

A summary of Ofcom's review of the Universal Service Obligation



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An introduction to 'universal service'

We are Ofcom, the independent regulator for the UK communications industries. Our role is to look after people's interests relating to 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). The USO is a 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 use a variety of phone services. Most of us have both a fixed line at home and a mobile, and many of us use e-mail, texting (SMS) and instant messaging. Over half of the UK's households have access to the internet, and more and more have broadband. These services help us keep in touch with our friends, family and things that are important to us in life.

As prices fall, phone services are becoming even more affordable for most people. But that isn't the case for everyone. That's where the USO comes in. It makes sure that virtually everyone can have a basic fixed-line service. This is now part of European Union and UK law, and it's our job to make sure this happens.

The USO is about being fair, but it is also good economics. It makes sure that people who the market might pass by - vulnerable customers and people in remote areas - can play their full part in the economy and society. In turn, everyone benefits by having a larger telephone network - they can contact, and be contacted by, more people. Cheap communication also helps to boost the economy.

Of course, the USO costs money. If people get a service that they couldn't normally afford, or if they live in an area that's more expensive to reach, everyone else on the phone network has to pay a little more. So although there are good social and economic reasons for making these low-cost services available, it's vital that the right people receive them. Obviously, a scheme with special low prices should only be open to people on low incomes. This isn't easy without some assessment of people's finances. At Ofcom, we always try to avoid interfering with the normal way the telecoms market works. However, we may need slightly tighter rules to make sure that the low-cost services reach the people who really need them.

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

- a phone line, on demand, almost anywhere in the UK, at speeds that allow you to get access to the internet;

- special low-cost schemes to help people on low incomes to afford a phone service;
- enough public call boxes ('payphones') where they are needed; and
- special services for people with 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're now reviewing the current USO to make sure it stays up to date.

Your views matter

We hope you'll take a few minutes to read this review of USO and, as importantly, tell us what you think.

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

Because of USO, BT and Kingston Communications have to offer a low-priced fixed-line phone service that customers can afford. BT has In Contact (IC), where customers pay a joining fee of £9.99, a rental of £9.25 every three months, and calls charged at a flat rate of 10p a minute, paid for with a prepaid card. BT also offers their Light User Scheme (LUS), where customers pay the normal rental of £34.50 every three months and an installation charge, but get money back on their rental if their call charges are less than £15.07 every three months. Kingston offers similar schemes, called Basic Call and Basic Contact.

Your income does not need to be assessed to join these BT schemes. As long as you meet certain rules, you can join if you don't make many calls. Our research suggests that this works well, but not perfectly – around 60% of LUS and IC customers are from low-income homes, but 20% of users have a household income of more than £17,500 a year.

BT is now suggesting another idea that focuses even more on the needs of people with low incomes. It's for households with an income of less than £10,400 and receiving state benefits that depend on their income, such as Pension Credit. The proposed new scheme would have:

- the normal installation charge of £74.99;
- a line rental of £14.50 every three months, reduced to £11.50 if customers pay by direct debit;

- call charges of 10p a minute for national and local calls; and
- normal charges for other types of calls.

The scheme would be available both as pay-as-you-go or with a normal bill.

We welcome the clear costs of the new scheme and how it is focused directly on households with low incomes. However, we're worried that people would have to pay by direct debit to get one of its main benefits. The customers it is trying to help may not have bank accounts, or may be nervous about committing themselves to this kind of payment method.

We are not recommending the scheme at this stage. Instead, we're interested in your views on:

- the way the scheme is designed and its costs;
- linking benefits to direct debit;
- using the income limit of £10,400;
- having to receive state benefits to qualify; and
- the state benefits that are taken into account for the scheme.

We also think that the number of people who get cut off says a good deal about whether phones are affordable. BT disconnects around 5% of residential customers (about one million households) a year for not paying their bills. Our research suggests that BT could do more to promote their schemes for people on low incomes who run the risk of being cut off.

Public call boxes

Public call boxes are important to people who don't have a phone, don't have a mobile, or can't use or rely on one. Many disadvantaged and vulnerable people still rely on public call boxes.

Under the USO, BT and Kingston Communications must provide an adequate number of public call boxes. But what is 'adequate'? We believe this can only be decided locally, in consultation with local people and organisations. These people and organisations can also prevent the last public call box in their area being removed. This is known as the 'local veto'. This system worked for a long time without any great fuss, mainly because there weren't many public call boxes being removed. However, that isn't the case any more. BT says that the money they receive from public call boxes has been falling, particularly as more and more people have mobiles. Because of this, they say they're losing money on 60% of their boxes. They've been trying to remove many boxes, but say the local veto is giving them unfair problems as 43% of their plans to remove public call boxes are being turned down.

We are looking again at the rules for public call boxes. We need to see if we can strike a better balance between providing call boxes where they're needed and BT's needs as a business.

We're suggesting that the local veto system should stay, but with changes to make it

clear and consistent. We plan to create some guidelines on dealing with proposals to remove public call boxes. These guidelines would take account of:

- how many households there are in the area;
- how far away the next public call box is;
- the types of housing in the area;
- any history of vandalism;
- whether the public call box is making money;
- how many calls are made from the box each year;
- what it costs to provide the public call box;
- how many emergency calls the call box handles; and
- whether there is good mobile phone coverage in the area.

We also believe the process of talks between BT and local people and organisations could be improved. We suggest the process should be lengthened from 42 days to 90 days, and that an appeals process will help to deal with disputes.

We're also keen to hear your views on the following:

- How do we define the 'site' of a call box? This is important as it decides which public call boxes come under the local veto system.

- Who in local government should have the local veto?
- Whether there is a minimum amount of money a public call box should take. For example, if a public call box took, say, just £50 to £100 a year, should BT have to listen to any objections to removing it, but be freed from the local veto?

Services for customers with disabilities

The universal service obligation protects customers with disabilities, by making sure phone companies provide a range of essential services they need, at an affordable price. These services include:

- special bills designed for customers who are blind or partially sighted;
- 'text relay' for people who are deaf or hard of hearing;
- a priority fault repair service; and
- public call boxes that are easy to enter.

A particularly important service is text relay ('Typetalk'), which translates a person's voice into text, and the other way around. This gives people who are deaf, hard-of-hearing and have speech difficulties a vital way of communicating. The service is highly valued by customers, but now needs to go further as demand and technology changes. So we are proposing a series of improvements.

People who use the service would like to do so by computer. This would allow customers to use widely available equipment with a better screen and an easier keyboard, and to print out their conversations. We are encouraging companies to do the technical and commercial work to get this service up and running on the internet.

Similarly, 'video relay' would be able to interpret voices into British Sign Language (BSL). This would need a video terminal

for the person using BSL and a link to a BSL interpreter. Although most BSL users can use text relay, video relay could offer a much more personal way of communicating. At this stage, there are many technical, commercial and practical issues to consider before deciding whether to go ahead with video relay. So we're suggesting a thorough study first.

At the moment, the text relay service is run by RNID (Royal National Institute for Deaf People) and is mainly managed and paid for by BT. However, to make managing and providing the service clearer and more accountable, we propose:

- to create a 'Stakeholder Advisory Panel' made up of people representing customers and the phone companies; and
- that Typetalk publish a plan and report each year.

We are also proposing that any customer who has a disability that stops them from reading and understanding bills or contracts should be able to ask for a different format. These are usually only offered to people who are blind or partially sighted, but we recognise that others may also need this help.

We are also asking companies to tell us of any changes they are planning to make to public call boxes in case they affect customers with disabilities.

Providing a phone line

If you want a phone line, BT and Kingston Communications must respond to your request if it is reasonable. They must offer you a line for the same price everybody pays, regardless of where you live. This is particularly important if you live in a remote area which, without the universal service obligation, the market may not want to serve.

If installing your new line costs £3400 or less, BT sets a standard charge – currently £74.99 for a home phone line. If it's over £3400, you must pay BT's standard charge and any extra costs over £3400. We believe that pinpointing a figure is sensible, but we're asking for more information from BT, and comments from this consultation, to help decide what that figure should be.

We also intend to set out guidelines on what a 'reasonable' request is. This would help both BT and customers to understand how we judge whether a complaint against BT is justified. Issues might include the following:

- Is the request for a fixed place that is used for ordinary business or as someone's home?
- Has BT offered the customer the chance to do the work themselves?
- Has BT found the cheapest possible way of providing the service?
- Is the consumer elderly or disabled?
- Do customers also have the option of mobile phone coverage?

The rules also state the kind of connection that BT and Kingston Communications must provide – a narrowband connection capable of 'functional internet access'. Guidelines issued in 2003 on functional internet access said that users should be able to expect connection speeds of at least 28.8 kbits a second. This also set out how service providers should deal with complaints about connection 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, so we don't see the need for changes.

Costs and benefits of providing the universal service obligation

BT and Kingston Communications currently pay the costs of having a universal service obligation and, in the past, this has not seemed unfair on them. Recently, we have been working out new estimates on BT's costs and benefits of providing USO. On the costs side, we believe that the money needed to serve customers on lower incomes has fallen while the cost of providing public call boxes has risen sharply by a similar amount. The benefits mainly come from a better brand image, and being able to advertise on public call boxes. We believe these benefits are largely the same as they were.

In terms of figures, we estimate that the universal service obligation costs BT around £52 to £74 million a year, and that the benefits are around £59 to £64 million. So we don't see any great burden being put on BT, so no new arrangements are needed to pay for the universal service obligation.

However, we don't rule out the need for a thorough look at costs once the effects of this review come into play. Also, the Strategic Review of Telecommunications, which was published by Ofcom in November 2004, is looking into the issues that might be raised by universal service in the future.

How to respond

Phone services affect nearly all of us. Whether you use your phone at home or to run a business, and whether you represent a telecoms company 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.

If you have any comments on the universal service obligation, send your comments, marked 'Universal Service Obligation – consultation', to:

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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. To simplify the process, we do not usually acknowledge that we have received responses.

The closing date for responses is 5pm on 21 March 2005.

We think it is important that anyone interested in this review can see the views we have received on our website at www.ofcom.org.uk. We will keep your contribution confidential only if you ask us to.

Any general comments?

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

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