



A statement and consultation on the Universal Service Obligation

Issued: 30 June 2005

Closing date for responses: 28 September 2005

An introduction to the 'universal service obligation'

We (Ofcom) are the independent regulator for the UK communications industries. Our role is to look after people's interests in every area of television, radio, telecommunications ('telecoms') and wireless communications services.

This booklet is a summary of a consultation we are holding on the 'universal service obligation' (USO). This is the safety net that makes sure people on low incomes, and other customers who might be at a disadvantage, can have a phone service.

These days, we all rely on a range of phone services. Most of us have both a fixed line at home and a mobile, and many of us use e-mail, texting and instant messaging. Over half of the UK's households have access to the internet, and more and more have broadband. These services keep us in constant touch with our friends and family, and the things that are important to us.

As prices have fallen, most of us have found that phone services are becoming even more affordable. But that isn't the case for everyone. As a result, the USO makes sure that everyone can have a basic fixed-line service. This is a legal requirement defined by the European Union and the Government, and it is our job to make sure this happens.

The USO is about social fairness and good economics. It makes sure that people who the market might ignore (vulnerable people, and people in remote areas) can play their full part in the economy and society. In turn, everyone benefits from a larger phone network, and they can contact (and be contacted by) more people. Cheap communication also helps to improve the economy.

Of course, the USO costs money. If people are getting a service they couldn't normally afford, or if they live in an area that's more expensive to serve, everyone else on the phone network has to pay a little more. So while there are social and economic reasons for making these special arrangements, it's vital that only people on low incomes receive them. We always try to avoid interfering with the normal running of the market. Here, however, we believe we need slightly tighter rules to make sure this help reaches the people who really need it.

Our regulations say that BT (and, in Hull, Kingston Communications) has to provide a range of services. These include:

- a phone line anywhere in the UK, at speeds that allow everyone to access the internet;
- special low-price schemes to help people on low incomes afford a phone service;
- enough public call boxes ('payphones') where they are needed; and
- special services for people who have disabilities.

The universal service obligation was introduced in 1984 when BT and Kingston were privatised. But as technology changes, people's needs change with it.

We are now reviewing the USO with four main aims.

- To make sure it continues to meet people's needs, as demands and technology change.
- To find the right balance between the needs of vulnerable customers and the changing shape of the telecoms business.
- To make sure the benefits of the USO reach the people who really need them.
- To link the USO to our review of the whole telecoms business.

We began our review of the USO with a document published on 10 January 2005. It looked at how the USO works at the moment, and made a series of proposals on how to improve it. We have since taken account of the various reactions we've received, and this summary sets out our conclusions. We now want your views on legal changes to make our proposals happen.

Your view matters

We hope you'll take a few minutes to read our proposals for the USO and tell us what you think of them.

This is a brief summary of the areas and issues we are considering. You can find a copy of the full consultation document on our website at www.ofcom.org.uk.

Low-cost schemes

The USO has made sure that customers can afford to have and run a phone service, from either BT or Kingston Communications. The two operators offer low-price schemes aimed at customers on low incomes. BT has In Contact (IC) and the Light User Scheme (LUS). Kingston offers similar schemes, called Basic Call and Basic Contact. You don't have to prove you are on a low income to join these schemes — they're open to anyone who makes only a few calls. Our research suggests that around 60% of LUS and IC customers are from low-income homes.

Our consultation in January looked at BT's proposals for another scheme. This new scheme is designed to be better at reaching the people on low incomes who need it, and to replace the current LUS and IC schemes. We propose to go ahead with this new scheme, although with certain changes to answer the worries that were raised after our consultation. It will be aimed at people who receive Income Support, or pensioners who receive both Pension Credit and Housing Benefit.

The proposed new scheme offers:

- the normal installation charge for new BT customers of £74.99, paid in five instalments;
- a three-monthly line rental of £14.50, reduced to £11.50 if customers pay by direct debit;
- a call allowance of £2 of free calls included each 'quarter' (three-month period);
- a discount of £2 for customers who do not use direct debit but who pay their bills within eight days;
- call charges of 10p a minute for national and local calls;
- normal charges for all other types of call; and
- the choice of pay-as-you-go, or a normal bill.

We support the clear costs of the new scheme and its focus on households with low incomes. We also welcome the improvements BT has made to the scheme since the consultation, in particular:

- the increased call allowance;
- the discount for people who pay quickly; and
- the clearer rules about who the scheme is for.

Most customers on the scheme can now be better off than they would be on LUS and IC. However, to protect customers on the current schemes, we are setting BT a target. The target is that 600,000 customers must be signed up to the new scheme before LUS and IC can be closed down.

We also think that the number of people who get cut off shows whether or not phones are affordable. BT disconnects around 5% of residential customers a year (about one million households) for not paying their bills. Our research suggested that BT could be doing more to highlight their schemes to people who have difficulty paying. Since the consultation, BT has started to promote its prepay scheme (Pay & Call) more effectively and the number of people on the scheme has doubled. We welcome this improvement and want it to continue. We have told BT that unless people continue to join the scheme and the number of disconnections falls, we will propose further measures. But we are proposing now that the most vulnerable customers, those who depend on having a phone line, should have increased protection from disconnection.

Public call boxes

Public call boxes (PCBs) are important to people who don't have a phone, and to people who may have a mobile but, for whatever reason, can't use it or rely on it. Many disadvantaged and vulnerable people still rely on PCBs.

It's part of the USO that BT and Kingston Communications must provide enough call boxes. But what is 'enough'? We believe that this can only be decided locally, by consulting local public organisations. These organisations also have a 'local veto', which means they can prevent the last call box in their area from being removed. This system worked for a long time without any great fuss, mainly because there weren't many call boxes being removed (in fact, their numbers rose for many years). However, that isn't the case any more. BT says that the money it receives from PCBs has been falling, particularly as more and more people now have mobiles. Because of this, BT says it is losing money on around 60% of its boxes. It has been trying to remove many boxes, but says the local veto is giving it unfair problems (50% of its plans to remove PCBs are being turned down).

We have looked again at the rules for PCBs to see if we can find a better balance between providing call boxes where they're needed and BT's needs as a business.

We have decided that the local veto system should stay, but we are proposing changes to make it clear and consistent.

- The local veto should only be used by county councils, unitary authorities or similar organisations but with other organisations such as parish and district councils still being asked for their say.
- When BT asks to remove a PCB, the consultation period should be increased from 42 days to 90 days.
- We will issue guidance to help councils make a decision. This includes thinking about things such as:
 - the need to make emergency calls;
 - the type of housing in the area;
 - any lack of mobile-phone coverage;
 - the number of households in the area; and
 - the money earned by the PCB.

We are changing the definition of a 'site' from 100 metres to 400 metres. This is used to decide which PCBs come under the local veto rules.

We are also proposing more freedom for BT and Kingston to use cashless PCBs, where there has been a history of vandalism or if the box is mainly there for emergency calls. But at least 70% of call boxes will still have to accept cash.

Services for people who have disabilities

The USO protects people who have disabilities, by making sure the phone operators provide a range of essential services they need, at an affordable price.

These include:

- a priority service to repair faults;
- special bills designed for people who have eyesight difficulties or are blind;
- text relay services; and
- call boxes that are easy to enter and use.

A particularly important service is text relay ('Typetalk'), which provides a live translation of voice into text, and the other way around. This gives people who have speech or hearing difficulties a vital way of communicating. The service is highly valued by customers, but now needs to go further as demand and technology changes. The message from the consultation was that some improvements were now needed.

At the moment, the relay service is mainly managed by BT, with the Royal National Institute for Deaf People (RNID) operating it day-to-day. However, to make managing and operating the service clearer:

- a stakeholder advisory panel will be set up, with representatives of both customers and the phone companies; and
- Typetalk will publish a yearly plan and report.

Another exciting possibility is video relay, which would mean being able to interpret voices into British Sign Language (BSL). This would need a video terminal for the BSL user and a link to a BSL interpreter. Although most BSL users are able to use text relay, video relay could offer a much more personal way to communicate. However, we believe there are still technical, commercial and practical issues to consider before going ahead with video relay. We are arranging a study to look at these issues.

We are also proposing help for any customer who has a disability that prevents them reading and understanding the usual bills or contracts. We believe all customers should be able to ask for them in a different format – an option usually open only to people who have eyesight difficulties.

We are also looking for better access to call boxes for people who have disabilities. We will be bringing together call-box providers and groups representing people who have disabilities to discuss the design of call boxes in the future. We are also increasing the percentage of call boxes that must offer wheelchair access and a volume control, from 75% to 80%. Also, we are making sure that call boxes can be used by people who use hearing aids.

Providing connections to the network

If you want a phone service, BT and Kingston Communications must respond to any reasonable request, and with the same price for everybody. This is true no matter where you live, and that is particularly important if you're in a remote area which, without the USO rules, the market may not want to serve.

If your new line costs BT £3,400 or less to install, you pay a standard charge. If it costs them more than that figure, you must pay the extra costs (and pay BT's standard connection charge). After our consultation, we believe that BT's approach and the £3,400 level are sensible.

We are also publishing guidelines on what a 'reasonable' request is. This will give BT flexibility to charge only the standard fee for particularly vulnerable customers, even if costs go over £3,400.

The rules also set out the kind of connection that BT and Kingston Communications must provide – a narrowband connection that is capable of 'functional internet access' (FIA). Guidelines issued in 2003 on FIA said that users should be able to expect connection speeds of at least 28.8 kbits a second. It also set out what universal service providers should do about complaints about data speeds.

The guidelines have worked. Over 99% of lines now have an average rate of 28.8 kbits a second or higher, compared with 97% in 2003. As a result, we have decided that there is no need for any major change, and most people who responded to our consultation agreed.

Costs and benefits of providing the USO

As things stand, the costs of the USO are paid by BT and Kingston Communications as, in the past, this has seemed fair. Recently, we have been working out new estimates on the costs and benefits to BT of providing the USO.

We believe that the money BT has needed to spend to serve customers on lower incomes has fallen a good deal, while the costs of providing call boxes have risen sharply. However, BT enjoys benefits as well. These come mainly from creating a better brand image, and being able to advertise on public call boxes. We believe these benefits are largely the same now as they were.

We estimate that the universal service costs BT around £52 to £74 million a year, and that the benefits are around £59 to £64 million. As a result, we don't see any great burden being put on BT that calls for a full-scale analysis, or new arrangements to pay for the USO.

However, we will arrange a thorough survey of costs once the effects of this review are felt in 2006.

How to respond

Phone services affect nearly all of us. Whether you use a phone at home run a business or represent a telecoms provider or consumer group, please tell us what you think.

Our actions will affect many people and organisations across the UK. As a result, it is very important that we make our decisions at the right time and in the right way. This is why we have published this summary. The summary and the full consultation are available at www.ofcom.org.uk.

Alan Pridmore is leading this consultation. Please send your response to alan.pridmore@ofcom.org.uk, marked '**Universal service obligation – consultation**'.

If possible, we prefer responses as e-mail attachments, in Microsoft Word format. Please also attach the cover sheet, which you can download separately from the 'consultations' section of our website.

You can also post or fax your response to:

Alan Pridmore

Ofcom
Riverside House
2a Southwark Bridge Road
London
SE1 9HA
Fax: 020 7783 4103

To make the process simpler, we do not usually let people know that we have received their responses.

The closing date for responses is 5pm on 28 September 2005.

We think it is important that anyone interested in the review can see the views we have received, on our website (www.ofcom.org.uk). As a result, we will only treat your contribution as confidential if you ask us to. We will put all responses on the website when the consultation period has ended.

Any general comments?

We also welcome any comments you may have on the way we have organised this consultation process. Please contact:

Tony Stoller

Ofcom
Riverside House
2A Southwark Bridge Road
London
SE1 9HA.

E-mail: tony.stoller@ofcom.org.uk
Fax: 020 7981 3333