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Consultation

NTS Retail Uplift and PRS Bad Debt Surcharge

AIME Submission

AIME

AIME is the leading trade body representing the interactive media and entertainment industry in the UK. For more information on AIME see the final section of this response or go to our website at www.aimelink.org.

Introduction

AIME welcomes the opportunity to respond constructively to this consultation on the NTS Retail Uplift and PRS Bad Debt Surcharge.

General Points

AIME recognises that it is reasonable that while BT carries the statutory requirements inherited by Significant Market Power (SMP) status in the wholesale market it is justified to receive recognition of responsibilities associated with this through an NTS Retail Uplift Charge and a PRS Bad Debt Surcharge provided that the agreed charges are a true reflection of BT's justified additional costs.

In our response to the previous round of consultation AIME indicated its view that the RPI-x formula was a tested and effective method of applying charge controls. However, AIME did have serious reservations over the PRS Bad Debt Surcharge including precisely how it is defined and calculated and how it may actually penalise services carried on all PRS numbers.

AIME's view on the RPI-x formula has not changed and we continue to recognise this model as an effective mechanism for charge control.

With regard to the Bad Debt Surcharge, AIME is pleased to note that Ofcom has taken onboard the concerns raised during the first round of consultation. We welcome the greater clarity now provided on the process methodology and Bad Debt classification gained through the BDO review process, the outcome of which has supported the validity of AIME's initial concerns over the accuracy of the previously proposed 9.7% surcharge.

We note that due to the inability of the BT account system to identify PRS traffic, the methodology has been forced to employ considerable reliance on averages and extrapolation of sample data.

Whilst we have concluded that based on the described methodology there is no evidence to dispute the revised 5.2% surcharge, we believe that BT should look to improve its account reporting functionality ahead of future reviews so as to enable the provision of a pure analysis of the Bad Debt level and thus remove any remaining speculation.

Having considered the BDO findings we are satisfied that the sample months used in the methodology do provide a fair cross section of the year, when considered against the backdrop of BT's quarterly billing. However, we believe that industry would be provided with yet greater confidence in the sampling if, should the methodology be employed again, these sample months were selected by Ofcom or a suitable independent party.

We are pleased to gain clarity on the definition of Bad Debt within the context of the Surcharge. We note the Bad Debt Surcharge does not take account of individually disputed transactions and that the actions of Service Providers will therefore have no bearing on the control factors related to bad debt management; these being credit control and collections. As the ability to reduce bad debt rests exclusively with BT, we would hope to see BT aiming to tighten its credit control checks for early identification and management of high risk customers and thus mitigate the level of bad debt accrual during the period up until the next Surcharge review in 2013.

We note that this determination is forward looking and that recovery of surcharge from July 2010 to implementation is covered by the OCCN process. We also note that following the original submission of inaccurate data by BT both Ofcom and industry have incurred considerable extra expense through the requirement of engaging in an additional round of consultation.

We understand that BT Wholesale should not benefit from the increase in the surcharge except in relation to PRS calls by BT Retail. We would wish to ensure that providers along the value chain are provided sufficient visibility of a breakdown in BT Retail traffic and other network originated calls on their billing statements to ensure that bad debt has been appropriately applied.

Responses to questions

Question 1: Do you agree with the proposed approach to the form and structure of the NTS Retail Uplift Charge Control, including the use of an RPI-X price cap for the period to September 2013, a single basket, a sub-cap on charges for freephone calls and a glidepath approach to price adjustments?

Yes, we agree.

Question 2: Do you agree that there is no longer any basis for excluding 20% of BT's sales and marketing costs?

Yes, we agree.

Question 3: Do you agree with the proposal to reattribute generic sales and marketing costs using net revenues and to treat support costs as an uplift on causally attributed costs?

Yes, we agree.

Question 4: Do you agree with our approach to determining base year costs and volumes?

Yes, we agree

Question 5: Do you agree that we should use a forecast of change in BT's overall retail service activity to project BT's costs?

Yes, we agree.

Question 6: Do you agree with our approach to forecasting the change in BT's overall retail activity and the proposed range of forecast decline of 3.5% to 7.5% per year? If possible, please provide evidence to support your view.

Yes, we agree.

Question 7: Do you agree with our preferred efficiency improvement assumption of 2.5%?

Yes, we agree.

Question 8: Do you agree that our proposal for the value X with no one off adjustment to prices at the outset of the control has no impact on any previous aspect of our proposals?

Yes, we agree.

Question 9: Do you agree with our assessment of the potential options regarding the structure of the recovery for bad debt on PRS calls?

Yes, we agree.

Question 10: Do you agree that BT's attribution methodology for bad debt is an appropriate starting point to use in assessing the incidence of bad debt on PRS calls?

Yes, though we would wish to see BT moving towards a future approach where Bad Debt is based upon pure rather than empirical data.

Question 11: Do you agree with our view that no adjustment should be made to the PRS Bad Debt Surcharge for inefficiency? If not, please provide analysis and evidence to support your arguments

Yes. However, we believe that BT should continue to look for efficiency savings, in particular through tightening credit management of high risk customers.

Question 12: Do you agree that in the current circumstances it is appropriate for the PRS Bad Debt Surcharge charge control to have effect on the first of the month following our final statement? If not, please supply reasons why this would be the case.

Yes, we agree.

Question 13: Do you agree with our proposals for monitoring BT's compliance with the NTS Retail Uplift charge controls?

Yes, we agree.

Conclusion

AIME welcomes Ofcom's further consultation on the Retail Uplift and Bad Debt Surcharge. In particular we thank Ofcom for taking onboard the concerns raised by AIME during the 2009 consultation in relation to the accuracy of the original 9.7% Bad Debt figure proposed by BT and for the clarity provided by BDO, on behalf of Ofcom, regarding the definition and methodology used to

calculate the level of bad debt. We are pleased to see a revised Bad Debt Surcharge of 5.2% and having reviewed the findings of BDO we can find no reason to dispute this revised figure. AIME likewise supports Ofcom's proposals on the retail uplift which we believe to be an effective method of charge control.

Statement of representation

AIME confirms that this response has been compiled following a process of distribution of the relevant Consultation documentation to all AIME members. A list of AIME members can be found at www.aimelink.org/home/members.aspx

The views expressed in this response are a fair representation of the views held by the participating AIME membership. Individual members are actively encouraged to submit their own independent views as they deem fit and at their sole discretion

Close

We assure you that, as ever, our comments are made constructively and with the intent of achieving an effective, fair and proportional regulatory regime for Premium Interactive Media and Entertainment services in the UK.

If any clarification to our response is required or if we can be of any further assistance please contact Zoe Patterson at + 44 1273 685328 or zoe@aimelink.org

AIME Background (www.aimelink.org)

AIME is a UK-based not-for-profit trade association that promotes excellence in the Interactive Media and Entertainment industry.

We uphold our Code of Ethics and Core Values to create an environment of consumer trust and industry confidence within which our members' commerce can grow. We are committed to furthering the interests of Interactive Media and Entertainment through the regular exchange of information and communication throughout the value chain, effective engagement with regulators and legislators and the presentation of a successful industry image to media.

We are the only UK trade association with membership across all elements of the interactive media and entertainment value chain which is generally, though not exclusively, supported by Premium Rate Service (PRS) billing facilities. Our membership represents over 90% of annual UK industry revenues, which stood at £0.80bn in 2010 and which, we believe, have the potential to increase to £1.5bn - £2.0bn per annum over the next three years. This assumes we have a healthy balance of self- and formal regulation and that industry is successful in continuing to build consumer trust.

AIME encourages its members to focus on consumer care and to recognise that if there is to be sustainable growth there must be more investment in consumer contact and support as a part of building trust, whether it be dealing with enquiries or complaints. Recent research suggests that there is still a significant portion of the UK population that is reluctant to use premium rate services due to trust issues in the main. It is important that we work towards improving this situation and encourage more consumers to use premium rate services on a regular basis.

AIME promotes and abides by the philosophy that consumers who are accurately and openly informed of the nature, content and cost of participation in an interactive service experience are perfectly placed to exercise their freedom of choice and thereby enjoy the most effective form of consumer protection. It is against this background that we frame our comments in this consultation response.

AIME Secretariat