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Our ref- Ofcom Response: Mobile

termination 10

**POST OFFICE LIMITED'S RESPONSE TO OFCOM'S MARKET REVIEW
TO CONSIDER THE FUTURE OF REGULATION OF MOBILE
TERMINATION**

This submission contains Post Office Limited's response to Ofcom's market review to consider the future of regulation of mobile termination. We welcome the chance to contribute to this review and hope you find our comments helpful.

Post Office Ltd is a wholly owned subsidiary of Royal Mail Group Limited, operating the nationwide network of Post Office outlets. Post Office outlets provide a range of essential services including Post Office HomePhone® and Broadband for residential consumers, posting of letters and postal packets, pension and benefit payments, banking facilities and bill payments. Many of these services provide essential support for socially excluded groups.

Post Office HomePhone.®

Post Office Ltd has been a fixed line telecom supplier since January 2005 when we decided to enter the market as a result of regulation of the fixed line telephony market to allow WLR and CPS services. Post Office Ltd has gained penetration within the fixed line market by offering a value for money service in competition to other more established players. Our pricing policy has always been based on a strong customer benefit and Post Office Ltd has tried to provide innovative pricing that delivers real value to the customer while allowing enough margin generation to maintain a commercially viable business. Our present offering is provided through an managed service arrangement with BT Wholesale and is sold to consumer as Post Office HomePhone.®

The present customer proposition is based around giving customers inclusive calls when they need them most:

- Inclusive evening calls to 01,02, 03,0845 and 0870 numbers from 6pm to 6am (unlike BT and other competitors who have moved to 7pm to 7am)

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- 60 hours of Inclusive Weekend calls from 6pm on Friday to 6 am Monday to 01, 02, 03, 0845, 0870 and to all UK mobile networks and landlines in 40 international destinations

This tariff is highly differentiated in the market, with no other UK fixed line provider giving customers such a long period where the cheapest weekend rates apply, particularly to mobiles.

Post Office Ltd's position on fixed mobile termination rates

Given our innovative tariff, and in particular giving inclusive calls to UK Mobiles at the weekend, the concept of a high fixed to mobile termination rates to mobiles runs contrary to Post Office Ltd's preferred pricing strategy. The existing termination rates have had to be absorbed in order to offer a differentiated service in the market. Additionally the current regulated mobile termination rates mean that our daytime and evening rates of 13ppm and 8ppm respectively cost significantly more than making calls to UK landlines and indeed many international destinations.

Post Office Ltd has joined the campaign to reduce mobile termination rates as we believe that, whilst historically the position was justified to allow emerging mobile companies to invest in infrastructure, the mobile Industry should now have developed sufficiently so that it does not require support through regulation from the fixed line providers for disproportionately high termination rates. The Post Office® supports the reduction to termination rates already implemented, and recommends that when the existing arrangements expire on March 31 2010 a glide path of 3 years (as opposed to Ofcom's recommendation of 4 years) is the best option to achieve the proposed rate of 0.5p. This would allow further innovation for fixed line providers to provide customers with inclusive mobile packages and address the current imbalance.

As many of the Post Office HomePhone® customers as well as our wider customer base are socially and/or financially excluded, the need for lower rates for our fixed line subscriber base to call mobiles is particularly important. Many of our customers, and more specifically our Post Office @ Card Account customers, are on low incomes and would be direct beneficiaries of a reduction in these call rates.

In supporting the need for a reduction in termination rates, Post Office Ltd is fully committed to passing on any reductions achieved to our customers, as we see ourselves as a socially inclusive telecoms provider. Clearly, any reduction

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in Mobile Termination rates would need to be passed through by wholesale providers such as BT Wholesale for our customers to ultimately benefit, and we would urge Ofcom to ensure that this is encouraged to happen. The timing of the passing on of benefit is constrained only by the time we would then need to update our billing system and refresh our literature to our network of circa 12,000 post offices.

Post Office Ltd believes that a reduction in termination rates would increase calls from fixed to mobile phones. Although mobile rates have reduced, people still have a perception that calling mobile phones from a fixed line is very expensive, and it is important for families to stay in touch in security conscious and fiscally restrained times.

The diversity of bodies supporting the "Terminate the Rate" campaign has been impressive involving everyone from large telecom providers through to consumer champion groups, the Post Office® sees itself as both of these and see this as an important consumer benefit campaign.

Market Conditions

The Post Office® supports Ofcom's attempts to harmonise the regulation in the UK with that recommended by the European Commission. It is important to emphasise that the current system does not produce a level playing field between fixed line providers; with an unfair advantage given to mobile operators. This is not in the consumer interest, causing an artificial disincentive to use fixed lines, as well as a distortion in a fair pricing strategy. Post Office Ltd believes that the level of termination rates should be consistent between fixed line and mobile companies and that this should be encouraged to be achieved in the shortest possible time.

Post Office Ltd does not consider that reduction in termination rates poses any serious threat to the major mobile companies, as any lost revenues can easily be absorbed through their existing revenue. Indeed, evidence shows they have healthy revenues to invest in marketing and sponsorship arrangements and that capital investment costs in infrastructure are not at historical levels when they were building and developing their networks. We believe that the mobile operators will adjust quickly to any change and would be able to absorb any shortfall in revenues without front loading cost on to outgoing calls.

Timings of the proposed reduction in termination rates

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Post Office Limited disagrees with the proposed time line for the introduction of the reduction in termination rates, and believes it can be implemented faster with minimum detrimental impact. The reasons behind this are:

- Post Office Limited believes the introduction of this benefit is of crucial importance not only to obtain convergence between the fixed line and mobile markets in a dynamic marketplace, but to be seen to be responding to customer feedback to address unfairness within its pricing regulation.
- Post Office Limited believes that by implementing by April 2013, Ofcom is acting most closely with the European Commissioners Recommendations
- A three year introduction period still allows a generous time for mobile operators to adjust to the new regulation and allows an element of subsidy to maintain for at least two years.

Post Office Ltd also has the following comments on two technical issues raised in Ofcom's consultation:

Question 3.2: Are there any other types of providers we should also consider?

MVNO's which receive a proportion of MTR for termination of calls (if any) on their allocated individual mobile numbers should be regulated, as part of this project and termination payments should be reduced in line with MTR reductions.

Question 3.3 : Do you agree with our views on the specific call types that should be included in the market? Are there any factors we have not considered which should inform this view, resulting in call types other than those identified by being included or excluded from the market?

All the call types included should be included; however we question the exception of SMS text messages from the regulation as they provide a high proportion of the MCP termination revenue.

Should you have any questions relating to any part of this response, please do not hesitate to contact Nancy Saunders, Head of Communications Regulation, at nancy.saunders@postoffice.co.uk or on 02070123134.

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