Introduction

This short paper summarises the BT presentation to Ofcom on the 11th October 2012, focusing on the three main areas Ofcom said underpinned their approach to implementation.

1) EC Recommendation

The EC Recommendation of 2009 invited NRAs to move to the new methodology by 31 December 2012. The next charge control would not start until 1st October 2013, which was already beyond the suggested date.

BT responded that while Ofcom had to take 'utmost account' of the EC Recommendation, that does not mean that that it is legally binding. Ofcom could depart from the Recommendation where there was good reason to do so.

If it were to depart from the recommended timing, Ofcom would not be significantly out of line with other European administrations. To BT's knowledge, three countries have decided not to implement pLRIC, 8 countries are consulting and the remaining 15 EU countries have yet to do anything. Only France will have a FTR rate based on pLRIC by 1st Jan 2013, and even that change was introduced in stages. No country is proposing to move directly to a rate based solely on a pure LRIC NGN model; preferring to start with some sort of blended rate with existing charges, taking into account actual NGN network deployments and moving in stages to the final price.

2) Symmetry with Mobile Operators

The current Mobile Termination Rate control will put MTRs on a pLRIC basis by April 2013. Competitive distortion may arise if Fixed Termination Rates were not on a similar basis by that time.

As Ofcom currently view Mobile calls as outside the market for Fixed calls any distortions arising from a temporary glide path would be more relevant to fair treatment of the fixed and mobile sectors, rather than end user choices.

MTRs will be around 0.85ppm in 2013, still considerably higher than FTR at 0.23ppm. Changing FTRs to pLRIC will put them onto a path which will restore the massive asymmetry between fixed and mobile termination rates, reinstating the distortion that sees fixed customers paying for their own access costs through line rentals but unfairly contributing to the access costs of Mobile Operators.

The Competition Commission did not agree with BT that an immediate move of MTRs to the current LRIC+ level was warranted, despite the much larger sums involved. BT can see no reason why a symmetrical approach to glide paths between mobile and fixed should give rise to additional concerns over competitive distortion.

3) Impact on industry

Ofcom's usual practise was to mitigate the disruptive effects of large price changes through a gradual implementation where this was needed to facilitate realignment of business models and contractual relationships.

Under the current system of cost recovery, network providers are largely indifferent to the balance of call termination and origination by their customers as both legs recover the full cost of providing the service. Retail contracts have been designed within that environment. Under the new proposal termination will contribute far less to voice costs than origination and call package design may have to change to ensure common costs can be covered. Consumer contracts can have durations of up to 2 years with business contracts often longer. Several iterations of new pricing structures may be required to reach a new equilibrium as was recognized by the CC in their support for a 3 year glide path for MTR. A similar period would be required for the fixed industry.

Number Translation Service is a further example of an industry that has become optimised around the current balance between call origination and termination. A description of the NTS regime follows in an appendix, but if there were a significant rebalancing, the current NTS business model would be affected in two ways:

1. Lower Call Termination charges would reduce the costs of NTS Terminating Operators who terminate calls on Other Operators Networks. For instance, [✂]% of calls to BT's own non-geographic numbers terminate on other CPs' numbers – more if ported numbers are taken into account. As a consequence, as contracts between Terminating Operators and NTS Service Providers expire, the Service Providers will seek better deals from NTS Terminating Operators who do not terminate calls on their own networks at the expense of those who do. This will require network owners to modify Access or other charges to recover costs, or they may choose to cease further investment in their own infrastructure.

2. Regulated Call Origination charges are at the heart of the retention Originating Operators make when chargeable calls are made to non-geographic numbers and are central to the charges made by Originating Operators for 'free' calls. If the regulated Call Origination charge goes up (as a result of the need to cover common costs following the reduction in FTRs), the amount Terminating Operators receive will go down, reducing the amount that can be passed on by them to Service Providers. Terminating Operators and Service Providers have contracts of various lengths covering a variety of services that will be need to be re-negotiated to take account of the new charging structures.

Based on Analysys Mason's 2010 report for Ofcom, the NTS market is worth £1-2bn so there is a lot of money at stake in a keenly competitive market. The NTS regime is expected to change in 2014, and Ofcom propose to allow 18 months to make the necessary adjustments prior to implementation following their statement scheduled for early 2013. The disruption caused by significant changes to Call Origination and Termination is arguably more profound and will affect the numerous parties in the chain in different ways depending upon their specific business models and balance of traffic. This suggests a number of gradual iterations would be required and advocates an even longer period of adjustment.