



Verizon response to Ofcom's Mobile Call Termination review 2015 – 2018 consultation

1. Verizon UK Limited ("Verizon") welcomes the opportunity to respond to Ofcom's consultation on the Mobile Call Termination review 2015 - 2018.
2. Verizon is the global IT solutions partner to business and government in the UK. Collectively, all Verizon and Verizon-affiliated companies have over \$120 billion in annual revenue and serve 98 per cent of the Fortune 500. Outside of the United States, Verizon and other affiliates of its parent corporation, Verizon Communications Inc., cater to large and medium business and government agencies and are connecting systems, machines, ideas and people around the world for better outcomes.
3. Verizon's approach to responding to this consultation has been to provide a summary of our position in relation to the issues under review and then move on to address some of the specific questions raised by Ofcom in the consultation document.
4. Please note the views expressed in this response are specific to the UK environment and regulatory regime and should not be taken as expressing Verizon's views in other jurisdictions, such as the United States of America, where the regulatory and marketplace environments differ from that in the UK.

Summary

5. Wholesale mobile call termination (MCT) in the UK as elsewhere in Europe continues to be characterised by the Calling Party Pays principle, and therefore mobile termination rates (MTRs) continue to be regulated. This differs from, for example, the United States, where the U.S. regulator has abandoned the Calling Party Pays model, and mobile terminations are generally subject to negotiated agreements. If Europe continues to rely on the Calling Party Pays model and regulated MTRs, then Verizon agrees with Ofcom's overall assessment that current MCT rates are too high and should be reduced.
6. Verizon considers that the measures implemented under the last review, particularly reliance on a pure LRIC¹ standard, have proved effective in delivering benefits to the wider telecommunications industry and to end-users. Many of the proposals Ofcom has set out in this consultation will, in our consideration, result in further benefits to consumers and greater certainty and fairness.
7. Verizon considers that Ofcom is correct to take a fresh look at these issues given the degree of developments over recent years, particularly the roll out of 4G services, the development of LTE technology, and the growth in network sharing arrangements.
8. The remainder of this response addresses some of the specific questions posed by Ofcom in the consultation document.

¹ Throughout this response we refer to pure LRIC just as LRIC in line with Ofcom's terminology in the consultation document.



Ofcom questions

Question 5.6. & 5.7: Do you agree that our proposal to impose a charge control on the four largest MCPs and all other MCPs with SMP is also appropriate? If not, please explain why.

9. Verizon understands the reasoning that resulted in Ofcom arriving at its provisional conclusions in this regard and considers that, under the prevailing circumstances, Ofcom is correct in reducing the MTRs of all MCPs with SMP, no matter large or small. The regulatory certainty such a remedy provides, to both buyers and providers of MCT, would be beneficial.
10. The fact that many smaller MCPs have been charging MTRs above the 2011 benchmark MTR is an indication that the fair and reasonable (F&R) condition and F&R guidance may not have been effective in achieving Ofcom's aims of limiting MTRs.

Question 6.4: Do you agree with our analysis and views on competition impacts? If not, please explain why.

11. Verizon is in agreement with Ofcom's conclusion that in the prevailing UK MCT environment – i.e., the calling party pays model and continued MTR regulation – LRIC is preferable to LRIC+ as a standard and results in better outcomes in relation to competitive effects.
12. Ofcom notes that although fixed and mobile services often are considered separately, there is a significant degree of competition between MCPs and FCPs and therefore due consideration needs to be given to the relationship between fixed and mobile termination rates. As such Ofcom is right to identify the distortion that could occur if MTRs and FTRs were set by reference to different standards.
13. Accordingly, absent broader changes to MCT and the calling party pays system with regulated rates, Verizon considers that competition in the UK will be best sustained if MTRs continue to be set based on LRIC.

Question 6.5: Do you agree with our analysis and views on the impact on vulnerable consumers? If not, please explain why.

14. Ofcom's analysis of the impact on vulnerable customers as a result of setting MTRs on a LRIC basis appears sound. The fact that Ofcom's data shows increased levels of mobile ownership since the last review, with growth within the vulnerable customer segment being even greater than in the overall population, is a positive indicator.
15. As this growth occurred subsequent to the date when MTRs were set on a LRIC basis for the first time, it would be perverse for Ofcom to reach any other conclusion than the one it has, i.e. that the outcomes have not been worse for vulnerable consumers under LRIC compared to the outcomes under a LRIC+ standard.



Question 6.6: Do you agree with our analysis and views on regulatory and commercial impacts? If not, please explain why.

16. Verizon is generally in agreement with Ofcom's analysis and views on regulatory and commercial impacts. There have not been any adverse consequences in the two years since MTRs were set on a LRIC basis to suggest continuing on this basis would be a mistake.
17. Consistency of regulatory approach across the EU is of considerable benefit to both pan European operators and consumers alike, and the fact that Ofcom's proposed approach is in line with the 2009 EC Recommendation in favour of LRIC and the practice of the majority of other EU countries lends further support to Ofcom's proposals in this regard.

Question 6.7: Do you agree with our proposal that LRIC should continue to be the appropriate cost standard? If not, please explain why.

18. Yes. Where there are clear positive impacts for consumers and others resulting from the choice of standards between LRIC and LRIC+, the benefits of LRIC prevail.

Question 7.1: Do you agree with our proposed modelling approach as discussed in this section, the supporting annexes and the 2014 MCT model? If not, please discuss the specific proposals that you disagree with.

19. Given that the proposed model builds upon the 2011 model as amended following the CAT judgment of the MTR appeal and includes changes to take account of technological developments, e.g. 4G and LTE, the proposed modelling approach appears reasonable and appropriate.
20. The inclusion of 4G data in the model is appropriate given that the largest MCPs all provide services over 4G networks and the take up of such services is expected to increase significantly.
21. Similarly, the inclusion of LTE in the 2014 model is appropriate due to the efficiency gains afforded by such technology. Furthermore, its inclusion, as noted by Ofcom, is in line with the 2009 EC recommendation given that LTE is expected to be available in the timeframe covered by this review.

Question 8.1: Do you agree with our proposed approach to implementing the MCT charge control? If not, please discuss the specific proposals that you disagree with.

22. In line with submissions to Ofcom in 2013, Verizon supports the adoption of CPI as the most appropriate measure of inflation. Similarly, we have made representations previously with regard to the adoption of glide paths to achieve LRIC compliance and agree with Ofcom's proposal not to adopt a glide path approach in this review.
23. Such an approach is further supported given that MTRs were set at LRIC following the previous review, which means that the impact on MCPs of moving quickly to the proposed new MTRs under this review will be minimal. Accordingly, the approach



proposed by Ofcom will ensure that MTRs are set at LRIC as soon as reasonably possible, which as Ofcom notes provides the best outcomes for UK consumers.

Verizon
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