



Retail Price Controls

Explanatory Statement and Proposals

Consultation

Publication date: 21 March 2006

Closing Date for Responses: 30 May 2006

Contents

Section		Page
1	Summary	1
2	Introduction	4
3	Regulatory and market developments	8
4	Option assessment	21
Annex		Page
1	Responding to this consultation	28
2	Ofcom's consultation principles	30
3	Consultation response cover sheet	31
4	Consultation questions	33
5	Impact assessment	34
6	Retail market shares	38
7	Indicative advertising campaign	40

Section 1

Summary

- 1.1 Retail price controls (RPCs) have been an important part of the regulatory landscape in telecommunications since the privatisation of British Telecom (“BT”) in 1984. They are designed to protect consumers by reducing prices when competitive pressure alone is too weak. RPCs have brought about a steady reduction in prices to the point that the UK has some of the lowest prices for residential telephony among developed countries¹.
- 1.2 Over the last 20 years, there has been a great increase in the level of competition in the retail market, and it continues to grow and strengthen. This competition has been based on increasingly effective regulation in the wholesale telephony markets, which have been coupled with changes in other regulation including BT’s Universal Service Obligation (USO). As a result, even though BT retains Significant Market Power (SMP) in those markets, Ofcom proposes in this document that the RPCs are no longer a necessary or appropriate form of regulation and that they should consequently be allowed to lapse on their expiry on 31 July 2006.
- 1.3 The benefit of removing RPCs will be that, for the first time in respect of the services under consideration, it will be market forces that determine prices, rather than regulation. All communications providers will have full freedom to price their services as they see fit, in competition for customers. Regulatory intervention will be focused on wholesale markets.
- 1.4 In order to mitigate any risks associated with the ending of the RPC, Ofcom has sought from BT, and BT has indicated its willingness to provide, assurances for the period up to the end of 2007 which will help to safeguard certain low spending consumers.
- 1.5 Under the European regulatory framework, Ofcom is required to conduct periodic reviews of markets and intends to conduct the next full review of fixed narrowband retail services markets in 2007. This will provide Ofcom with the opportunity to assess the impact of bringing the RPCs to an end, and to take steps to address any adverse consequences if they should arise.

Background

- 1.6 The current regime of RPCs was originally established in the Statement on Oftel’s review of the fixed telephony market entitled “Protecting consumers by promoting competition: Oftel’s conclusions” published on 20 June 2002². The controls ran from 1 August 2002 and are due to expire on 31 July 2006. They provide that the price of a basket of residential retail telephony services, including local and national calls and exchange line rental, should not increase in nominal terms (i.e., not by more than RPI-RPI).

¹ <http://www.ofcom.org.uk/research/cm/cm05/telecommunications.pdf> (Figure 3.56)

The 11th EU Implementation report (Annex II Section 7) contains some benchmarking analysis of fixed line access and call prices across the EU and including some non-EU OECD countries.

http://europa.eu.int/information_society/policy/ecom/comm/doc/implementation_enforcement/annualreports/11threport/sec_2006_193_vol2bis.pdf

² <http://www.ofcom.org.uk/static/archive/oftel/publications/pricing/2002/pcr0602.htm>

- 1.7 Ofcom confirmed these controls and their scope in its market review statement dated 28 November 2003 entitled “Fixed Narrowband Retail Services Markets - Final Explanatory Statement and Notification” (“the Final Statement”)³. This document set a condition placing a control of RPI-X on the services BT provides in the relevant markets under the new European regulatory framework. This condition also provided that the control was to be relaxed to RPI+0% after BT had provided a “fit-for-purpose” Wholesale Line Rental (WLR) product that was being taken up actively by BT’s competitors.
- 1.8 Ofcom determined on 15 December 2005⁴ that BT’s WLR product was fit-for-purpose, reflecting the fact that the product had had a significant impact in the market – there are now over one million WLR lines used by residential consumers. Accordingly, the RPC was relaxed to RPI+0% with effect from 1 January 2006.
- 1.9 In September 2005, Ofcom accepted undertakings from BT in lieu of a reference to the Competition Commission under the Enterprise Act 2002⁵. By the terms of these undertakings, BT is required to provide various wholesale products at a standard known as “equivalence of inputs” (Eol). By this standard, BT is obliged to use the same wholesale products and services itself as it provides to other communications providers. BT is due to implement Eol in relation to WLR products by 30 June 2007, with a target date of 31 December 2006.

Ofcom’s assessment

- 1.10 In this consultation, Ofcom considers the options available to it on expiry of the RPC on 31 July 2006 and proposes a preferred option which it believes to be the most appropriate form of intervention. In so doing, it takes account of those regulatory- and market-led developments since the previous market review which have yielded increasing competitive pressure on BT in the markets under consideration. In particular, Ofcom notes that BT is facing increasing consumer migration to competitors offering WLR, LLU, CPS/IA and prospectively VoIP services, all of which represent increasing constraints on BT’s pricing going forward. Ofcom’s view is that there already exists a range of opportunities for consumers to choose between competitive suppliers, and a willingness of consumers to switch to new service providers. Ofcom believes that the ability of service providers to compete effectively with BT will be further enhanced when wholesale products are provided to the Eol standards by the middle of 2007.
- 1.11 In considering whether further intervention is required, and if so the most appropriate form, Ofcom recognises that certain consumer groups are more exposed to potential detriment caused by the prospect of price rises than other consumer groups. Specifically, whilst certain consumer groups may be protected from high prices through the special tariff scheme supplied by BT as part of its USO⁶, there exist low spending consumers who may not be protected through the USO against increases in the prices of BT’s basic services and may be vulnerable to weaker competition in respect of the services they purchase.

³ http://www.ofcom.org.uk/consult/condocs/narrowband_mkt_rvw/fixednarrowbandrsm.pdf

⁴ Wholesale Line Rental: Fit-for-Purpose Assessment, available at http://www.ofcom.org.uk/consult/condocs/line_rental/wlrffp_statement/statement.pdf

⁵ <http://www.ofcom.org.uk/telecoms/btundertakings/btundertakings.pdf>

⁶ This is currently the Light User Scheme (LUS) although, as noted below, Ofcom is currently consulting on the introduction of a new targeted scheme aimed at customers in receipt of state benefits.

<http://www.ofcom.org.uk/consult/condocs/uso/statement/statement.pdf>

1.12 With these factors in mind, Ofcom has obtained from BT a number of assurances relating to the pricing of the line rental (i.e., the monthly fixed fee) that BT charges for its basic exchange line services, and to the pass-through in respect of mobile termination rates. These assurances, which will last until 31 December 2007, will mitigate the risks which arise from competitive pressure being weaker in respect of certain consumer groups.

Ofcom's proposal

1.13 As a result of the above, Ofcom proposes not to re-impose formal RPCs when the existing RPI+0% price cap expires with effect from 1 August 2006. Ofcom considers that BT's assurances, in conjunction with the significant developments in both wholesale and retail markets that have occurred and are still taking place since the RPC was imposed in 2002, and also ongoing regulation such as BT's obligations under its USO, are sufficient to ensure that prices faced by low spending consumers are appropriately constrained.

1.14 Ofcom will also carry out a full market review of the relevant markets in line with its obligations to carry out periodic reviews consistent with section 84 of the 2003 Communications Act (the Act). This will take place during 2007, with expected completion around the time that BT's assurances expire. If this reveals that regulatory and market developments have not in fact led to further competition, or that significant concerns arise over pricing in spite of the assurances BT has given, Ofcom would consider what obligations might be appropriate and, if necessary, formal controls could be re-imposed.

1.15 Ofcom believes that allowing the RPC to lapse would be a significant change in the regulatory regime, but one whose implications may not be obvious to consumers. For this reason, Ofcom intends that there should be a significant public information campaign if the proposals are decided upon, in order to raise consumer awareness of the change.

Consultation

1.16 Ofcom is inviting written views and comments, **by 5pm on 30 May 2006**, on the proposal to allow the RPC to lapse on its expiry, subject to assurances being provided by BT that are designed to protect lower spending consumers.

1.17 Details of how to respond on each of these issues can be found in Annex 1.

1.18 Ofcom will give careful consideration to all comments received during the consultation period. In light of responses received, and following further analysis or considerations as appropriate, Ofcom expects to publish a final explanatory statement before the controls expire in July of 2006.

Section 2

Introduction

Legal and Regulatory framework for setting Retail Price Controls

- 2.1 The key requirements to be considered when setting retail price controls (RPCs) are contained in a set of EC Communications Directives, implemented into UK law by the 2003 Communications Act (the Act).
- 2.2 Price controls are one type of obligation that Ofcom can impose under the EC Communications Directives to address the situation where a communications provider has Significant Market Power (SMP) in an identified services market. Accordingly, section 87(9) of the Act provides that, subject to satisfying the 'tests' in section 88, Ofcom may set SMP conditions such as RPCs.
- 2.3 The EC Communications Directives, and the Act, require Ofcom to carry out analyses of identified services markets (known as 'market reviews') at certain intervals. One such interval is where the European Commission updates its recommendation on relevant product and service markets adopted on 11 February 2003.
- 2.4 Another trigger for carrying out a market review is where Ofcom considers it an appropriate interval to do so for the purposes of reviewing market power determinations made on the basis of an earlier analysis, or deciding whether to make proposals to modify SMP conditions set by reference to a market power determination made on such a basis (pursuant to section 84(2) of the Act). Ofcom anticipates that a review of the fixed narrowband retail services markets will be undertaken before the end of 2007. Ofcom considers this timing to be appropriate in that it represents sufficient time for the full effects of recent regulatory and market developments to take effect and be taken into account in conducting the market review.
- 2.5 This consultation does not constitute a market review pursuant to section 84(2) of the Act. Rather, it responds to the upcoming expiry of the existing RPC by setting out for consultation a number of options open to Ofcom for future regulation of these markets. These include whether the RPC should be rolled over until conclusion of the next market review, whether they should be allowed to lapse, or whether some other form of regulation may be appropriate. This document sets out Ofcom's preferred option which is to allow the control to lapse.
- 2.6 During the course of the Strategic Review of Telecommunications (TSR)⁷, Ofcom set out seven principles for the regulation of telecoms markets, including that Ofcom should:
 - focus regulation on the deepest levels of infrastructure where competition will be effective and sustainable;
 - ensure equality of access at those levels; and
 - as soon as competitive conditions allow, withdraw from regulation at other levels.

⁷ http://www.ofcom.org.uk/consult/condocs/telecoms_p2/statement/main.pdf

2.7 This consultation describes how Ofcom is following those principles by identifying both the opportunities to withdraw from or reduce levels of regulation in the relevant markets, and, as appropriate, the minimum remedies necessary to protect low spending consumers in the transition to more effective retail competition. Taken together, Ofcom believes that the assessment reported in this consultation, in conjunction with the TSR, provide industry and stakeholders with a coherent and consistent view of Ofcom's regulatory approach to BT's retail pricing.

The basis for the existing retail price control

2.8 In 2002, Oftel concluded a review of the fixed telephony market⁸ in the UK by imposing a RPC:

“On balance, Oftel believes that a RPI-RPI control weighted towards the spending patterns of the bottom 80 per cent of residential customers provides the most appropriate degree of customer protection ...” [para 4.10]

2.9 The control was intended to last for four years, expiring on 31 July 2006.

2.10 The new regulatory framework for electronic communications networks and services entered into force in the UK on 25 July 2003. The new Directives which form the basis of this framework require National Regulatory Authorities (NRAs) to carry out market reviews to ensure that regulation remains appropriate in the light of changing market conditions.

2.11 In accordance with these requirements, Oftel conducted a market review in respect of the fixed narrowband retail services markets following which the Final Statement on the retail markets was published, on 28 November 2003. This Statement confirmed that the RPC set in 2002 would continue, including the safeguard control of RPI-RPI on a basket of products. This control, subsequently modified as discussed below, lasts until 31 July 2006 and is applied to the spending patterns of the lowest 80% of residential customers and based on a basket of residential services in the following markets in the UK, excluding the Hull area, where BT was found to have SMP:

- Residential analogue exchange line services;
- Residential local calls;
- Residential national calls;
- Residential IDD category A calls;⁹
- Residential IDD category B calls (on a route-by-route basis);¹⁰
- Residential calls to mobiles; and
- Residential operator assisted calls.

2.12 The RPC also includes a specific requirement on BT to ensure that its average retention on calls to mobiles to a given mobile operator across all charging periods within a twenty-four hour period is within five per cent of its retention to any other mobile operator. Given that this provision is not a stand-alone requirement, but rather part of the overall RPC (BT's retention on calls to mobiles in general falls within the basket of services currently covered by the RPC), it will also expire on 31 July 2006.

⁸ <http://www.ofcom.org.uk/static/archive/oftel/publications/pricing/2002/pcr0102.htm>

⁹ The market for IDD calls where the underlying wholesale routes have been found to be effectively competitive.

¹⁰ Individual markets for IDD calls, defined on a route-by-route basis, where BT has SMP.

- 2.13 As explained in the Final Statement (at paragraph 4.26), the price control at RPI-RPI had the potential to become unduly onerous for BT if inflation turned out to be unexpectedly high. In order to avoid this, the control was limited to RPI-4% if inflation was greater than 4% per year.
- 2.14 It was concluded (at paragraphs 4.27 and 4.28 of the Final Statement) that the development of competition had implications for the proportionality even of a safeguard control. Furthermore, a risk was identified that a control of RPI-RPI could prevent BT from recovering its costs, since the returns from those customers covered by the controls were below the cost of capital and the profits that BT generates in respect of those customers and services outside of the basket may be competed away such that the control may eventually not be sustainable for BT. It was also noted that this effect might be more likely following the introduction of the WLR product, as BT could lose the higher spending customers that currently allow it to at least cover its cost of capital overall.
- 2.15 In light of this, and in order to provide BT with an incentive to introduce WLR as quickly and efficiently as possible, it was proposed to modify the RPC from RPI-RPI to RPI+0% once Ofcom was satisfied that a “fit-for-purpose” WLR product was available and being actively used by competitors. BT triggered an assessment of its WLR product by Ofcom on 8 July 2005 and Ofcom subsequently determined that it was fit-for-purpose in December 2005¹¹. Consequently, the RPC was relaxed to RPI+0% with effect from 1 January 2006.

Other relevant conditions

- 2.16 In addition to the RPC, which expires on 31 July 2006, BT is also required to comply with other conditions in respect of customers of fixed narrowband retail services. Specifically, BT must meet:
- A requirement not to discriminate unduly (Condition D2); and
 - A requirement to publish charges, terms and conditions (Condition D3).
- 2.17 These conditions are not time-limited: they remain in place and, as such, need not be considered in this document.
- 2.18 In addition, BT is required, as part of its Universal Service Obligation (USO), to provide one or more special tariff schemes to assist consumers who are on low incomes or have special social needs that would not be provided under normal commercial conditions. The current such tariff is the Light User Scheme (LUS), the terms of which provide for a rental rebate against the normal line rental charge in the event that call charges are below a defined level¹².
- 2.19 Ofcom is currently consulting as part of a review of the USO on proposals to introduce a new targeted scheme aimed at customers in receipt of certain state benefits. It is proposed that this scheme will eventually replace the existing schemes. Ofcom intends to publish a statement concluding this review later in March 2006.

¹¹ http://www.ofcom.org.uk/consult/condocs/line_rental/wlrffp_statement/

¹² The LUS currently has around 1.1 million customers. BT also offers the In Contact (IC) service which has around 55,000 customers.

2.20 Finally, BT is also required as part of its USO, to set prices for narrowband services provided under the USO on a uniform basis throughout the UK¹³.

¹³ USO Condition 1:

http://www.ofcom.org.uk/static/archive/oftel/publications/eu_directives/2003/uso0703.pdf

Section 3

Regulatory and market developments

- 3.1 In considering whether intervention is required and, if so, its most appropriate form following the expiry of the current RPC arrangements on 31 July 2006, it is necessary to understand the regulatory- and market-led developments since the conclusion of the previous fixed narrowband retail services market review in November 2003. These are set out below.

Regulatory and market developments

Wholesale line rental

- 3.2 Ofcom completed its TSR on 22 September 2005, during which it stated that:

“In fixed telecoms, we concluded that there were enduring economic bottlenecks – parts of the network where effective and sustainable competition was unlikely in the short to medium term. Therefore we adopted the principle that regulation should promote competition between competing infrastructures as deep in the network as such competition was likely to be effective and sustainable.”

and:

“If equality of access is introduced to bottleneck parts of the network, we expect to be able to deregulate elsewhere (for example, in some retail markets). Such deregulation could take two forms: either a lessening of Significant Market Power (SMP) conditions where equality of access is applied in upstream markets or a finding that there is no longer SMP in downstream markets. We have set out our approach to deregulation, as well as our immediate forward programme of work, in this statement.” [paras 1.5 and 1.6]¹⁴

- 3.3 As part of the TSR, BT agreed to a set of undertakings in lieu of a reference to the Competition Commission under the Enterprise Act 2002, wherein BT committed to separate its access business (now branded as BT Openreach) from the remainder of BT, and to provide “equality of access” to include both equivalence at the product level and supporting organisational changes by BT.
- 3.4 Furthermore, in December 2005, Ofcom determined that BT’s WLR product was consistent with the fit-for-purpose definition¹⁵, as set out as a product specification and process implementation published in March 2003¹⁶, and through an analysis of the market impact of WLR assessed against criteria also set out in March 2003¹⁷.
- 3.5 A relevant factor in considering the appropriate response to the expiry of BT’s RPC is the extent to which these developments have yielded competition in the market for residential analogue exchange lines. The diagram below shows a rapid take-up of residential WLR lines, from close to zero in early 2004 to one million by the end of 2005. Furthermore, the *rate* of growth increased sharply in early- to mid-2005 and

¹⁴ http://www.ofcom.org.uk/consult/condocs/statement_tsr/statement.pdf

¹⁵ http://www.ofcom.org.uk/consult/condocs/line_rental/wlrrfp_statement/statement.pdf

¹⁶ http://www.ofcom.org.uk/static/archive/oftel/publications/whole_line/2003/wlr_1_0303.htm

¹⁷ The definition was framed by way of three tests: whether the product met the required specification, whether the functionality was such to minimise barriers to competition, and whether it had sufficient market impact to achieve effective retail competition.

continues at a significant level, suggesting a growing competitive pressure on BT's position in the market. WLR provides alternative fixed telephony operators the opportunity to send one bill to customers, as well as to further differentiate their products from BT, including the enhanced ability to bundle narrowband telephony with other products.

Figure 3.1 Residential WLR take-up



Source: BT

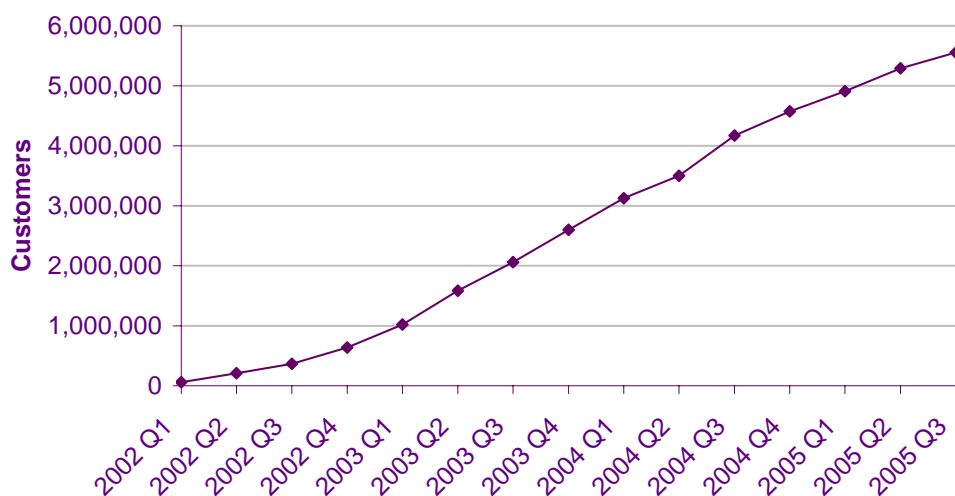
3.6 In addition, in the Undertakings¹⁸ provided to Ofcom by BT pursuant to the Enterprise Act 2002, BT has committed to be "Ready for Service" (RFS) for analogue WLR on 30 June 2007 such that BT will make available WLR on an "Equivalence of Inputs" (Eoi) basis such that BT will provide "... in respect of a particular product or service, the same product or service to all Communications Providers (including BT) on the same timescales, terms and conditions (including price and service levels) by means of the same systems and processes, and includes the provision to all Communications Providers (including BT) of the same Commercial Information about such products, services, systems and processes."

3.7 Ofcom expects the introduction of WLR on an Eoi basis to further strengthen the competitive pressure on BT's share of the market for residential analogue exchange lines and, consequently, the relevant calls markets, as providers using WLR seek to provide both access and calls to subscribers.

Carrier pre-selection and Indirect Access

3.8 Ofcom has also observed significant developments in competition in the fixed narrowband retail calls markets, in particular with the growth of call volumes provided via carrier pre-selection (CPS), as shown below.

¹⁸ <http://www.ofcom.org.uk/telecoms/btundertakings/btundertakings.pdf>

Figure 3.2 Carrier Pre-selection residential and business customer volumes

Source: BT

3.9 Ofcom considers this to represent further evidence of increasing competition in the markets for retail calls since the previous market review. The importance of CPS for competition going forward is that it is likely that CPS customers will be a key source of migration to WLR providers, thus being a further stimulus to more sustainable competition.

Changes in BT's market shares

3.10 Ofcom also considers the extent to which BT's market share has changed over time to be relevant in assessing the development of competition. The 2003 market review pointed to BT's very high market shares as a key factor underpinning the finding of SMP. However, whilst Ofcom recognises that BT still retains high market shares across all the markets under consideration, it also believes that information on *changes* in market shares is important in understanding the extent of competition and hence in assessing regulatory options following expiry of the RPC. Market share information is set out in detail in Annex 6; however, in summary, when considered between 2002Q3 and 2005Q3:

- BT's market share of residential analogue exchange lines by volume has fallen from 83% to 79% since the start of the current RPC. This is consistent with the take-up of WLR and LLU which enable BT's competitors to offer access as well as calls to customers, thereby breaking the billing relationship with BT and increasing the potential customer offering (i.e., narrowband access, and also broadband in the case of LLU, as well as call services). On a forward looking basis, it seems likely that this decline in BT's market share will continue, and the rate may increase with the introduction of WLR on an Eol basis from December 2006 (or June 2007)¹⁹ and LLU growth;

¹⁹ BT has committed in its Undertakings to providing WLR on an Eol basis by 30 June 2007. However, BT plans to deliver earlier, and has agreed to provide an allowance to Communications Providers for each month after 31 December 2006 that it is not available (para 3.2.1).

- BT's market shares of local, national, IDD calls and calls to mobiles have fallen significantly, on both a volume and value basis. For example:
 - Local call market share has fallen from 77% to 58% by volume, and 70% to 59% by value;
 - For national calls, BT's share by volume has fallen from 70% to 60%, and by value from 73% to 58%;
 - International call market share has fallen from 53% to 45% by volume, and from 67% to 61% by value. Whilst the difference between value and volume shares may suggest higher pricing by BT, it could equally be consistent with BT serving a larger proportion of higher-cost routes;
 - For calls to mobiles, BT's share by volume has fallen from 75% to 61%, and by value from 71% to 54%²⁰; and
 - BT's reductions in call market shares have been mainly due to operators using CPS. For example, local call market share of CPS operators has grown from 7% to 21% by value, with national call share growing from 10% to 27% and international call share growing from 21% to 26%.

3.11 Data on market shares are not collected in respect of operator assisted ("OA") calls. Absent direct information, the best indicator of BT's share is its share of retail residential exchange lines since a call to the operator originating on BT retail exchange lines will be routed to the BT operator. Assuming a similar proportion of OA calls originate per line across the market, BT's share in OA will be similar to its share of exchange lines²¹.

3.12 In conclusion, whilst BT's market shares, by both volume and value, remain significant, the clear downward trend across *all* relevant residential access and call markets is relevant in assessing regulatory options following the expiry of the existing RPC on 31 July 2006.

Evidence of customer switching

3.13 Another factor relevant to the consideration of whether or not to allow the RPC to lapse is the extent to which customers switch, or are aware of switching alternatives and are able to switch even if they choose not to. In assessing the extent of competition, of particular relevance is the existence or absence of barriers to switching, which could include:

²⁰ The fact that the volume share exceeds its share by value may well reflect the fact that, under the RPC basket, BT's retention on calls to mobiles (i.e., the difference between the retail price and what BT pays for mobile call termination) is controlled. Thus unlike other operators, the RPC requires BT to reduce its retail price following reductions in mobile call termination charges. Moreover, BT has also made public commitments (recorded in its response to the August 2003 consultation on retail narrowband markets - and also in its press release NR0302 on 22 January 2003) to "pass on to customers the benefits of the reductions in mobile termination rates as a result of the conclusions of the Competition Commission Inquiry" - see http://www.ofcom.org.uk/static/archive/oftel/publications/responses/2003/fix_narrow_retail0803/bt.pdf.

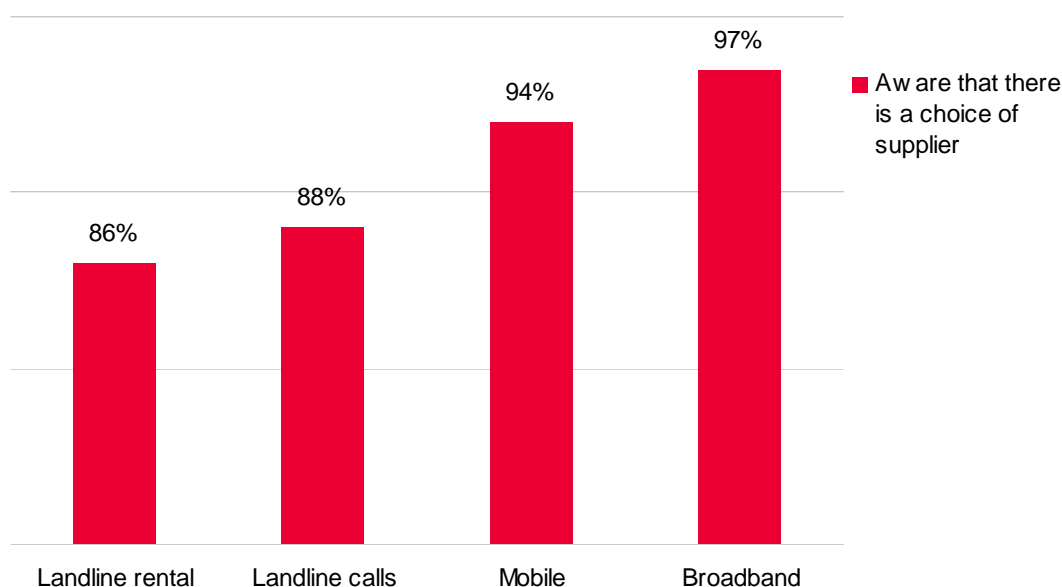
²¹ BT's share of retail residential exchange lines is still likely to understate its share of OA calls, since a significant proportion of OA calls made from WLR lines are routed to BT's OA operator.

- consumers not being aware of the availability of alternative providers;
- consumers being aware, but perceiving the cost of switching to outweigh the value of the savings from doing so, i.e., value differences across operators are below a 'saving threshold';
- consumers being aware, but distrusting other providers and/or the switching process; and
- consumers being aware of choices available to them but being satisfied with BT as their current supplier.

Awareness of alternatives

3.14 Research, as evidence in the figure below, shows that there is already relatively high awareness of alternative exchange line suppliers (86% of adults were aware of an alternative supplier for landline rental and 88% for landline calls), although awareness is slightly below other telecoms sectors (97% for broadband and 94% for mobile).

Figure 3.3 Awareness of competing suppliers²²



Source: Survey conducted by MORI on behalf of CCP, referenced in Annex 5 of Consumer Policy consultation document, Q2 2005

Saving threshold for switching

3.15 In respect of the saving threshold required for switching, the figure below suggests that consumers would need about £6 per month saving on fixed line rental in order to induce them to consider searching for a new supplier and that their expectation about the maximum possible savings by shopping around is lower than that, suggesting that

²² Base: 1404 landline decision-makers, 1307 landline calls decision-makers, 1551 mobile decision-makers, 567 broadband decision-makers, survey conducted by MORI for CCP, Q2 2005.

one reason for not switching is that customers may not sufficiently value the savings it would provide to do so.

Figure 3.4 Perceived gains from switching²³

Median Score (£)	Mobile Phone	Landline Rental	Landline national and International calls	Broadband
How much potential savings per month would tempt you to search for a new supplier?	£10	£6	£5	£5
How much is the most you could save per month from shopping about?	£5	£5	£5	£5
Approximately, how much do you pay on average?	£20	£15	£10	£18

Source: Survey conducted by MORI on behalf of CCP, referenced in Annex 5 of Consumer Policy consultation document, 2005Q2

3.16 Data outlined in the Consumer Policy consultation document²⁴ suggest that landline customers are less likely to have calculated the gains from switching their supplier than broadband or mobile consumers: 62% of landline customers have never considered searching for savings in the landline rental market with a comparable figure of 58% for landline calls, these figures being significantly higher than for the broadband (50%) and mobile (45%) markets. Findings from this survey are consistent with those reported in the TSR, which identified that 70% of landline customers had never considered changing supplier.

Extent and ease of switching

3.17 In terms of actual switching, the figure below reveals that around four in ten (39%) residential landline customers have ever switched their line and/or calls supplier. 17% said they had only switched their line rental supplier, 14% said they had only switched their landline calls supplier while 8% said they had switched both aspects of their landline service²⁵.

3.18 Furthermore, the figure below suggests that the majority of those who have never switched landline supplier did not perceive the process to be difficult (63% considered it would be either very or fairly easy). Of those that have actually switched, the majority said the process has been easy (92%). This pattern is consistent with the mobile and internet sectors. Nevertheless, around 1 in 5 non-switchers in residential exchange lines were unsure how easy switching might be.

²³ Base: 1404 landline decision-makers, 1307 landline calls decision-makers, 1551 mobile decision-makers, 567 broadband decision-makers, survey conducted by MORI for CCP, Q2 2005

²⁴ http://www.ofcom.org.uk/consult/condocs/ocp/ocp_web.pdf

²⁵ However, it is recognised that this is a relative assessment, which says nothing about the extent to which switching barriers may exist within the comparator sectors.

Figure 3.5 Actual and perceived ease of switching for different telecoms services

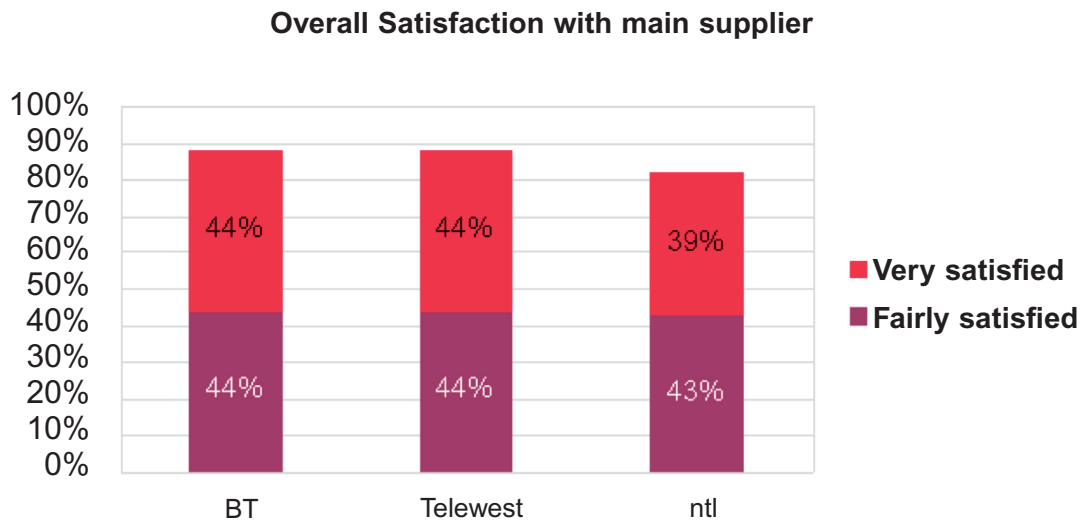
	Landline		Mobile		Internet	
	Ever switched	Never switched	Ever switched	Never switched	Ever switched	Never switched
Very easy	62%	23%	65%	38%	44%	25%
Fairly easy	30%	40%	28%	36%	36%	42%
Fairly difficult	2%	9%	3%	6%	11%	11%
Very difficult	2%	6%	2%	3%	5%	4%
Don't know	4%	22%	1%	17%	3%	16%

Source: Ofcom residential tracking survey, 2005Q1-Q2, conducted by MORI

Consumer satisfaction with existing suppliers

3.19 In terms of consumer satisfaction, the chart below suggests that the vast majority of consumers are satisfied with BT.

Figure 3.6 Consumer satisfaction with main landline suppliers²⁶



Source: Ofcom residential tracking survey, 2005Q2 conducted by MORI

3.20 In conclusion, Ofcom considers there to be significant evidence that switching does indeed take place across competing providers of both access and call services, and that customers generally consider switching to be easy even if they have chosen not to do so, either because they do not perceive the possible savings to make it worthwhile, or because they are satisfied overall with their existing service provider.

Pricing and profitability

3.21 A further consideration relevant in assessing the appropriate form of intervention following the expiry of the RPC is the extent of pricing freedom afforded to BT by virtue

²⁶ Base: 1477 BT customers, 169 Telewest customers, 211 ntl customers.

of its SMP in the relevant markets. Particularly of note are the extent to which excessive returns are being made, and whether competitive pressure is leading to price reductions.

Residential exchange lines

3.22 BT's Return on Capital Employed (RoCE) had typically been less than its cost of capital in analogue access (on an end-to-end basis) because its structure of prices was such that traditionally it made a loss on its access business which was more than compensated for by higher profits on calls.

3.23 In the context of retail markets, capital employed is negligible (in calls) or even negative (in exchange lines and for the consolidated residential business), and as a result the use of RoCE is of limited value in representing the profitability of the business. Instead, Return on Sales (RoS) is a more useful indicator of profitability for retail markets, although Ofcom notes that there is no definitive level of RoS which signifies excessive pricing from an economic perspective²⁷.

3.24 BT's revenues and RoS in retail analogue exchange lines, as reported in its regulatory accounts, is shown in the table below, alongside performance for the consolidated retail residential business:

Figure 3.7 BT Retail residential analogue exchange lines – Revenues and Return on Sales

Year	01/02	02/03	03/04	04/05
Revenue – residential analogue exchange lines (£M)	2,054	2,121	2,028	2,136
RoS – residential analogue exchange lines		-31%	-18.3%	-17.0%
Revenue – retail residential business (exchange lines and calls) (£M)	n/a*	n/a*	3,898	3,837
RoS – retail residential business (exchange lines and calls)	n/a*	n/a*	10.1%	8.8%

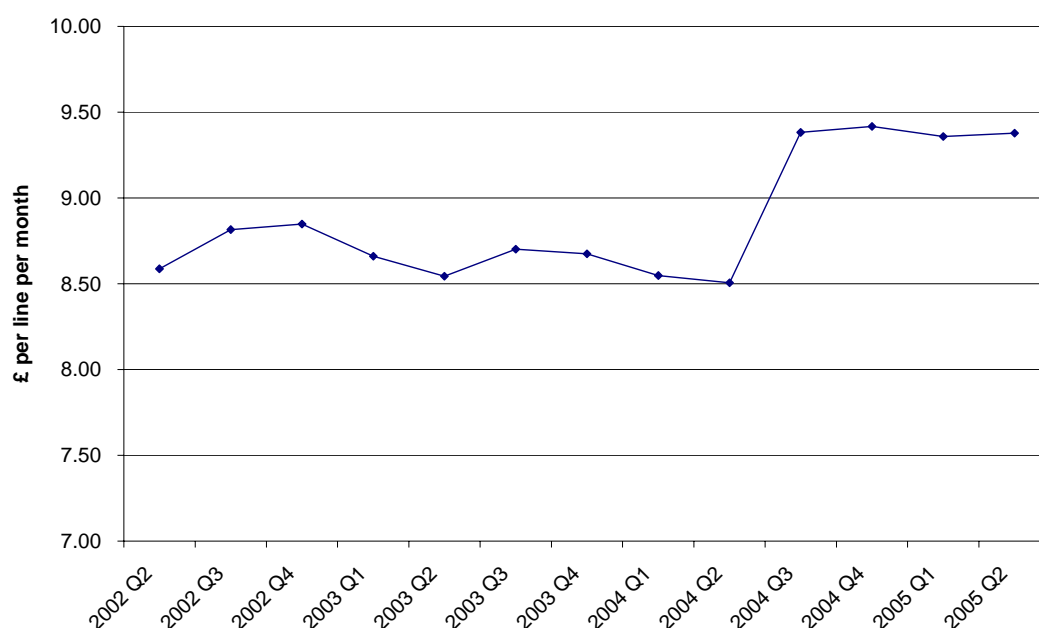
Source: BT current cost financial statements

*not available in a consistent form from prior financial statements

3.25 These figures show that BT's retail residential exchange lines business has historically made a loss (on a fully allocated cost basis) although this loss is reducing steadily over time as BT continues to rebalance its line rental and call prices (as shown in figures 3.8 – 3.12 below) and will improve further as wholesale exchange line costs have declined (i.e., reductions in WLR charges in 2005/06):

²⁷ The RoS which would be consistent with a competitive market may vary widely depending on capital intensity. A figure of 1.5% was, however, used as a benchmark by the Monopolies and Mergers Commission (MMC) in the original Calls to Mobiles inquiry for markets with little or no capital. http://www.ofcom.org.uk/static/archive/oftel/publications/1995_98/pricing/bmmc1298.htm, para 1.14.

Figure 3.8 Residential Exchange lines average revenues (£ per month) excl. VAT



Source: Ofcom / BT

Retail narrowband residential voice calls

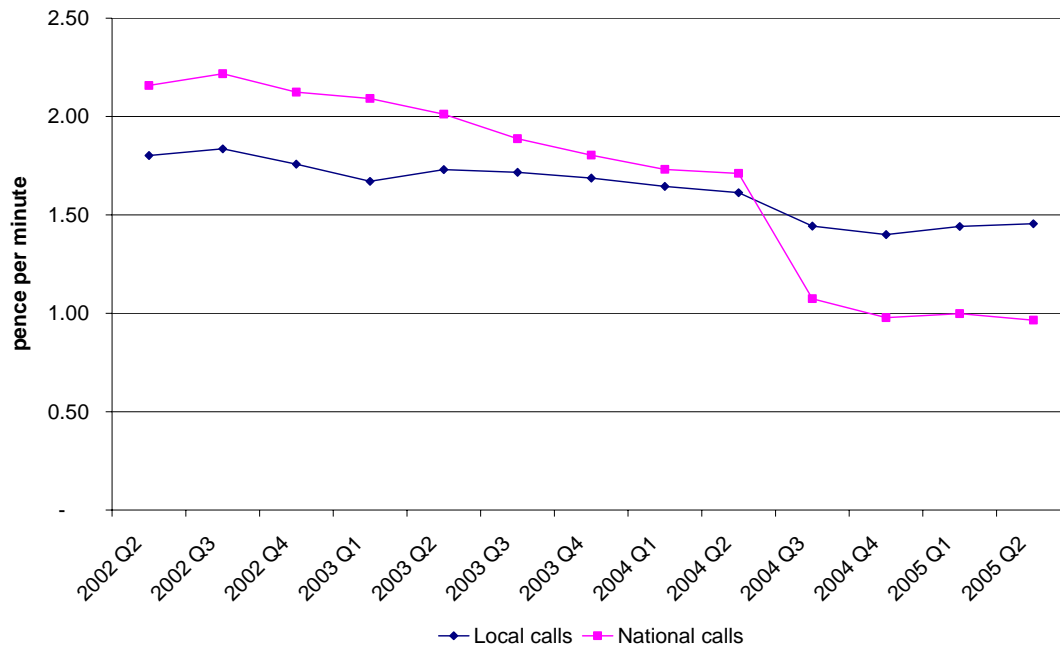
3.26 In the residential call markets, BT has historically earned a high RoS, for example with a RoS for 04/05 of 62% for local calls and 36% for national calls.

Figure 3.9 Profitability of retail residential calls markets

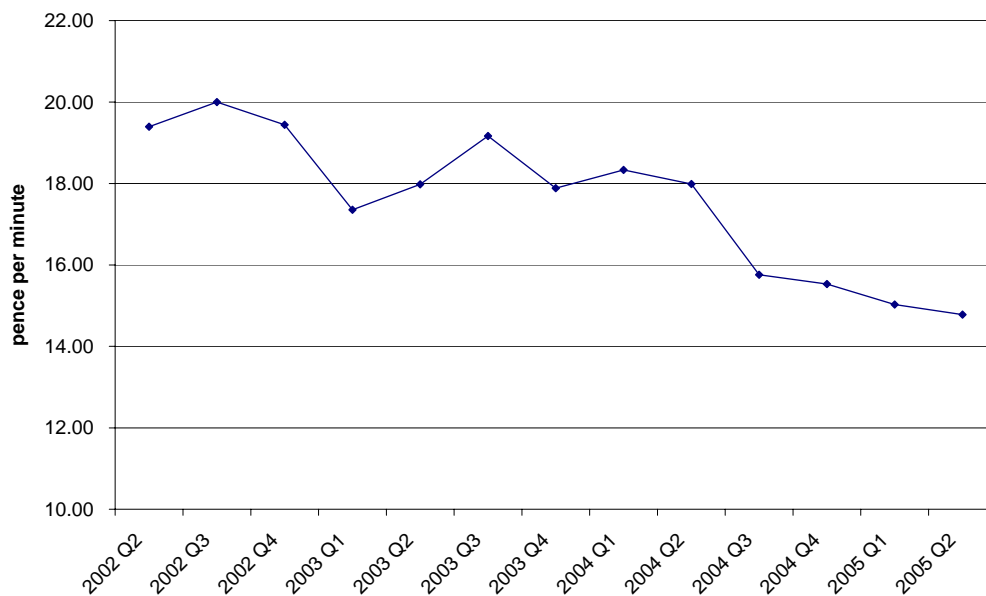
Market	Revenue (£M)		RoS	
	03/04	04/05	03/04	04/05
Residential local calls	794	659	59.7%	61.7%
Residential national calls	354	223	52.2%	36.0%
Residential IDD calls category A	n/a	209	n/a	36.4%
Residential IDD calls category B	n/a	21	n/a	76.4%
Residential calls to mobiles	722	583	14.4%	20.1%
Residential operator assisted calls	n/a	6		68.5%
Consolidated retail residential business (exchange lines and calls)	3,898	3,837	10.1%	8.8%

Source: BT current cost financial statements

3.27 However, whilst BT is generating significant returns from calls, its average revenue per call minute has been declining across all call types. Figures 3.10 – 3.12 show BT’s average per minute revenue for local, national, international and fixed to mobile residential calls.

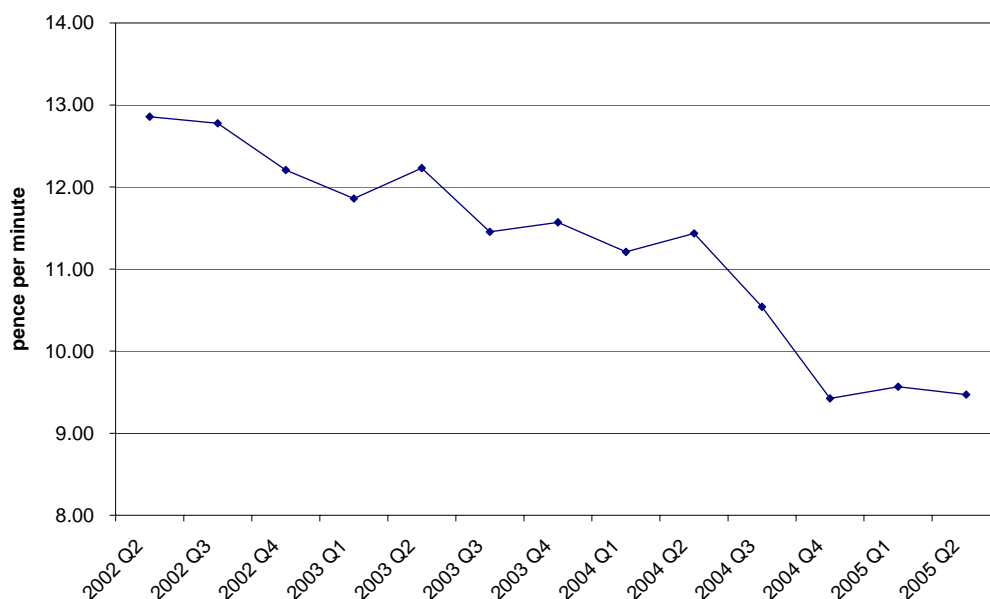
Figure 3.10 Residential local and national average call revenues (pence per minute)

Source: Ofcom / BT

Figure 3.11 Residential international average call revenues (pence per minute)

Source: Ofcom / BT

Fig 3.12 Residential fixed-to-mobile average call revenues (pence per minute)



Source: Ofcom / BT

3.28 In summary, from 2002Q2 to 2005Q2:

- average revenue per minute on local calls has fallen from 1.8ppm to 1.45ppm, a decline of 19% at a compound annual growth rate (CAGR) of -7%;
- average revenue per minute on national calls has fallen from 2.16ppm to just under 1ppm, a decline of 55% at a CAGR of -24%;
- average revenue per minute on international calls has fallen from 19.4ppm to 14.8ppm, a decline of 24% at a CAGR of -9%; and
- average revenue per minute on fixed to mobile calls has fallen from 12.9ppm to 9.5ppm, a decline of 26% at a CAGR of -10%.

3.29 In conclusion, BT continues to generate significant returns on its residential call services but generates a loss on residential access services (albeit diminishing). However, call prices are declining significantly, suggesting competitive pressure, for example through CPS operators.

Other relevant developments

3.30 Over the period since the last market review, Voice over IP (VoIP) services have begun to have an increasing impact on the UK communications markets²⁸. VoIP services have the potential to deliver significant consumer benefits through reducing the cost of delivering existing services, enabling new and innovative services and

²⁸ For more information on VoIP market and regulatory developments, see Ofcom's February consultation, *Regulation of VoIP Services*, available at <http://www.ofcom.org.uk/consult/condocs/voipregulation/>

increasing competition. However, VoIP services are still in their infancy, relative to established technology.

- 3.31 Nevertheless, there are now a wide and increasing number and variety of VoIP service propositions in the marketplace including:
- PC-based services that allow calls from one personal computer to another;
 - services marketed as secondary line services that allow calls to and from traditional telephone numbers; and
 - other services that are marketed as replacements for traditional PSTN-based call services; typically, the PSTN line remains in place and the VoIP service only is then used for calls.
- 3.32 These services are being offered by a range of providers; in some cases they are offered bundled with Internet access services and in others as stand-alone services.
- 3.33 Awareness of such offerings and their benefits is increasing and is driving penetration, with almost half (48%) of all UK adults in 2005 having a basic awareness of VoIP services²⁹. An additional 3 million customers said they were likely to consider purchasing/using VoIP services in the next 6 months³⁰ and some forecasts suggest that by the end of 2007 there will be about 3 million PC-to-PC VoIP services users and over 1 million who use VoIP services to call to and from PSTN numbers³¹.
- 3.34 Although, as mentioned earlier, these services are still in their infancy, they have the potential to represent a significant competitive challenge to fixed line telephony going forward.

Conclusion

- 3.35 There have been many developments in the markets for fixed narrowband retail services since the time of the last market review, including the growth in competition for access and calls based in particular upon the take-up of WLR and CPS offerings. This increased competition has resulted in a steady erosion of BT's market share across all line and call markets, by both volume and value, with the introduction of BT's Eol WLR product expected to exacerbate this effect.
- 3.36 While BT's returns on calls remain high, it generates a loss on its residential access services (although this loss has reduced in recent years and financial performance in access will further have improved following reductions in WLR charges). Nevertheless, prices for all call services have been falling significantly in the period since the last market review.
- 3.37 Ofcom's analysis of switching behaviour suggests that consumers are aware of switching alternatives, and consider the process to be an easy one. Significant reasons given for not switching include being satisfied overall with the level of service provided by BT, or a perception that the potential savings are not sufficient to warrant switching.

²⁹ 50% of total population. Source: Ofcom Research 2005.

³⁰ Source: Ofcom residential tracking survey, Q3 2005, conducted by MORI (Base: 2220 UK adults).

³¹ Analysys report (Retail VoIP in Western Europe: forecasts 2005-2010).

- 3.38 Ofcom also observes that technological developments – in particular in terms of VoIP services – are likely to represent further competitive challenges to BT in the retail narrowband markets under consideration.
- 3.39 Ofcom therefore believes that there have been many changes in the markets under consideration, and in particular the extent of competition therein, so as to require an assessment of a range of options in considering the appropriate form of regulation (or extent of de-regulation) following the expiry of the RPCs on 31 July 2006.

Section 4

Option assessment

- 4.1 Section 3 above describes the significant changes which have taken place in the fixed narrowband retail services markets under consideration. As a consequence of these changes, and in light of the expiry of the existing RPC on 31 July 2006, Ofcom believes it is appropriate to consult on a preferred approach as well as a range of possible options to determine the most appropriate and proportionate regulatory response that addresses BT's position of SMP in the relevant markets.
- 4.2 Ofcom is mindful that an appropriate assessment of the different options will recognise that a balance is to be struck between recognising, on the one hand, that BT has been notified as having SMP in the markets under consideration and, on the other, the fact that regulation, if overbearing, can have adverse effects on the development of competition, service innovation and long-term investment. Central in arriving at the appropriate conclusion is an understanding of the market conditions BT faces in the different markets and the extent to which competitive pressures are brought to bear on BT.

Objectives

- 4.3 Ofcom has identified the following objectives as being of particular relevance to the analysis in this section and are compatible with the statutory framework of the Act, Framework Directive and Ofcom's regulatory principles:
- To operate with a bias against intervention, but with a willingness to intervene firmly, promptly and effectively where required;
 - To address retail market SMP and how to facilitate effective retail competition;
 - To mitigate risks to low spending consumers, with recognition that:
 - BT's market power may not be uniform across markets (i.e., it is likely to be stronger in the market for analogue access lines than in the markets for calls);
 - certain groups of low spending consumers may fall outside thresholds for price protection through BT's requirements under its USO; and
 - To achieve the above by the least intrusive regulatory means.
- 4.4 The main concern arising from BT having market power in these markets is its ability to set and/or to maintain prices above competitive levels. Therefore a key objective of intervention is to constrain the ability of a firm to set excessive prices to the detriment of consumers.
- 4.5 Another key objective of any remedy arising from Ofcom's general duties and regulatory principles is that it recognises that certain consumer groups are more exposed to the impact of price rises than other consumer groups. Specifically, whilst certain consumer groups may be protected from high prices through the special tariff

scheme offered under BT's USO³², there exist low spending consumers (based on consumer expenditure on BT's narrowband access and voice services) who may not be protected through the USO against increases in the prices of BT's basic services (and in particular its exchange line rentals).

- 4.6 This is because the competitive constraints provided by increasing competition are not uniformly experienced across all markets and customer groups. The baskets of services purchased by consumer groups differs significantly, with the expenditure by low spending consumer groups on basic narrowband exchange lines being higher as a percentage of their total telecoms spend and income. Furthermore, these consumers may be less willing or less able to switch, for example as a consequence of them not having a bank account and/or not being eligible for a direct debit payment scheme.

Context

- 4.7 In assessing the appropriate form of regulation following the expiry of the RPC, it is necessary to balance the consequences of BT's SMP with the extent to which other factors – chiefly competitive pressure and other regulation – may limit to some extent BT's pricing freedom. It is necessary therefore to consider both the market developments which have occurred since the market review completed in November 2003 following which the RPC was imposed, and the other relevant regulation which remains in place.

Market developments

- 4.8 Section 3 above sets out the significant changes in the extent of competition across all relevant markets since the time of the previous market review. In particular, BT has seen a significant reduction in its market shares across *all* relevant markets in response to the significant growth of call volumes provided by CPS and the success of WLR in encouraging competition in the market for analogue exchange lines.
- 4.9 Whilst, overall, BT's prices for the markets under consideration remain above a level consistent with a competitive outcome, prices for all call services have been steadily falling in the face of competition, with increases in access prices reflecting rebalancing.
- 4.10 Ofcom also notes that significant technological developments may in the near term represent credible competitive threats to BT's position in the markets under consideration.

Other relevant regulation

- 4.11 Following the expiry of the RPC, BT will remain, through its USO, subject to:
- A condition giving protection for people with special social needs especially vulnerable consumers via a requirement to provide a social telephony tariff (currently BT's Light User Scheme 'LUS'); and
 - A condition requiring it to price the services covered by the USO on a uniform basis, irrespective of geographic location, meaning that all residential customers should benefit from price reductions in response to competitive pressures, even if brought to bear in only certain geographic areas.

³² This is currently the LUS although, as noted above, Ofcom is currently consulting on the introduction of a new targeted scheme aimed at customers in receipt of state benefits.

4.12 Further, BT will remain subject to requirements in respect of (i) no undue discrimination and (ii) price publication since, unlike the RPCs, these conditions are not time-limited.

Regulatory Options

4.13 In light of these market and regulatory developments, and taking into account its stated objectives, Ofcom has considered a range of options that could apply upon the expiry of the existing price controls on 31 July 2006:

- **Option 1:** no regulation in place of RPC – no charge control from 1 August 2006 with no additional consumer protection ‘assurances’ from BT;
- **Option 2:** roll-over of the existing charge control – a continuance of the safeguard cap (RPI+0%) on a basket of access and calls for Y% of subscribers by expenditure (currently Y = 80%);
- **Option 3:** safeguard cap on BT’s entry level tariff, BT Together 1 (BTT1), or any replacement; and
- **Option 4:** no charge controls from 1 August 2006 but voluntary assurances provided by BT.

Option 1 – No regulation in place of RPC

4.14 One of Ofcom’s key regulatory principles is to operate with a bias against intervention. Clearly, not imposing any regulation in place of the RPC upon its expiry would be consistent with this objective. Furthermore, as discussed above, there have been a number of significant regulatory and market developments that have increased the level of competition, or have the potential to do so, in the markets under consideration. Re-imposing a price control may have the perverse result of delaying the onset of competition by keeping BT’s prices at a level so as to deter competition, and this needs to be considered alongside the potential consumer protection benefits of a price control.

4.15 Therefore, even though BT retains SMP in the markets under consideration, it may be a proportionate response (especially given the wholesale developments) not to impose any further retail price regulation in the period up to the next market review.

4.16 However, even if BT’s market power is declining, concerns about low spending consumers falling outside the protections afforded by the social telephony tariffs have led Ofcom to conclude that it would be premature not to impose any controls, absent assurances from BT to address ongoing concerns raised by its continued SMP. For example, Ofcom is mindful of the risk that, in the absence of a mechanism for addressing BT’s SMP, switching may be more difficult for those consumers (in particular those without a bank account or who are reluctant to enter into direct debit agreements).

4.17 It would therefore seem to be premature to have no RPC absent a commitment from BT to address ongoing concerns raised by BT’s continued SMP.

Option 2 – Roll over of the existing RPC

4.18 Ofcom could seek to roll over the existing basket price control, either until there is further evidence as to the sustainability of competition based on WLR/CPS, or until completion of the market review scheduled for 2007.

- 4.19 One advantage of delaying retail deregulation is that evidence for the effectiveness of WLR and CPS as upstream remedies should strengthen with time. WLR is of particular significance in this context. Although Ofcom has recently found WLR to be 'fit-for-purpose' as a wholesale product, there are ongoing concerns regarding the operational performance of specific WLR systems managed by BT. BT has made a formal commitment to resolving these, and this should ensure that WLR-based competition is fully sustainable. Furthermore, Ofcom has the power to issue directions to BT to remedy deficiencies in the WLR system. However, it could be argued that further retail deregulation should be delayed until BT has fully delivered on its commitments.
- 4.20 Ofcom believes that there is some merit in this argument. However, there is also the danger that deregulation becomes perpetually delayed, because there is always a new operational concern at the wholesale level. Ofcom's preference is therefore to deal with the residual concerns regarding the performance of WLR via the commitments which BT has already made and, if necessary, by issuing directions rather than rolling over the price control.
- 4.21 A further merit of rolling over the existing RPC is that it would continue to protect the lowest spending 80% of consumers and do so in a manner that is well understood. However, Ofcom considers that maintaining the controls for this reason risks being unduly burdensome and disproportionate to the extent that those controls would apply much more widely and beyond those consumers requiring protection.
- 4.22 Moreover, such an approach may be considered to be in conflict both with Ofcom's regulatory principles and at odds with the conclusions of the TSR. In particular, Ofcom has observed that over 80% of consumers are aware of competing fixed operators³³, with some 39% having switched fixed line or call providers³⁴, and it may be the case that consumers currently being protected through the charge control do not need such protections given that they are aware of and fully able to take advantage of the opportunities for switching.
- 4.23 Furthermore, Ofcom notes that a continuation of the existing RPC arrangement may have an adverse impact on consumers going forward in that if, in response to competition for higher spending consumers (who spend more on calls), BT reduces prices for calls, then this means BT can, even within a RPC, increase exchange line charges by more than RPI, potentially to a level where exchange line returns are significantly above cost. Even if BT's retail profitability was unchanged overall (with lower profits in calls being off-set by higher profits from exchange lines), significant increases in exchange line charges disproportionately impacts lower spending consumers. In Ofcom's view, an assurance by BT on exchange line prices could offer better protection to such consumers.
- 4.24 Ofcom notes that it could reduce the proportion of consumers covered by the price control so as to minimise these impacts; however, there is no clear answer as to what the appropriate proportion should be. A focus solely on those in the bottom deciles by spend would protect many consumers using CPS who are not the customers in relation to whom Ofcom's concerns are focussed. In Ofcom's view, an alternative approach avoiding formal price controls would seem to be preferable.

³³ See figure 3.3.

³⁴ See paragraph 3.17.

Option 3 – Safeguard cap on the entry level BT tariff

- 4.25 Ofcom could seek to modify the formal price control by imposing safeguard caps only on the BTT1 tariff package.
- 4.26 Such an approach would reflect targeted regulation in that it would apply to products where concerns over the exploitation of market power may be most significant. It would also reduce the compliance burden compared to a control that covers all products and/or certain deciles.
- 4.27 This approach is product-specific in that it would only apply to the purchasers of BTT1; this is in contrast with the existing RPC (and by extension Option 2 above), which applies to the lowest spending 80% irrespective of package.
- 4.28 Ofcom has, in this context, considered two approaches:
1. A control on a basket of access and call charges for BTT1; and
 2. A control on (only) the access charge (i.e., line rental) for BTT1.
- 4.29 Ofcom recognises that there would be a risk of leaving some user groups exposed in the event that a control was imposed solely on access prices, and a safeguard cap on both access and calls would alleviate this. However, there is a balance to be struck as to the appropriate level of regulation. A disproportionate approach may stifle innovation and may result in BT offering discounts only to high users on non-regulated tariff packages, while maintaining current prices of regulated services. This would not necessarily protect those consumers on whom Ofcom's concerns are focussed. Ofcom considers that a control on access and calls in this way would be disproportionate in a similar way to rolling over the existing price controls.
- 4.30 Imposing a control solely on access prices would provide BT with complete freedom of pricing in respect of the calls markets under consideration; it would however focus the control on the particular service where Ofcom has concerns about the potential for, and impact of, price increases.
- 4.31 In keeping with Ofcom's bias against intervention, Ofcom is keen to consider whether alternative arrangements can be established which preclude the need for formal charge controls in light of recent and ongoing market developments. Ofcom considers that the voluntary assurances offered by BT can provide a similar level of protection as a price control on access services but is to be preferred because it is less intrusive and allows retail regulation to be removed, consistent with the principles outline in the TSR.

Option 4 – No control but BT gives voluntary assurances

- 4.32 Ofcom has also considered allowing the existing controls on all residential narrowband retail access and access call services to expire, but also to seek assurances from BT in respect that should help to provide additional protection for low spending consumers who are not protected through BT's USO. These are the consumers identified by Ofcom as being most vulnerable to deregulation.
- 4.33 This approach is consistent with Ofcom's objective of deregulation where possible and, as such, is in keeping with the conclusions of the TSR. However, the appropriateness of this option, in light of BT's SMP in the markets under consideration, is dependent on the extent and substance of the assurances that BT is willing to provide.

- 4.34 BT continues to retain SMP in the fixed narrowband retail services markets considered here. However, Ofcom considers the following points are relevant in determining the appropriate form of regulatory intervention, if any, going forward:
- Significant developments in competition for all markets under consideration – in particular borne of the rapid take-up of WLR and CPS services, resulting in downward pressure on all call prices and falling BT market shares across all access and call services under consideration;
 - Further opportunities for competitive entry following BT's provision of WLR on an EoI basis expected by the end of 2006 (and no later than June 2007) coupled with potential for technological developments in respect of VoIP;
 - The ongoing obligations on BT, under its USO, to provide one or more special tariff schemes to assist consumers who are on low incomes or have special social needs that would not be provided under normal commercial conditions;
 - The ongoing obligations on BT, under its USO, to price narrowband services on a geographically uniform basis such that, when BT responds to competitive pressures arising in certain geographic areas (e.g. cable areas or areas of WLR- or LLU-based entry), these will feed through to areas where there might be less competition; and
 - Further requirements of non undue discrimination and price publication which are not time-limited.
- 4.35 In light of the above, Ofcom considers it appropriate to allow the RPC to lapse, but to seek assurances from BT to address Ofcom's continued concerns with regard to particular consumers in accordance with Ofcom's key regulatory objectives.
- 4.36 BT has provided assurances that will help protect certain low spending consumers falling outside the protections afforded by the social telephony tariffs. BT has stated that the precise details of these assurances are commercially sensitive and have therefore requested that they remain confidential as between Ofcom and BT. Ofcom accepts that disclosure of the detail may confer a commercial advantage on BT's competitors because it could give them greater certainty over future pricing which would not otherwise be present.
- 4.37 In light of this, and in order to discourage price-following behaviour, Ofcom considers that it is appropriate that the details remain confidential. However the substance of the assurances may be summarised as follows: assurances relating to the pricing of line rental; and assurances concerning the pass-through in respect of mobile termination rates. The assurances will last until the end of 2007, which will coincide with the anticipated completion of the next review of retail narrowband markets by Ofcom.
- 4.38 These assurances focus on the prices of exchange line services since Ofcom considers that competition in the relevant call markets is more developed than in the access market, as set out in Section 3 above. They are designed to protect low spending consumers who are not protected through BT's USO, who are at present unable or unlikely to enjoy the full benefits of increased competition.
- 4.39 Ofcom recognises that such an arrangement, absent assurances from BT, may result in BT using its freedom from formal price control regulation to set prices to the detriment of consumers. However, Ofcom believes that the assurances provided by BT are appropriate to alleviate these concerns and that this approach strikes an

appropriate balance, given recent market developments, between protecting consumers and realising the benefits of de-regulation. Moreover, Ofcom will, following the completion of the fixed narrowband retail services market review in 2007, be in a position to assess the appropriate form of regulatory intervention given prevailing market conditions and the success of competition under this option.

- 4.40 In the event that this option is adopted, Ofcom intends to ensure that there is public awareness of these changes through a public information campaign. An example of how a potential public awareness advertising campaign might look is set out in Annex 7.

Ofcom's preferred option

- 4.41 Following a detailed assessment of the above options, Ofcom considers that, in line with the objectives outlined at the beginning of this section, Option 4 is to be preferred, i.e., allowing the current RPC to lapse on the basis that BT provides a set of assurances to Ofcom in respect of access prices and mobile pass through. Ofcom believes that this option recognises (i) BT's SMP, (ii) the ongoing market developments and (iii) continuing regulations such as the USO, and thereby strikes the appropriate balance between, on the one hand, ensuring the protection of consumers (and in particular those low spending consumers not protected through BT's USO) and, on the other, responding through deregulation to observed and expected competitive developments in the relevant markets.

Question 1 – Do you consider there to be other forms of regulation that Ofcom should consider?

Question 2 – Do you agree with Ofcom's conclusion, and the assessment on which that conclusion is based?

Annex 1

Responding to this consultation

How to respond

Ofcom invites written views and comments on the issues raised in this document, to be made by **5pm on 30 May 2006**.

Ofcom strongly prefers to receive responses as e-mail attachments, in Microsoft Word format, as this helps us to process the responses quickly and efficiently. We would also be grateful if you could assist us by completing a response cover sheet (see Annex 3), among other things to indicate whether or not there are confidentiality issues. The cover sheet can be downloaded from the 'Consultations' section of our website.

Please can you send your response to geoff.brighton@ofcom.org.uk.

Responses may alternatively be posted or faxed to the address below, marked with the title of the consultation.

Geoff Brighton
4th Floor
Riverside House
2A Southwark Bridge Road
London SE1 9HA

Fax: 020 7981 3333

Note that we do not need a hard copy in addition to an electronic version. Also note that Ofcom will not routinely acknowledge receipt of responses.

It would be helpful if your response could include direct answers to the questions asked in this document, which are listed together at Annex 4. It would also help if you can explain why you hold your views, and how Ofcom's proposals would impact on you.

Further information

If you have any want to discuss the issues and questions raised in this consultation, or need advice on the appropriate form of response, please contact Geoff Brighton on 020 7783 4175.

Confidentiality

Ofcom thinks it is important for everyone interested in an issue to see the views expressed by consultation respondents. We will therefore usually publish all responses on our website, www.ofcom.org.uk, ideally on receipt (when respondents confirm on their response cover sheet that this is acceptable).

All comments will be treated as non-confidential unless respondents specify that part or all of the response is confidential and should not be disclosed. Please place any confidential parts of a response in a separate annex, so that non-confidential parts may be published along with the respondent's identity.

Ofcom reserves its power to disclose any information it receives where this is required to carry out its legal requirements. Ofcom will exercise due regard to the confidentiality of information supplied.

Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use, to meet its legal requirements. Ofcom's approach on intellectual property rights is explained further on its website, at www.ofcom.org.uk/about_ofcom/gov_accountability/disclaimer.

Next steps

Following the end of the consultation period, Ofcom intends to publish a final explanatory statement before the retail price control expires in July 2006.

Please note that you can register to get automatic notifications of when Ofcom documents are published, at http://www.ofcom.org.uk/static/subscribe/select_list.htm.

Ofcom's consultation processes

Ofcom is keen to make responding to consultations easy, and has published some consultation principles (see Annex 2) which it seeks to follow, including on the length of consultations.

If you have any comments or suggestions on how Ofcom conducts its consultations, please call our consultation helpdesk on 020 7981 3003 or e-mail us at consult@ofcom.org.uk. We would particularly welcome thoughts on how Ofcom could more effectively seek the views of those groups or individuals, such as small businesses or particular types of residential consumers, whose views are less likely to be obtained in a formal consultation.

If you would like to discuss these issues, or Ofcom's consultation processes more generally, you can alternatively contact Vicki Nash, Director, Scotland, who is Ofcom's consultation champion:

Vicki Nash
Ofcom (Scotland)
Sutherland House
149 St. Vincent Street
Glasgow G2 5NW
Tel: 0141 229 7401
Fax: 0141 229 7433
E-mail: vicki.nash@ofcom.org.uk

Annex 2

Ofcom's consultation principles

A2.1 Ofcom has published the following seven principles that it will follow for each public written consultation:

Before the consultation

A2.2 Where possible, we will hold informal talks with people and organisations before announcing a big consultation to find out whether we are thinking in the right direction. If we do not have enough time to do this, we will hold an open meeting to explain our proposals shortly after announcing the consultation.

During the consultation

A2.3 We will be clear about who we are consulting, why, on what questions and for how long.

A2.4 We will make the consultation document as short and simple as possible with a summary of no more than two pages. We will try to make it as easy as possible to give us a written response. If the consultation is complicated, we may provide a shortened version for smaller organisations or individuals who would otherwise not be able to spare the time to share their views.

A2.5 We will normally allow ten weeks for responses to consultations on issues of general interest.

A2.6 There will be a person within Ofcom who will be in charge of making sure we follow our own guidelines and reach out to the largest number of people and organisations interested in the outcome of our decisions. This individual (who we call the consultation champion) will also be the main person to contact with views on the way we run our consultations.

A2.7 If we are not able to follow one of these principles, we will explain why. This may be because a particular issue is urgent. If we need to reduce the amount of time we have set aside for a consultation, we will let those concerned know beforehand that this is a 'red flag consultation' which needs their urgent attention.

After the consultation

A2.8 We will look at each response carefully and with an open mind. We will give reasons for our decisions and will give an account of how the views of those concerned helped shape those decisions.

Annex 3

Consultation response cover sheet

- A3.1 In the interests of transparency, we will publish all consultation responses in full on our website, www.ofcom.org.uk, unless a respondent specifies that all or part of their response is confidential. We will also refer to the contents of a response when explaining our decision, without disclosing the specific information that you wish to remain confidential.
- A3.2 We have produced a cover sheet for responses (see below) and would be very grateful if you could send one with your response. This will speed up our processing of responses, and help to maintain confidentiality by allowing you to state very clearly what you don't want to be published. We will keep your completed cover sheets confidential.
- A3.3 The quality of consultation can be enhanced by publishing responses before the consultation period closes. In particular, this can help those individuals and organisations with limited resources or familiarity with the issues to respond in a more informed way. Therefore Ofcom would encourage respondents to complete their cover sheet in a way that allows Ofcom to publish their responses upon receipt, rather than waiting until the consultation period has ended.
- A3.4 We strongly prefer to receive responses in the form of a Microsoft Word attachment to an email. Our website therefore includes an electronic copy of this cover sheet, which you can download from the 'Consultations' section of our website.
- A3.5 Please put any confidential parts of your response in a separate annex to your response, so that they are clearly identified. This can include information such as your personal background and experience. If you want your name, address, other contact details, or job title to remain confidential, please provide them in your cover sheet only so that we don't have to edit your response.

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

What do you want Ofcom to keep confidential?

Nothing	<input type="checkbox"/>	Name/contact details/job title	<input type="checkbox"/>
Whole response	<input type="checkbox"/>	Organisation	<input type="checkbox"/>
Part of the response	<input type="checkbox"/>	If there is no separate annex, which parts?	

If you want part of your response, your name or your organisation to be confidential, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response. It can be published in full on Ofcom's website, unless otherwise specified on this cover sheet, and I authorise Ofcom to make use of the information in this response to meet its legal requirements. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

Annex 4

Consultation questions

Question 1 – Do you consider there to be other forms of regulation that Ofcom should consider?

Question 2 – Do you agree with Ofcom’s conclusion, and the assessment on which that conclusion is based?

Annex 5

Impact assessment

A5.1 The analysis presented in this section, when read also with the rest of this document, represents an Impact Assessment ('IA'), as defined by section 7 of the Act. You should send any comments on this IA to us by the closing date for this consultation. Ofcom will give careful consideration to all comments received during the consultation period before deciding whether to implement our proposals.

A5.2 IAs provide a valuable way of assessing different options for regulation and showing why the preferred option was chosen. They form part of best practice policy-making and are commonly used by other regulators. This is reflected in section 7 of the Act, which means generally we have to carry out IAs where our proposals would be likely to have a significant effect on businesses or the general public, or when there is a major change in Ofcom's activities. In accordance with section 7 of the Act, in producing the IA in this document, Ofcom has had regard to such general guidance as it considers appropriate, including related Cabinet Office guidance.

A5.3 This IA is conducted in accordance with the Ofcom publication "Better Policy Making"³⁵.

The issues for consultation

A5.4 The June 2002 statement introduced a safeguard cap for a period of four years to 31 July 2006; this is set out in more detail in Section 2. Ofcom is now consulting on the appropriate form of intervention, if any, following the expiry of the existing price controls. Factors Ofcom has considered include:

- The fact that BT retains SMP in the relevant retail markets;
- Whether competition in these markets is (or is likely to become) sufficiently developed to offer consumers a viable range of alternative products and suppliers;
- BT's residual control of the wholesale products non-cable providers purchase in order to compete;
- Whether, in the absence of retail price controls, BT would be likely to significantly increase line rental charges to offset call price reductions it may make in the more competitive calls markets. This could potentially harm low spending consumers not protected by the USO, who depend on their phone line but make few calls.

Policy objectives

Ofcom's statutory duties

A5.5 Section 3(1) of the Act states that the principle duty of Ofcom is:

- to further the interests of citizens in relation to communications matters, and;

³⁵ http://www.ofcom.org.uk/consult/policy_making/guidelines.pdf

- to further the interests of consumers in relevant markets, where appropriate by promoting competition.

A5.6 Ofcom has identified four objectives (informed by the statutory framework of the Act, Framework Directive and Ofcom's regulatory principles) to inform our thinking on whether there is a need for a further retail price control:

- The desire to operate with a bias against intervention, but with a willingness to intervene firmly, promptly and effectively where required;
- The need to address BT's SMP in retail markets and facilitate the development of effective competition in these markets;
- Distributional considerations/consumer protection:
 - market power may not be uniform across markets – i.e. certain consumers may be effectively captive (but in a way that makes market definition on this basis difficult);
 - a number of these consumers may be significantly budget constrained but fall outside the coverage of social telephony services (LUS or its replacement); and
- Finding the least intrusive regulatory mechanisms to achieve these objectives.

Summary of options

A5.7 In light of these significant market and regulatory developments since the last market review, and taking into account its objectives, Ofcom has identified a range of options that may be appropriate upon the expiry of the existing price controls on 31 July 2006:

- **Option 1:** no regulation in place of RPC – no charge control from 1 August 2006 with no additional consumer protection 'assurances' from BT;
- **Option 2:** roll-over of the existing charge control – a continuance of the safeguard cap (RPI+0%) on a basket of access and calls for Y% of subscribers by expenditure (currently Y = 80%);
- **Option 3:** safeguard cap on BT's entry level tariff, BTT1, or any replacement; and
- **Option 4:** no charge controls from 1 August 2006 but voluntary assurances provided by BT.

Option assessment

Option 1 – No regulation in place of RPC

A5.8 Under section 6 of the Act, Ofcom has a duty to ensure that it does not impose or maintain unnecessary regulatory burdens. Ofcom considers that deregulation obviously fulfils this duty but would not be without risk. Allowing BT complete freedom over all of its retail prices whilst relying solely on social telephony schemes (currently LUS) to protect low income consumers and those with special social needs would offer no protection for consumers whose spend on calls marginally disqualifies them from membership of the scheme. These consumers may face rises in access prices which, given their low call volumes, cannot be off-set by reductions in the price of calls. However, as competition in access intensifies with the continued uptake of WLR (which is expected to be further encouraged by BT's delivery of EoI in WLR), these

consumers should find it easier to switch to alternative providers who charge lower prices than BT.

A5.9 In the absence of a formal price control, and given that BT continues to have SMP, BT may have the incentive and ability to set and and/or maintain prices above competitive levels. However, this may actually be beneficial for competition as competing providers may be able to identify opportunities and thus increase competitive pressure.

A5.10 On balance, Ofcom has concluded that this option is premature in the face of BT's continued SMP, particularly in access. A more detailed discussion of the advantages and disadvantages of this option is contained in Section 4 at paragraphs 4.14 – 4.17.

Option 2: Roll-over of existing charge control

A5.11 Such an approach will continue to protect low spending consumers and the effects of such an approach are well understood. It may also be more straightforward for both Ofcom to enforce and for BT to demonstrate compliance when compared with an alternative of informal assurances provided by BT.

A5.12 However, this approach may not be consistent with Ofcom's duties under section 6 of the Act, given the regulatory and market developments since the last market review (such as WLR and CPS) which have increased competitive pressure on BT in the fixed narrowband retail services markets, and as such may be considered at odds with the conclusions of the TSR, namely that Ofcom should focus regulation on the deepest levels of infrastructure where competition will be effective and withdraw from regulation as soon as competitive conditions allow.

A5.13 Ofcom further notes that applying a formal control may have a detrimental effect on competition to the extent that it represents intervention that will tend to restrain BT's pricing freedom, and as such reduce competitive opportunities.

A5.14 A more detailed discussion of the advantages and disadvantages of rolling over the existing controls is contained in Section 4 at paragraphs 4.18 – 4.24.

Option 3: Safeguard cap on access only or on access and prices for calls for the BTT1 tariff

A5.15 A safeguard cap on either the full basket of SMP services or just the monthly access charges would reflect targeted regulation in that it would apply to products where concerns over the exploitation of market power may be most significant. It would also reduce the compliance burden compared to a control that covers all products and/or certain deciles.

A5.16 However, given that BTT1 covers around three-quarters of BT's residential subscriber base (although it is product rather than spend specific), it may not be consistent with Ofcom's duties under section 6 of the Act.

A5.17 Ofcom further notes that applying a safeguard cap may, as with a roll over of the existing control, have a detrimental effect on competition to the extent that it represents intervention that will tend to restrain BT's pricing freedom, and as such reduce competitive opportunities.

A5.18 A more detailed discussion of the advantages and disadvantages of a safeguard cap, either on the full baskets of residential fixed narrowband retail services or just the monthly access charges, is contained in Section 4 at paragraphs 4.25 – 4.31.

Option 4: No charge controls from 1 August 2006 but voluntary assurances provided by BT

- A5.19 As with Option 1, this option meets Ofcom's duties under section 6 of the Act. However, coupled with appropriate assurances from BT, this option also offers adequate protection to the low spending consumers identified to be most at risk in Option 1.
- A5.20 Whilst there is a risk that by allowing the RPC to expire, BT may raise its prices to the detriment of low spending consumers, Ofcom also recognises the risk of disproportionate regulation which may itself result in perverse results (e.g. BT targeting price reductions at higher spending consumers who are most likely to switch providers, while maintaining prices in line with the charge control for lower spending consumers).
- A5.21 Ofcom considers that the growing use of WLR and LLU, along with BT's undertakings given in lieu of a referral to the Competition Commission under the Enterprise Act 2002, together with increasing competition in voice markets driven by growth in CPS, suggest that a formal charge control on BT's retail prices is no longer the most appropriate and proportionate form of regulation. Further, to the extent that BT did choose to take advantage of a relaxation of the controls, this option may encourage new entry and intensify price competition.
- A5.22 BT has provided assurances that will provide protection for low spending consumers falling outside the protections afforded by the social telephony scheme. These include assurances relating to the pricing of line rental and the pass-through in respect of mobile termination rates. The assurances will last until the end of 2007, which will coincide with the anticipated completion of the next review of retail narrowband markets by Ofcom.
- A5.23 Ofcom feels that these assurances, combined with an information campaign to raise consumer awareness of the benefits of thorough research, and given the market and regulatory developments noted above, will be sufficient to protect low spending consumers and represent a proportionate response given existing and expected market conditions and developments. Further, the completion of the market review planned for 2007 will provide Ofcom with an opportunity to reassess the success of such developments in meeting regulatory objectives and to respond accordingly.
- A5.24 A more detailed discussion of the advantages and disadvantages of no formal price regulation coupled with voluntary assurances provided by BT is set out in Section 4 at paragraphs 4.32 – 4.40.
- A5.25 This option represents Ofcom's preferred approach.

Annex 6

Retail market shares

A6.1 All data in this annex is sourced from operators.³⁶

Residential analogue exchange lines – market shares by volume

	BT	WLR	ntl	TW	Other	LLU (full)
2002 Q3	83.3%	0.0%	9.5%	7.3%	0.0%	0.0%
2003 Q3	83.3%	0.0%	9.6%	7.1%	0.0%	0.0%
2004 Q3	82.5%	0.1%	10.1%	7.2%	0.0%	0.0%
2005 Q3	78.7%	3.1%	10.4%	7.6%	0.0%	0.2%

Residential local calls – market shares by volume

	BT	ntl	Telewest	Other
2002 Q3	77%	8%	7%	8%
2003 Q3	71%	12%	7%	10%
2004 Q3	64%	13%	8%	16%
2005 Q3	58%	13%	8%	21%

Residential local calls – market shares by value

	BT	ntl	Telewest	Other
2002 Q3	70%	13%	10%	7%
2003 Q3	70%	13%	8%	9%
2004 Q3	63%	13%	9%	15%
2005 Q3	59%	11%	8%	21%

Residential national calls – market shares by volume

	BT	ntl	Telewest	Other
2002 Q3	70%	13%	6%	11%
2003 Q3	71%	10%	6%	13%
2004 Q3	65%	10%	6%	18%
2005 Q3	60%	10%	6%	23%

Residential national calls – market shares by value

	BT	ntl	Telewest	Other
2002 Q3	73%	13%	5%	10%
2003 Q3	75%	9%	4%	12%
2004 Q3	63%	11%	6%	21%
2005 Q3	58%	10%	5%	27%

³⁶ 'Other' in respect of call market shares includes CPS calls and calls originated from WLR lines.

Residential international calls – market shares by volume

	BT	ntl	Telewest	Other
2002 Q3	53%	8%	2%	37%
2003 Q3	52%	8%	2%	37%
2004 Q3	49%	9%	3%	40%
2005 Q3	45%	8%	3%	44%

Residential international calls – market shares by value

	BT	ntl	Telewest	Other
2002 Q3	67%	8%	5%	21%
2003 Q3	68%	8%	3%	20%
2004 Q3	65%	10%	4%	21%
2005 Q3	61%	9%	4%	26%

Residential calls to mobile – market shares by volume

	BT	ntl	Telewest	Other
2002 Q3	75%	10%	8%	7%
2003 Q3	73%	11%	6%	10%
2004 Q3	66%	11%	7%	17%
2005 Q3	61%	11%	7%	22%

Residential calls to mobile – market shares by value

	BT	ntl	Telewest	Other
2002 Q3	71%	13%	8%	7%
2003 Q3	67%	15%	8%	10%
2004 Q3	59%	15%	9%	16%
2005 Q3	54%	14%	10%	22%

Annex 7

Indicative advertising campaign

Consumer information campaign

- A7.1 Pre-consultation with stakeholders and previous experience suggests that when there is a significant change in telecommunications markets, consumers and businesses seek a common central point of unbiased information to seek to understand the likely effects - and benefits - flowing from such a change.
- A7.2 The ending of the retail price control would represent such a significant change in this market from the perspective of residential consumers. As such – and subject to the outcome of this consultation – over and above any activity by individual providers, Ofcom intends to run a neutral and targeted consumer information campaign to seek to ensure that residential consumers are made aware that this control will no longer be in place from 1 August 2006.
- A7.3 Ofcom would seek to present this call to awareness without any bias towards any provider or group of providers; the intention would be to ensure consumers were sufficiently informed of the fact of change to begin to explore their options in residential telephony given the absence of a price control.
- A7.4 This is consistent with the principles proposed in Ofcom's Review of Consumer Policy, published in February 2006, which stated that, in Ofcom's view, consumers "need to be empowered to get the best possible outcome from their dealings in the market, and to secure the benefits of competition. To this end, consumers need to have the confidence, information and understanding required to enable them to make rational, informed choices."³⁷

Purpose of the campaign

- A7.5 The consumer information campaign would seek to:
- Present the context and set out how the telecoms industry has changed since liberalisation in 1984;
 - Explain that the current retail price control on BT will no longer be in place from 1 August 2006 - although specific safeguards would remain for low spending groups. Other universal service safeguards would exist for those on low incomes and people with special social needs;
 - Encourage consumers to view the telecoms market as they would approach, for example, the consumer electronics market where competing products each offer benefits and disbenefits and consumers are generally aware of the need for a basic element of research prior to purchasing; and
 - Encourage consumers to analyse their own telephone usage patterns, seek advice from their current provider as to the suitability of their current tariff and explore the detail of providers' offers carefully.

³⁷ <http://www.ofcom.org.uk/consult/condocs/ocp/execsummary/>

Deliverables

A7.6 The campaign would begin in the lead-up to 1 August 2006. It would include at a minimum:

- full-page colour advertisements in UK national and regional press;
- UK-wide outdoor advertising using billboards and adshels; and
- extensive media relations across national and regional press, national and regional TV and national and local radio.

A7.7 Two examples of proposed full-page press advertisements are shown in the following pages - the first in short form, the second in long form for targeted broadsheet newspapers. These are included for illustrative purposes only; final published versions may vary slightly.

Industry activity

A7.8 Ofcom would welcome the industry seeking to use 1 August 2006 as an opportunity to contact their customers to point out the significance of this change in the market, and - in marketing terms - to react accordingly. We see no reason for the regulator to contact customers directly, but would expect BT Retail and others to approach their existing customer base with a view to making clear the potential benefits of this deregulation.

From

Here in the UK, consumers benefit from some of the lowest phone charges in the world. In fact, because of competition and new technology, average prices have fallen by around 60% over the last ten years.

August 1st

For these reasons and others, on August 1st 2006, Ofcom, the UK telecoms regulator, will be ending most of the old controls on the cost of phone line rental and calls from BT.

Leaving all the phone companies, including BT, free to set their own retail prices for consumers.

it's your

Naturally, we will ensure important safeguards are in place, including those for vulnerable groups.

But in future you, not us, will decide whether you think a phone company is good value or not.

In much the same way as you buy, say, a TV or a computer, you should choose exactly the right deal for you – then keep checking it's delivering what you want, at the right price.

call.

So look carefully at all the different options. Take your time to read the small print. And ask your present phone company to ensure you're on the right package for your needs.

It's your call. You might be surprised what you find out.

What do you

One choice of phone company – and it used to be part of the Post Office, too. Buzby. Trimphones. Calling another country a once-a-year special event – with added hiss, crackle and echoes. And waiting until late evening before making a trunk call (remember them?), then watching the clock as the pennies and pounds racked up.

remember about

The growth of competition and the introduction of new technology have transformed BT and the telecoms industry over the last 22 years.

Here in the UK, consumers now benefit from some of the lowest phone charges in the world. In fact, average prices have fallen by around 60% over the last ten years.

phone calls

We, the telecoms regulator, believe that greater competition between phone companies could benefit you even more.

Which is why, after consultation and consideration, on August 1st 2006 we will end the old controls on BT's line rental and call costs. Leaving all the phone companies, including BT, to set their own retail prices for consumers.

Naturally, we will ensure safeguards are in place, including those for vulnerable groups.

before 1984?

But in future you, not us, will decide whether you think a phone company is good value or not.

In much the same way as you buy, say, a TV or a computer, you should choose exactly the right deal for you – then keep checking it's delivering what you want, at the right price.

So look carefully at all the different options. Take your time to read the small print. And ask your present phone company to ensure you're on the right package for your needs.

From August 1st 2006, it's your call. You might be surprised what you find out.