

Cynulliad Cenedlaethol Cymru / National Assembly for Wales

Pwyllgor yr Economi, Seilwaith a Sgiliau / Economy, Infrastructure and Skills
Committee

Seilwaith digidol Cymru / Digital infrastructure in Wales

Ymateb gan Three / Evidence from Three

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Russell George AM
Chair
Economy, Infrastructure and Skills Committee
National Assembly for Wales
Cardiff Bay
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Three (Hutchison 3G UK Ltd) response to the Welsh Assembly Economy, Infrastructure and Skills Committee Inquiry into Digital Infrastructure in Wales.

Dear Russell,

1. This is Three's (Hutchison 3G UK Limited) response to the Infrastructure and Skills Committee Inquiry into Digital Infrastructure in Wales. Digital connectivity remains vital to consumers and businesses across Wales; it is essential that policymakers and industry work together to ensure the best possible coverage and quality of service.
2. Three is the UK's challenger mobile network. 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 42 destinations.
3. Three carries 37% of the UK's mobile data, more than any other operator.¹ We are therefore uniquely placed to understand what digital infrastructure is required in order to provide this connectivity and also the regulatory bottlenecks that are currently inhibiting investment and rollout.
4. Consumers increasingly expect high speed and reliable data services, whether living, working or visiting Wales. Three offers its 3G and 4G mobile data services to more than 95% of the Welsh population. We are in the middle of a network upgrade plan that will result in new technology and equipment being deployed across our network of sites. This included the deployment of new mobile spectrum, at 800MHz. This new spectrum covers three times the distance of our previous allocation, and offers better coverage indoors, delivering 4G coverage in areas that previously had no coverage at all.
5. However we recognise that more needs to be done to meet the growing demand from consumers and businesses, particularly in rural and hard to reach areas. The Welsh

¹ Enders Analysis UK mobile data traffic

Assembly has a key role to play in enabling mobile networks to deliver this better coverage.

6. While this includes making use of the Assembly's own powers over areas such as planning and business rates, it is vitally important that the Assembly is also an effective voice lobbying Westminster and Ofcom on reserved matters.
7. There are three areas in particular that are in need of reform to enable better connectivity; spectrum, business rates and planning reform.

i) Ensuring a fair and equitable distribution of spectrum between mobile operators.

8. Spectrum is the single most important asset for mobile operators. The more spectrum or bandwidth an operator has, the better, faster and more reliable service the operator can provide. Spectrum is a **finite** national resource and therefore it is the responsibility of Ofcom to auction these airwaves to ensure the best possible coverage and choice for consumers.
9. Ofcom has acknowledged that the balance between operators' holdings is key in determining **quality, choice** and **coverage** for consumers. However following its merger, BT/EE now owns 42% of the UK's usable mobile spectrum. By contrast, Three and O2 have only have 15% and 14% respectively. The UK now has the largest imbalance in spectrum holdings in the G20.

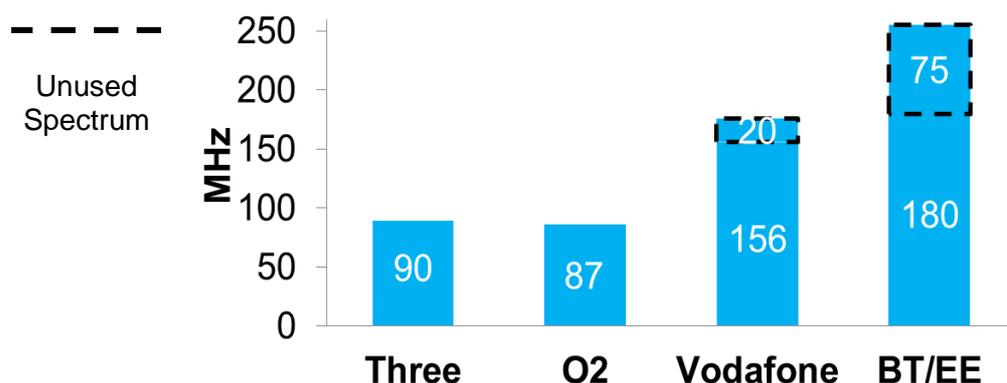


Figure 1 – Total UK spectrum holdings by operator.

10. The current spectrum imbalance is against consumer interest in three key respects.
 - i. **Coverage:** Ofcom's laissez-faire approach to spectrum policy has led to the hoarding of spectrum. BT/EE and Vodafone have 95MHz of unused spectrum which should, as a national resource, be being used to improve coverage. This has created a digital divide in the, with many consumers unable to access the most basic service. In Wales 4G coverage population coverage across all four networks is only 43.9%².

² Ofcom Communications Market Review, 2016, p157, http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr16/uk/UK_Telecoms.pdf

- ii. **Prices:** Imbalance in spectrum holdings means reduced competition and choice for consumers. Ofcom's International Communications Market Report found a 12% increase in UK mobile prices in 2015, having fallen by two-thirds since Three first entered the market in 2003, when spectrum holdings were more equitable.
 - iii. **Capacity:** Data consumption is predicted to be 80 times higher by 2030. Yet due to the hoarding of spectrum, half of UK mobile operators are already capacity constrained. If either of the two smallest operators by spectrum holdings were to get access to the UK's unused spectrum holdings, they'd be able to offer data speeds **three times faster** than they do today. It is vital that all operators have access to sufficient spectrum.
11. Ofcom is currently consulting on the auction of **2.3GHz** and **3.4GHz** spectrum, the last major release of spectrum for the foreseeable future. The Welsh Assembly must participate in this debate, as Ofcom's decisions will determine the level of 4G and 5G coverage in Wales for the foreseeable future.
 12. While Ofcom has acknowledged the need to cap operators' spectrum holdings, the proposed level of 42% of usable spectrum fails to address the current disparity and the harm it causes to UK consumers. Ofcom must instead introduce a **30% cap** on spectrum holdings, meaning that no single operator could hold more than 30% of spectrum usable for mobile. A cap set at 30% will bring the UK in line with other countries, rebalance spectrum holdings and preserve competition — for the benefit of consumers.
 13. It is also important that this cap must apply to all mobile spectrum, not just the 2.3GHz band as Ofcom has proposed for their cap. This band makes up only a quarter of the release and therefore will not address the underlying competition concerns. As it stands BT/EE and the other incumbent operators will between them be able to buy all of the 150Mhz of 3.4GHz spectrum; **spectrum that will be necessary for the rollout of 5G in Wales.**
 14. The result of Ofcom's current proposals, only one or two mobile operators will be able to offer 5G services. They are repeating the mistakes made at the 4G auction which saw the UK, and in particular Wales, have one of the slowest rollouts of 4G services in Europe, with customers also initially having to pay hefty premiums for the service.

ii) **Planning Reform.**

15. With the Governments in both Westminster and Holyrood progressing planning reforms, Wales will soon have one of the most restrictive planning frameworks in the UK. In particular operators face greater restrictions around the height of masts under the Permitted Development framework. Changes will be necessary to ensure Wales' planning framework keeps pace and is able to deliver the connectivity that communities want. These changes should enable:
 - Increases in mast height and width for both existing and new masts under the Permitted Development framework. This would have the greatest impact on coverage; taller masts can double the coverage footprint of a mast site. Protections could be put

in place for sensitive areas, and local authorities would still have extensive rights of refusal but on more limited grounds (i.e. not on the basis of aesthetics alone).

- Deployment of 'small cells'. New 'small cells' on existing structures should be considered under Permitted Development (without prior approval), with the exception of listed buildings or scheduled monuments.
- Emergency Works. There should be an increase in the Permitted Development window for emergency works to better reflect the actual time needed to find, acquire, build and integrate replacement sites.

iii) Business rates reform.

16. The Welsh Assembly Government also has the ability to enable improvements in coverage through reform of the business rates regime. Rates currently account for 11% of our network expenditure. The Assembly Government should investigate whether rate relief in the most rural and isolated areas could enable improvements, which in turn would deliver significant economic and social benefits for those communities.

17. If you should have any questions please do not hesitate to get in touch on 07989194029 or Simon.Miller@Three.co.uk.



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