skills Committee. Connectivity will be a key part of the Committee's work and we note that this Call for Inputs will help inform its work programme for the new Assembly.

Three is the UK's challenger mobile operator. Since we launched in 2003 we have focused on ensuring that our customers are able to make the most of their devices through market-leading propositions such as 4G at no-extra-cost. Through Feel at Home, Three customers can now call, text and use their data abroad at no extra cost in 18 destinations, with a further 24 being added in September including Germany, Portugal and Greece.

As the challenger, Three is committed to making the mobile market better for consumers. We have unique insight into the infrastructure and market conditions required to make ubiquitous, high quality mobile service a reality for consumers across Wales. Our network of 852 sites already delivers 3G and 4G data coverage to 95% of Wales' population. Therefore, we welcome the opportunity to respond to this Call for Inputs.

The availability of high capacity mobile communications infrastructure will be critical for economic development in Wales. 81% of SMEs in Wales already identify communications services as "fundamental" to their business¹ and research has shown that a doubling of mobile data usage leads to an increase in GDP growth of 0.5%.²

However, we recognise that in many parts of Wales these services are either limited or not available at all. In others, especially rural or hard to reach areas, consumers have no choice of provider. 4G population coverage across all four networks is only 43.9%,³ meaning that many Welsh consumers are failing to benefit from a full choice of competitive offerings. Choice is crucial in driving improvements in coverage, ensuring that prices are competitive and promoting innovation. The Assembly has a key role in addressing these issues, by enabling improved competition, coverage and investment in infrastructure.

Reforming devolved policies to facilitate investment in infrastructure.

Action must be taken on policy areas where the Welsh Government has powers to intervene directly, including planning reform and business rates.

¹ Ofcom Communications Market Review, 2014

² GSMA/Deloitte, 2012, p7, <http://www.gsma.com/publicpolicy/wp-content/uploads/2012/11/gsma-deloitte-impact-mobile-telephony-economic-growth.pdf>

³ Ofcom Communications Market Review, 2016

i) Planning Reform: The planning framework in Wales is unnecessarily restrictive, meaning that operators are only building the infrastructure that the regulations allow, rather than the infrastructure consumers and businesses need. Taller masts deliver better coverage – a 50m tall mast at a typical location can deliver more than double the coverage area (116km²) when compared to a 15m one (58km²) in the same area (see diagram right). Reform is needed to enable taller masts in appropriate locations, not only to improve coverage at existing sites but also to minimise impact of the larger number of sites that would otherwise need to be built to deliver coverage in any given area.

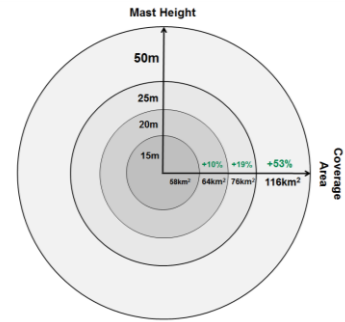


Figure 1 – Mast Height v Coverage

ii) Business Rates: Business rates reform will also be important in enabling better coverage. These currently account for 11% of our network expenditure, £35m on a UK wide basis. The costs associated with planning and business rates can make a marginal business case for a new site unviable, especially in the rural and low population density areas that have been underserved by the mobile market to date. Targeted rate relief in these areas will be essential to ensuring that rollout can continue to go further on a commercial basis.

Unfortunately the regulatory framework in Wales risks falling behind the rest of the UK. Indeed, the UK Government has already legislated for planning changes to facilitate the rollout of mobile infrastructure. In Scotland, with similar connectivity challenges to Wales, the Government has gone even further through the Mobile Action Plan in June 2016 which includes trials of non-domestic rate relief, planning reform and enhanced access to public sector assets.⁴ The Committee has an important role in pushing for similar reforms in Wales, to ensure Welsh consumers do not get left behind.

Scrutinising national policies to ensure the market works for Welsh consumers.

In addition, the Committee will have a key role in scrutinising the policies of the UK Government and Ofcom; making the case for ambitious reforms to unlock investment from operators and increased choice for consumers. We identify two key priority areas to deliver this;

iii) Spectrum: Spectrum is the bands of radio and airwaves that link consumers' devices to our network and enable mobile networks to provide the services that underpin the Welsh digital economy. Ensuring a fair and equitable distribution of spectrum between operators is crucial if we are to meet consumers' expectations on coverage, capacity and price; as well as to get the best for Wales. Ensuring that Ofcom gets this allocation right is crucial if we are to meet consumers' expectations on coverage, capacity and price; as well as to get the best for Wales.

Yet since 2010, Ofcom's policy has undermined the balance of spectrum holdings, and is distorting competition. This trend was made worse by the 4G auction in 2013 and exacerbated further by the decision to allow BT and EE to merge in 2015, which created a behemoth in the communications market. UK has gone from a position to having equitable spectrum holding to the most uneven distribution in Western Europe.⁵

Consumers are beginning to experience the consequences of this spectrum imbalance, including higher prices and often disappointing service. In 2015 Ofcom found mobile prices had risen by 2.3%⁶, the first since Three entered the market in 2003.

In addition, high frequency spectrum should be being utilised to make superfast wireless broadband a credible alternative to fixed line for business and consumers, Mobile will have an important role in bridging the digital divide as it will enable consumers to access the internet without having to pay unfair line rental costs.

⁴ Scottish Government, Mobile Action Plan, <http://www.gov.scot/Topics/Economy/digital/Publications/SGMAP/SGMAP>

⁵ Cullen International

⁶ Ofcom Consumer Experience Report, 2015, p8, http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-15/CER_2015_FINAL.pdf

Currently to access fixed broadband you have to pay line rental charges even if you do not use a landline, which cost in excess of £215 per annum. Line rental costs have increased by up to 74% since 2008, well outstripping inflation in that time

Ofcom, the communications regulator, will have a key opportunity to address this with the award of 2.3GHz and 3.4GHz bands. This is equivalent to around three-quarters of the spectrum released by Ofcom through the 4G auction in 2013 and is the only substantial spectrum release of high-capacity mobile spectrum for the foreseeable future.

It is crucial that Ofcom introduces effective competition measures into this auction, to rebalance spectrum holdings, prevent the hoarding of spectrum and preserve competition to the benefit of consumers. Ofcom must introduce a 30% cap, meaning that no single operator could hold more than 30% of total available spectrum. The Assembly will have a voice in shaping Ofcom's policy in this regard, and will need to represent the importance of a fair and equitable distribution of spectrum to Welsh consumers.

iv) Transmission: The market for transmission services is uncompetitive. Ofcom's Business Connectivity Market Review made clear the need for operators to secure regulated access to BT's network through 'Passive Access' remedies. Ofcom must bring forward a timetable for this reform, supporting not just regulated access to BT Openreach's 'dark fibre' and 'ducts' but doing so on a price-competitive basis.

These changes will sit alongside key reforms contained in the Westminster Government's Digital Economy Bill; to ensure that operators have better access to their sites, that consumers benefit from simpler provider switching and that the regulator Ofcom is subject to a reformed appeals framework to ensure it can make timely interventions, for the benefit of consumers in Wales.

Conclusion

If got right, reform in these areas will have substantive benefits for consumers and businesses across Wales. We hope that the Committee will make this a key priority for the new Assembly, with the objective of addressing these obstacles to coverage, competition and choice in mobile. I would also be delighted to offer the Committee and its staff a briefing on these issues in person, if it would be beneficial when shaping your work programme for the new Assembly.

If you should have any questions please do not hesitate to get in touch at Simon.Miller@Three.co.uk or 07989 194 029

Yours sincerely,



Simon Miller
Head of Government and Regulatory Engagement