

# **Wholesale charges for Number Translation Services and Premium Rate Services**

## **NTS Retail Uplift charge control and PRS Bad Debt Surcharge**

### **Response by TalkTalk Group**

**29 September 2009**

TalkTalk Group welcomes the opportunity to comment on this consultation. We will focus our brief comments on the proposal to increase the PRS Bad Debt Surcharge from the current 3.03% to 9.7%. This is clearly significant for terminating operators and service providers who are currently active in this market.

Our key concerns with this proposal are:

- It seems on the face of it an extraordinarily high increase in PRS-related bad debt and we fail to understand what could have caused this in BT Retail's billing and debt recovery principles. Ofcom mentions possible reasons such as auto-dialler fraud and scandals associated with TV voting contests. We appreciate there may be a time lag between revenue recognition and appearance of bad debt but, for instance, the auto-dialler fraud peaked over five years ago. We do not understand how this therefore should have an impact on PRS bad debt increase now. Ofcom should require BT to explain in detail the link between events allegedly triggering bad debt and the proposed figure of 9.7%. BT should also be required to explain to what extent it has been able to reduce its outpayments through the operation of industry AIT procedures. These should arguably reduce bad debt exposure if operated in an efficient manner.
- Ofcom appears to have made this proposal solely on the basis of unverified data supplied by BT. The figure of 9.7% is not visible from BT's published regulatory accounts which makes it impossible for stakeholders to conduct any verification at all. We appreciate that Ofcom intends to commission an independent review of the calculations and attribution methodologies used by BT in arriving at their PRS bad debt expense. What we do not understand is why Ofcom did not commission this review before making any proposal at all. What happens if the review subsequently finds that the figure of 9.7% is too high? We would also be grateful if Ofcom could confirm whether the review findings will be published.
- We believe BT is in a unique position because it is able to pass on the cost of PRS bad debt to terminating operators and service providers. BT has limited if any incentive to minimise PRS bad debt because it knows that it will never be financially worse off even if this debt increases. BT is in complete control over the outpayments it will be required to make to terminating operators. In contrast, other originating operators are not afforded the same comfort and protection against the normal commercial pressures according to which bad debt is a genuine cost to business which has to be written off against revenue (and thereby reduces profit). We would urge Ofcom to ensure that it can be confident that BT's PRS bad debt recovery procedures are adequate.