Mr Nicholas R Hill
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Paul Jacobus
Response to MCT consultation
Ofcom, Riverside House
2a Southwark Bridge Road
London
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Dear Mr Jacobus,

I have pleasure in enclosing this, my response to Ofcom's consultation regarding MCT.

--Begining of response--

Preamble
I would like to thank Ofcom for what appears to be a well organised, thought provoking preliminary consultation in conjunction with appendices giving a wide view of the world mobile market.

I agree with Ofcom's view that the coming years will see many changes. In fact, we can see changes month to month as increasing numbers of subscribers adopt IP over GSM/EDGE/3g. Whether this be used for VoIP, social networking, instant messaging and web browsing on handsets, or for general connectivity of desktop and laptop computers.

I have first hand experience of users in metropolitan areas who can no longer receive reliable ADSL, presumably as a result of crosstalk induced noise, reaching bundle carrying capacity in the local loop. Accelerating demands for bandwidth-thirsty desktop/laptop data connectivity over mobile networks may be driven in some areas by this effect, and future growth may to a degree be dictated by the belated FTTC (Fiber To The Cabinet) roll-out or changes to the ADSL signalling standards which could potentially enable broadband connections across lines which would not currently synchronise to the DSLAM.

I came to this consultation with certain opinions;

Opinion 1: Calls to numbers which are likely to be recognised by a sensible user as a mobile number, should have uniform MCT (Mobile Call Termination) charges.

After reading the consultation document, My opinion remains. This implies that a regulatory approach for MCT charges should continue and H3g interconnect charges should fall in line with other mobile operators. If a single mobile operator charges a higher interconnect fee, this is often used as an excuse to charge end users higher prices for calling all mobiles. This is not surprising, as it is not transparent to end users which mobile network they are calling. Number porting adds further to the confusion as to how much a call will cost. *I believe it is absolutely key to consumer's interests that numbers of a given type (eg mobile telephone numbers) have uniform MCT charges.*

Opinion 2: The MCT charges should fall over time, but remain significant.

I base this opinion on the fact that fast regulatory changes can negatively affect the business environment for mobile phone companies, and not provide sufficient time for business plans to adapt. Maintaining a significant charge acts as a barrier to nuisance calls.

I read with interest and surprise that BT favour a low MCT charge environment, citing that fixed users effectively subsidise mobile users. I can understand the reasoning, but feel the higher MCT charges actually encourage end users to buy and rent land lines. If MCT charges were brought in line with FCT, this will remove what is for many, the final incentive to pay fixed line rental.

If PAYG data charges commonly charged by mobile operators are used as a starting point to calculate marginal cost of voice channel provision over the mobile network, assuming £15/Gb and 12.2Kbit 2-way EFR GSM codec, we can arrive at a marginal retail cost of 13 pence/hour for a GSM/3g call. That is in the region of the current FCT (Fixed Call Termination) charge. This analysis indicates there is little difference in the cost of establishing and maintaining a call connection whether mobile or fixed, and unifying FCT and MCT is possible today, and perhaps reasonable.

The regulatory environment regarding nuisance calls, and the TPS together seem to eliminate most nuisance calls, making lower interconnect charges favourable.

H3g's submission that they believe elimination of MCT would be in the interests of a fledgling mobile communications business needs to be taken particularly seriously, given this submission has been given against the backdrop of a MCT charge higher than the rest of the industry, and therefore uniquely favourable to them. In other words, if H3g would like to see the elimination of, or the bringing into line of FCT and MCT despite the apparently favourable conditions for them, then considering there may be new entrants in the coming years, changes which substantially reduce MCT charges should be considered with urgency.

Reading the preliminary consultation has changed my opinion. It has convinced me that an approach which reduces the MCT charge substantially, perhaps as far as B&K (Bill and Keep) would likely be in the interests of consumers. I am not certain mandated reciprocity would provide the same level playing field for new entrants that mandated bill and keep would provide. In any case, an approach which obviates the need for preferential MCT charges for new market entrants is highly desirable.

Other observations

Mobile networks are heavily dependent on sophisticated semiconductors to provide network routing and transmitting. Through the use of lower noise receivers and advanced coding techniques, some of which are computationally intensive, the amount of data which can be transmitted and received from a particular cell per unit time can be increased. Moore's law points to lowering costs and increasing semiconductor complexity over time. This has an effect of lowering the over-the-air data costs to mobile operators over time. This is backed up by the fact that a high-end mobile phone contract in 1995 might offer 60 minutes per month. Today, 1200 minute contracts are common. As technology progresses, *the on-going lowering of costs of mobile phone provision to mobile phone operators should be considered as part of any regulatory review*.

On-contract minutes seem to have increased at a rate of *23% compound* per year over the past 14 years. If this is a measure of cost of service provision, then considering interconnect charges 14 years ago, today's interconnect charges are very high. 6p/minute for Orange/T-mobile in 1995 would equate to 0.3p/min today or 0.198p/min in 2011.

Effect on me

I have a land-line, two mobiles (one to receive calls using on-network minutes), the other on-contract to access low cost calls to other mobiles, and two VOIP lines (one work related). If MCT charges were similar to FCT charges, I would reduce down to two numbers, which would hopefully mirror on VOIP and mobile. One number home-related, the other work-related. I would receive the call on whichever equipment were most convenient and to hand. This would benefit callers to me as they will no longer need to ring my land-line, and if no answer, make a separate call to my mobile. It would benefit me as I would have fewer pieces of equipment and would receive more calls. The arrangement would also give a backup system in case the VOIP or land-line fails, or the mobile battery is flat. I would also feel less guilty if I use up my allowance of bundled minutes in off-network calls.

Response to specific questions

Question 3.1: Do you agree with our preliminary view on market definition?
Yes.
Has anything changed, or is anything likely to change within the period of the next review, which would materially impact on the definition of the market(s)?
Yes. Convergence of mobile and fixed lines has begun, with the introduction of advertised Skype services on H3g data bearer. This may extend to other network operators providing some other VOIP provision. This could pre-empt regulatory changes to call termination charges, and give specific VOIP operators such as Skype a substantial market penetration. Intelligence appears to be moving to the edges of the network at a fast pace.

Unifying MCT and FCT charges wouldn't be in each operator's individual interest, but will likely be in their collective interest by making mobile services as a whole, more useful than they are today.

Question 4.1: Do you agree with our view?
Yes. However, the time frame and how the charges will pan-out in 2-6 years is far from certain.

Question 5.1: What are likely to be the main sources of detriment to consumers of excessive termination rates in the period 2011 to 2015?

If individual mobile phone networks set the MCT charges independently, consumers will have no idea how much a particular call will cost them. Even if they had a chart of which number ranges were allocated to which mobile network, and were minded to reference it for each call, it would be of no help, as numbers are ported from one network to another. Not only is there no competition for termination charges for calls to a particular subscriber, but the market is opaque. The consumer will have no idea of how much they will be charged.

Unification of mobile and land-line numbers would be a substantial benefit to consumers and mobile phone companies alike, with a range of new products and services possible. If each mobile operator was left to choose their own MCT charge, I expect prices will be competed upwards, making unification impossible.

Detriment to consumers: Opaque market, higher prices, fewer services.

Question 6.1: Should our policy approach to regulating MCT change? For example, given the possible benefits, should we adopt a policy of reducing termination rates as far and fast as we reasonably can, within the boundaries of sound economic policy, and whilst recognising underlying cost differences?
Yes. Adopt a policy to bring mandated reciprocity as soon as possible.

If our policy approach did change, what do you think are the relevant factors for us to consider in deciding on the best future policy to regulating MCT?
Clarity of pricing for consumers. Establishing a framework friendly to new market entrants, by considering H3g's suggestion that B&K would be helpful to them (as stated in 2.50.1); Opportunity for fixed and mobile unification and associated services through uniform interconnect pricing.

Question 6.3: Do you agree with our preliminary views set out for each of the options?
Generally, yes.

Question 6.4: Do you agree with our preliminary view of the de-regulatory option?
Yes

Question 6.5: Do you agree with our preliminary view of the LRIC+ option?
Yes

Question 6.6: Do you agree with our preliminary view of the LRMC option?
Yes

Question 6.7: Do you agree with our preliminary view of the CBC option?
Yes

Question 6.8: Do you agree with our preliminary view on mandated Reciprocity?
Sceptical at first. After reading the document, I am convinced your approach to this is on the right path. I agree with your preliminary view.

Question 6.9: Do you agree with our preliminary view of the B&K option?
Yes.

--End of response--

Yours Sincerely

Nicholas Hill.