



Ofcom's challenge in 2002 was to respond appropriately to increasing competition in the fixed market – encouraging competition to develop further still, but at the same time ensuring that consumers continued to be protected.

The fixed market

The fixed market has seen increasing competition in recent years. Consumers are showing greater awareness of alternative services, and by the end of 2002 seven out of ten UK adults said they were aware of indirect access or carrier pre-selection.

Oftel's research shows that consumers are getting good deals for fixed services. Prices for residential consumers in the UK were lower than those for consumers in other countries such as France and Germany.

Oftel's challenge in 2002 was to respond appropriately to this increasing competition, by encouraging competition to develop further still, but at the same time ensuring that the necessary consumer protection measures were retained.

Promoting competition and protecting consumers

In 2002, Oftel developed greater flexibility in the regulation of retail fixed telephone services. The measures that Oftel introduced represented a significant move from the traditional price control to an approach based on enhancing competition.

Following a review of the residential calls market, Oftel concluded that the RPI-4.5 per cent price control that had been in

place for the previous five years was no longer appropriate because of increasing competition. But equally the market was not yet effectively competitive. The decision was therefore taken to introduce a radical package of measures to boost competition whilst still maintaining a level of protection for consumers as competition develops.

The package includes providing a new opportunity for companies to offer a complete residential telephony service to consumers, a continuation of controls to ensure BT's customers' bills do not rise, and an extension of measures to protect BT's lowest spending customers. More specifically the arrangements are:

- A new wholesale line rental product that will enable competitors to offer a complete telephone service covering line rental and calls. This could lead to a range of innovative tariffs such as flat-rate subscriptions for unlimited calls or the abolition of line rental charges with all costs recovered through call charges. BT will be required to provide the line rental product to new entrants on the same terms as it does to BT's retail business.

Key events in 2002

- > **Jun:** Confirmation of proposals to replace traditional price control with package of measures including new wholesale line rental product.
- > **Jul:** Improvements made to carrier pre-selection ordering process.
- > **Nov:** Consultation on detailed proposals for new wholesale line rental product.
- > **Dec:** 700,000 carrier pre-selection lines activated.



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- A new price control on BT's lowest spending 80 per cent of residential customers to reduce customers' bills by the rate of inflation. This was introduced in August 2002. The control will be revised to one which pegs prices to the rate of inflation once the new wholesale line rental product has been fully implemented by BT and is being used by other operators to provide services.
- The upper limit for eligibility to BT's Light User Scheme can be extended from the lowest spending 20 per cent of customers to the lowest spending 30 per cent, making more customers eligible for a reduction in their line rental charge.

During 2002, OfTel worked with the industry to develop the new wholesale line rental product so that it meets the needs of consumers and service providers.

This work continues and, following a consultation published in November 2002, a statement was published early in 2003 setting out the detail of the product.

This included proposals that:

- customers deal only with their new service provider, receiving one bill and dealing directly with them to resolve any queries or complaints;
- BT must provide an agreed level of technical support, so any faults and complaints are dealt with quickly and efficiently and customers get the same level of service as BT customers; and
- calls to operator services such as 151 are connected directly to their service provider rather than having to go through BT.

Carrier pre-selection

One of the drivers for the increasing competition in the fixed market has been the development of carrier pre-selection (CPS), which allows consumers to use an alternative phone company to BT without changing their phone line and without dialling extra numbers. And because the calls are routed automatically, consumers do not need any additional equipment installed in their home.

2002 saw a significant increase in the number of residential and business consumers using CPS. From less than 20,000 lines with CPS at the beginning of the year, the total number had risen to 700,000 by the end of 2002.

In December 2001 an additional call option was introduced for CPS – the 'all calls' option. This meant that in 2002 customers were able to use CPS for calls to a much wider range of numbers, such as mobile and local numbers, where previously only calls to national and international numbers were possible.

Further improvements were made to the service in July 2002 when the industry made a significant change to the customer order process. Prior to July, any customer wanting to take CPS had to complete a paper reply slip and then return this to BT. This was designed by the industry to help stop a customer's outbound calls service being transferred without their permission. However, industry experience of the reply slip found that, in practice, it proved cumbersome to use and was actually preventing some customers from getting the services they expected.

After consultation with consumer group representatives, use of the reply slip

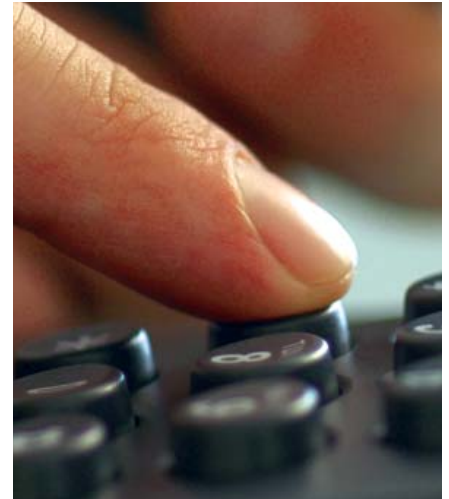
was stopped. CPS orders increased dramatically month on month, peaking at 194,000 orders in November, up from 74,000 in June, the last full month of using the reply slip.

So that consumers continued to be protected from unwanted transfer to a new service, the industry introduced a new process whereby both the new and existing supplier send a notification letter to the customer before CPS is activated allowing consumers to cancel the service if they choose.

Oftel closely monitored the number of complaints it received about inappropriate transfers throughout 2002 and is pleased that the overall number of complaints (less than 100) was very low in relation to the large number of customers successfully transferred.

Oftel will continue to work with the industry and consumer groups in 2003 to ensure that consumers are adequately protected.

In March 2003 an important milestone was reached when the number of consumers using carrier pre-selection reached one million. Oftel hopes to see this number rise further still as the year progresses.



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