

Annual report 2003



Report of the Director General of Telecommunications

To the Secretary of State for Trade and Industry
for the Period 1 January to 10 December 2003

Presented to Parliament in pursuance of Section 55
of the Telecommunications Act 1984

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Contents

Director General's statement	4	Annexes	
Oftel's approach to its work in 2003	5	Annex 1 – Oftel publications 2003	30
Market overview	8	Annex 2 – Expenditure and performance on major projects and programmes in 2003-04	36
Working for consumers	12		
The fixed market	15	Annex 3 – Financial reporting	37
The mobile market	17	Annex 4 – Price control 2003-04	38
The narrowband Internet market	18	Annex 5 – Licences register	39
The broadband market	19		
Broadcasting	21		
International activities	22		
The legislative framework	23		
Oftel's stakeholders	25		
Inside Oftel	27		

On 29 December 2003 the Office of Communications takes over as regulator for the communications sector, and therefore the post of the Director General of Telecommunications is abolished. For this reason Oftel's annual report for 2003 is being published on 17 December. For information on regulation of the communications industry from December 2003 onwards, please see Ofcom's website at www.ofcom.org.uk.

December 2003

The Rt. Hon. Patricia Hewitt, MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET



I am pleased to submit to you Ofel's annual report for 2003, as required under Section 55 of the Telecommunications Act.

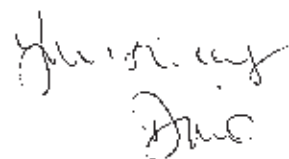
This is my final annual report as Ofcom takes up its full regulatory powers on 29 December.

Working alongside the other regulators and Ofcom staff, Ofel played a central role in ensuring the new regulator is ready to take over responsibility for the communications industry at the end of the year.

2003 was also a significant milestone throughout Europe with the implementation of the new regulatory framework. Ofel was ahead of all other European regulators in its work to implement the new Directives.

Ofel has continued throughout 2003 to develop competition in telecoms markets so that consumers continue to get the best possible deal. Key areas covered in the report include further developments in the rollout of broadband services, and considerable growth in the number of fixed telephone line users taking up carrier pre-selection.

I believe that we pass on to Ofcom an inheritance that we rightly take pride from, and a base for its work that is sure and robust.



Director General's statement



This is the 20th and final annual report of Oftel's work. On 29 December the Office of Communications takes over responsibility for the regulation of the communications sector.

In 2003, Oftel has in no way reduced its commitment to effective regulation in the interests of the UK consumer. There were a number of important landmarks over the course of the year including the introduction of the new EU regulatory framework; publication of the Competition Commission's report on mobile call termination rates, which vindicated Oftel's view that these charges were too high and should be reduced; and work to prepare for the introduction of Ofcom.

Details of these projects and many others are contained in the body of this report. The market overview section contains key statistics on the UK telecoms market in 2003. The turnover of the sector in the year to June 2003 was £50.1bn – the biggest it has ever been. The number of mobile phone subscribers increased to 50 million and the UK reached 3 million broadband subscribers, with half of all UK homes connected to the Internet. Another record was reached in October with two million carrier pre-selection subscribers.

Some figures did fall, although to the benefit of consumers. Residential broadband prices fell by 16 per cent and mobile prices fell by seven per cent. Oftel's international benchmarking showed that on average, UK consumers continued to get a good deal compared to consumers in other European countries and the US.

It is clear that the UK telecoms market continues to grow in size, which is a reflection both of the growth of new services and growth in usage of these and existing services. Oftel acknowledges the innovation of individual companies that design new technologies and services, and bring them to market, which then leads to other companies responding with similar or improved products. But I believe that underpinning all of this, and

what has made all of this possible, is the work of Oftel to create a competitive telecoms market through careful, but when necessary forceful, regulation.

Over the period of its existence, Oftel opened up BT's network to competition, it encouraged the building of new fixed and mobile networks, it withdrew from regulation when appropriate, and took firm action against anti-competitive behaviour when needed. In short, Oftel put in place the conditions that encouraged the growth of a competitive telecoms market.

As the telecoms regulator, individual decisions have been criticised by one party for not being tough enough, and by the other party for being too tough. However, in every decision, our work is guided by one overarching premise – what is in the best long-term interest of consumers?

Oftel is clear that competition will deliver the best deal for consumers. And Oftel has developed an increasingly competitive market, which has delivered many benefits to consumers in terms of choice and value for money.

Oftel's legacy now is to hand over to Ofcom a telecoms market that is at its most competitive, and most innovative. Happily, many of the people who worked in Oftel are also working in Ofcom, and so bring a wealth of knowledge and experience of the telecoms industry that will be invaluable to the new regulator.

As the last Director General, I would like to pay tribute to everyone who has worked in Oftel over its lifetime who has played a part in creating the UK's increasingly competitive telecoms market. The concept of public service has been well-understood over those twenty years, as have the pillars of integrity, evidence-based decisions, and transparency. But what perhaps marks out Oftel has been a commitment for taking action that brings benefits to consumers in all parts of our nation. Statistics tell many stories, but not that one.

David Edmonds
Director General of Telecommunications

Oftel's approach to its work in 2003

Throughout its final year, Oftel's work continued to focus on achieving the best deal for consumers in terms of quality, choice and value for money. The industry saw lower levels of investment during this period compared to the previous five years, although areas such as mobile showed strong investment and the decline in investment in the fixed market appeared to be slowing.

There was still strong pressure for further regulatory intervention in both narrowband and broadband markets, particularly from competitors to BT. This pressure focused mainly on getting access to more points of BT's network on cost-based terms.

As in 2002, Oftel responded with a proportionate approach:

- pursuing initiatives to promote competition, such as wholesale line rental, started prior to 2003;
- carrying out a programme of market reviews to establish the extent of competition in all the individual retail and wholesale telecoms markets as a major part of the implementation of new EU Directives;
- dealing with and resolving individual interconnection disputes; and
- vigorously defending appeals against its decisions in relation to calls to mobile.

Oftel's approach of appropriate regulation meant that Oftel proposed to remove regulation from certain markets where, for the first time, no company was identified as having Significant Market Power. This included the wholesale unmetered narrowband Internet termination market and the mobile outgoing calls and access market.

However, where the market reviews identified Significant Market Power, Oftel proposed to continue with measures to promote competition.

For example, the reviews mandated the continuation of the Flat Rate Internet Access Call Origination (FRIACO) product, which was created by regulatory requirement in 2000-01 to enable competition in the supply of unmetered Internet access. Improvements to its operation were also made by a number of separate determinations in the course of the year.

Three further key features dominated Oftel's approach to its work in 2003:

EU Directives

Following 18 months of work, Oftel put in place a new regulatory framework, implementing the EU Communications Directives. In addition to carrying out the market reviews, described above, Oftel also:

- set out the minimum requirement of telecoms services that BT and Kingston must provide to all customers, including new guidelines on connection speed for narrowband dial-up access, under the Universal Service Directive;
- set out a strategy for approaching questions of network access in the context of the reviews and disputes and complaints;
- put in place new arrangements to reduce the time for resolving disputes to four months, consistent with the Access and Interconnection Directive; and
- abolished the current licencing regime and replaced it with a number of obligations applying to all providers of networks and services, under the Authorisation Directive.

Consumer protection

Oftel continued to ensure appropriate consumer protection measures were in place and worked with industry to achieve this, including:

- publishing a new strategy for deciding what consumer information should be produced, including guidelines to ensure the information is genuinely useful to consumers;
- introducing measures to protect consumers from nuisance calls by defining when it will use its new power to fine offending companies;
- approving the Telecoms Ombudsman service (launched in January 2003 following earlier work by Oftel, the telecoms industry and consumer groups) and a similar scheme run by the Chartered Institute of Arbiters;
- awarding the Oftel PASS (Oftel Price Assurance Standard) to the telephone price comparison website www.uswitch.com; and
- publishing regular reports on the number of complaints made to Oftel's Consumer Representation Section, highlighting the performance, by name, of telephone companies and Internet service providers.

Ofcom

Oftel's work to support the transfer of regulatory responsibility to Ofcom included:

- providing input to the Communications Bill leading up to the passing of the Communications Act in July 2003;
- supporting the transfer of regulatory activities and staff to Ofcom;
- briefing incoming Ofcom Board and senior management; and
- involving the Ofcom Board and other senior managers in all key regulatory decisions over the last few months of Oftel's existence.

Looking ahead, Ofcom faces the challenge of integrated decision-making in a world of increasingly flexible, high-capacity digital networks with greater innovative use of spectrum flowing from a successful introduction of spectrum trading. This is a big challenge – with the big prize of greater competition benefiting consumers. To achieve this, Ofcom will inevitably draw on the strategic successes of the existing regulators.

Measuring the outcomes of Oftel's work

In all aspects of its work, Oftel seeks to achieve the high standards set out in its service delivery agreement targets agreed with the Treasury (published in November 2000). A summary of Oftel's performance against its targets is given below.

Target 1: To increase the extent to which the market is effectively competitive.

Oftel estimates that around 50 per cent of the retail telecoms market is competitive (up from 14 per cent last year). Areas of increased competition include: the market for mobile outgoing calls and access and international direct dial for business consumers.

Competition is delivering benefits to consumers. Prices have fallen or stayed flat for all the main retail services. The average price fall in the year to March 2003 was six per cent in real terms.

Target 2: To increase:

- the awareness among consumers of the choices available to them;
- the availability of useful information on price and quality comparisons; and
- the proportion of consumers making well informed choices.

The proportion of consumers aware of the alternative suppliers for fixed line services was 69 per cent as at November 2002, similar to the number in November 2000.

Takeup of broadband high-speed Internet access increased from 1.4 million at the end of 2002 to over 3 million at the end of 2003 and in the fixed market, the number of lines with carrier pre-selection increased to over 2 million by October 2003.

And there are a number of industry funded initiatives and reports to help UK consumers be better informed purchasers of telecommunications services.

Target 3: All consumers protected by:

- effective competition or regulation where competition is not effective; and
- ensuring access to basic telecoms services.

Oftel monitors telecoms prices for a range of customer types, and this research indicated no real price increases for any significant group of customers in the year to February 2003.

The proportion of consumers who either have a fixed line or who are satisfied with their alternative means of telephony was around 99 per cent as at May 2003.

Target 4: Encourage and secure a reduction in significant anti-competitive practice by taking effective action.

Oftel introduced challenging new targets for resolving disputes about anti-competitive behaviour and other complaints in April 2003. In the period from 1 April to end September 2003, Oftel's performance was as follows:

- 44 investigations closed, taking on average 3.75 months to complete

- disputes/non-Competition Act complaints dealt with within new four month target – 93 per cent
- Competition Act complaints dealt with within the target timescales – 100 per cent

Performance against pre- 1 April targets was as follows:

- investigations closed within six months – 77 per cent (target – 80 per cent)
- investigations closed within 12 months – 100 per cent (target – 100 per cent)

In the first nine months of 2003, Oftel opened fifteen cases under the Competition Act, compared to ten cases in 2002. Oftel has complied with its *Competition Act strategy* of 1 July 2002 by investigating all cases, where behaviour could contravene both the Competition Act and the sectoral regime, under the Competition Act.

Oftel issued two Final Orders against companies demonstrating its commitment to providing a clear disincentive for breaching regulations.

Target 5: Spending on Oftel will deliver value for money.

In the three years to March 2003, Oftel's funding increased on average by 11 per cent per year in real terms. Over the same period, telecoms prices over a range of services fell on average by seven per cent per year in real terms. This means consumers have benefited from savings of nearly £4bn over the three year period.

Market overview

The telecoms market continued to grow throughout 2003 and competition increased against a background of change which included the introduction of the new regulatory framework and the passing of the Communications Act.

Growth, take-up of new services

The Office for National Statistics reported that the turnover of the UK telecoms industry was £50.1bn in the four quarters to June 2003, some 10 per cent higher than in the previous year. The strongest levels of growth were in the mobile and Internet markets and by the end of June 2003 there were around 50 million UK mobile subscribers. Call and access service revenues increased by 17 per cent to £9.9bn.

The number of Internet users in the UK continued to grow. Oftel consumer research conducted in August 2003 showed that 50 per cent of homes and 65 per cent of businesses had Internet access. By December 2003 there were over 3 million users of broadband services in the UK, over 1.6 million higher than at the same time last year.

Call revenues and volumes

While geographic fixed voice call volume growth is generally flat, dial-up Internet traffic, calls to mobile and other non-geographic calls have ensured that there remains overall growth in fixed call volumes.

Towards the end of 2002, dial-up Internet traffic volumes exceeded voice call volumes for the first time reflecting the continued success of unmetered wholesale access through the regulatory product FRIACO which has led to half the households in the country now having Internet access. This trend, however, is slowing as higher usage Internet users switch to broadband services.

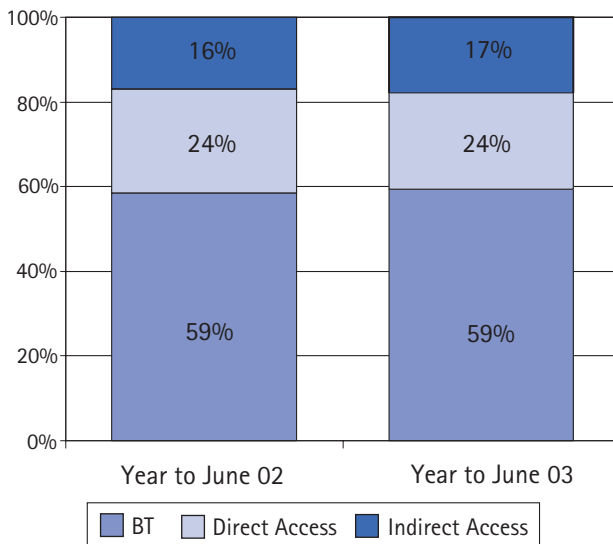
2003 has also seen a rapid rise in the number of customers using carrier pre-selection (CPS) which could lead to increased voice call volumes and ensure further stability for BT's competitors. By the end of October 2003 there were 2.2m CPS users, an increase of 1.8m from a year previously.

Although the number of mobile subscribers continues to grow the growth rate has slowed as the market approaches saturation. However, through the introduction of new services such as picture messaging and GPRS, mobile operators' average revenue per subscriber started to increase. Overall revenue expansion was also maintained through the continued growth of voice call and short message service (SMS) volumes which grew by 14 per cent and 25 per cent respectively in the year to June 2003.

Market shares and competition

BT's market share of fixed voice call volumes was 59 per cent in the year to June 2003. Other direct access suppliers accounted for a further 17 per cent of voice calls. The remaining 24 per cent of voice calls were made up of indirect access and CPS calls.

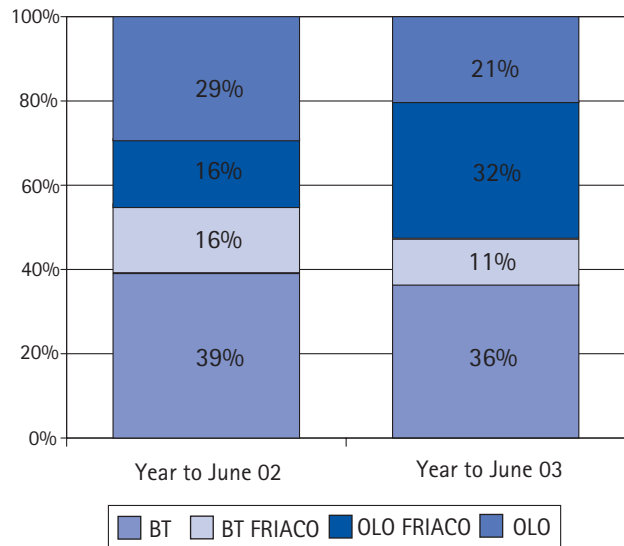
Fig 1: Voice call volume market shares



Note: Percentage figures may not add up to 100 due to rounding

BT retained a higher share of retail dial-up Internet traffic, partly due to the higher proportion of cable customers who have migrated to broadband services. Oftel consumer research conducted in August 2003 showed that BT had a 23 per cent share of the residential Internet Service Provider market.

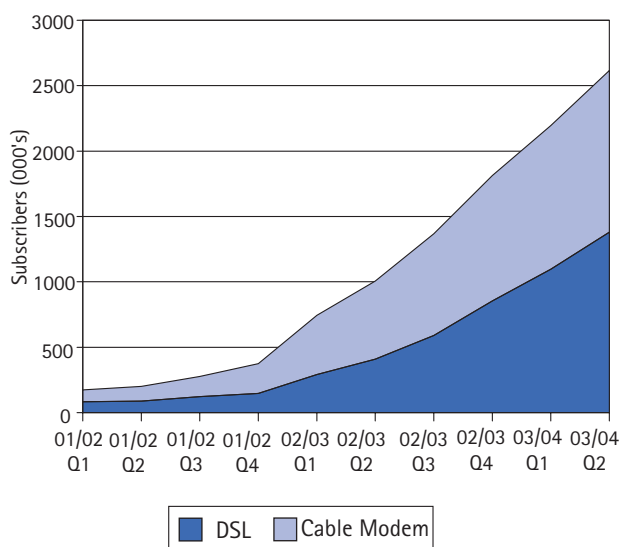
Fig. 2: Dial-up Internet call volume shares



In the residential market, BT made some market share gains at the expense of the cable operators in terms of access, but also lost call share to new indirect access operators. The business market remained more competitive with BT's share of call volumes for inland geographic calls and international calls at 45 per cent and 19 per cent respectively in the year to June 2003.

In broadband, BT continued to face competition from the two cable operators who still held 44 per cent of broadband subscribers at November 2003. In addition many DSL subscribers took retail services from other service providers and BT's share of the overall retail broadband subscriber market was approximately 25 per cent. This is significantly lower than incumbents in any other comparable European market.

Fig. 3: Broadband subscribers



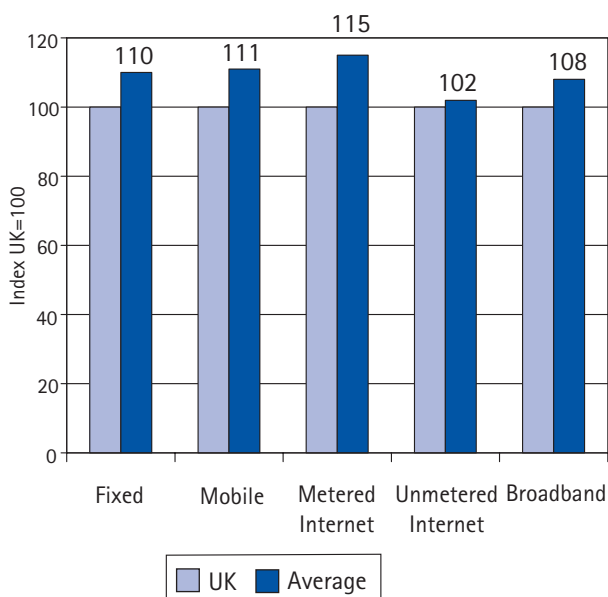
The mobile market remained more competitive than the fixed line market and in October Oftel determined that no operator held SMP in the mobile call origination and access markets. Each of the existing four networks continued to hold broadly similar numbers of subscribers and faced increased network competition from the new 3G network operator '3'. Service competition also increased and the mobile virtual network operator Virgin Mobile now has in excess of three million subscribers.

Prices

UK consumers have benefited as prices for different telecoms services have fallen. Broadband prices decreased by 16 per cent and 12 per cent respectively for residential and business customers in the year to August 2003 and increased take-up of unmetered Internet access take-up also led to price reductions for dial-up users.

Mobile prices fell by around seven per cent in real terms in the year to September 2003, while fixed telecoms prices remained broadly flat. Oftel's latest international benchmarking reports showed that, on average, UK consumers continue to get a good deal compared to consumers in other European countries and the United States.

Fig. 4: Price comparison of residential services



Source: Oftel international benchmarking reports, based on tariffs valid as at Feb 03. International average based on France, Germany, Sweden USA and, for mobile, Italy instead of USA.

Consumer choice and satisfaction

Despite relatively static levels of activity in the more traditional telecoms services total revenue and usage continued to rise during the year.

Consumer satisfaction was above 90 per cent for most services with residential and business consumers continuing to shop around for better deals. Broadband satisfaction levels were even higher at 96 per cent. In May 2003 48 per cent of UK adults were aware of choices such as indirect access and carrier pre-selection in the fixed market.

Summary

The last twelve months have been another turbulent year for some telecom operators financially but continuity of telecoms services has largely been maintained. Competition has developed in all areas and consumer satisfaction remains high.

Working for consumers

This chapter highlights Oftel's work in 2003 that had a very specific consumer focus. It should be remembered, however, that at the heart of every Oftel decision is the aim to achieve the best deal for the consumer.

Ensuring consumers' disputes are resolved

In January 2003, the Office of the Telecommunications Ombudsman (Otelo) opened for business. At this point Otelo had eight member telecoms companies and service providers.

During 2003, Otelo successfully gained new members and at the time of going to print, the number had increased to 32 telecoms companies and service providers, covering over 90 per cent of the fixed telecoms market and over 50 per cent of the mobile telecoms market.

In September 2003, the Director General officially approved Otelo under the Communications Act 2003. This made Otelo the first dispute procedure scheme to be officially approved under the Act. On 19 November, the Director General approved a further scheme – the Communications and Internet Services Adjudication Scheme (CISAS). These two schemes mean that virtually all consumers have access to alternative dispute resolution.

Helping consumers make choices

Oftel's three consumer guides – *Your rights and choices as a telephone customer*, *How to access the Internet* and *Getting the best deal from your mobile phone service* – remained popular, with several thousand copies being requested by consumers, citizens advice bureaux and other organisations.

In addition, UK Online, backed by the Office of the e-Envoy, distributed approximately 40,000 copies of *How to access the Internet* as part of its national 'Get Started' campaign to encourage people to use the Internet and experience the benefits of going online. Feedback from consumers who read the leaflet indicated the majority of them found it useful.

Helping consumers compare prices

Oftel's accreditation scheme for price comparison websites, the Oftel Price Assurance Standard (PASS), was launched in 2002 as part of Oftel's strategy to ensure that telecoms consumers are able to make well-informed decisions.

Price comparison websites help consumers to see which company offers them the best deal for the way in which they use their phone. Oftel's endorsement encourages consumers to use this type of information.

The Oftel PASS is only awarded to websites that pass a stringent application process, including an audit by an independent telecoms consultant. So, where consumers see the Oftel PASS logo displayed on a website, they can be confident that it provides impartial, reliable and up-to-date price information.

In June 2003, the uSwitch.com home telephone website became the first website to be awarded the Oftel PASS. uSwitch.com also offers price comparisons for gas and electricity and digital TV.

Its home telephone website:

- offers free residential fixed price comparisons;
- is interactive and allows consumers to compare prices based on their postcode and particular usage;

- contains up-to-date and accurate price comparisons from over 20 different phone companies; and
- is independent of any particular telephone company.

Helping consumers compare quality of service

The comparable performance indicators (CPIs) provide consumers with quality of service information about fixed line and mobile telephony providers in the UK. The information allows consumers to make better informed purchasing decisions and this helps to stimulate competition amongst service providers.

The fixed line indicators were published twice in 2003 to ensure that up-to-date information was made available. For the first time the publications were offered in formats designed for disabled consumers. Overall, more consumers accessed this information than ever before with an average of over 77,000 website hits per month. More consumers accessed the mobile indicators in 2003 as well.

Oftel published a consultation document in November to investigate the future options for reporting and publishing quality of service information. This will provide Ofcom with a good basis on which to form its regulatory policy in this area.

Codes of practice

In February 2003, Oftel published guidelines for consumer codes of practice. These guidelines were created by Oftel, communications providers and consumer groups working together.

These guidelines aim to ensure that communications providers give their consumers clearly written, comprehensive information on their commitments, including prices, quality of service, services (including

those for consumers with disabilities or for elderly consumers), terms and conditions and disconnection policies.

Oftel began approving codes of practice in May 2003. At the time of going to print, Oftel has approved the codes of practice of over 50 companies, covering almost all consumers in the communications market.

Minimum Internet access speeds

In 2003, as part of implementing the new European Directives on universal service, Oftel increased the minimum Internet data speed. Previously, this minimum speed was 2.4kbit/s. Oftel changed the regulations so that communications providers must offer functional Internet access. Initially Oftel has said that this means at least 28.8kbit/s.

Giving consumers more choice in directory enquiries

2003 saw the introduction of competition in the directory enquiries (DQ) market. This meant that, for the first time, consumers were easily able to choose between rival DQ service providers using '118XXX' numbers. The old numbers for DQ services (192 for national and 153 for international enquiries) ran in parallel with the 118XXX numbers until withdrawal in August 2003. The changes to DQ services gave consumers the chance to benefit from cheaper prices (with some services less than half the price of the old 192) and from new services such as combined A-to-Z and classified listings and 'call completion' – connecting callers to the number requested.

As well as multi-million pound advertising campaigns from a number of the larger service providers, the industry funded a leaflet distributed in all of BT's phonebooks and an informative website, www.newdirectoryenquiries.com, which provides users with pricing information on many of the new services.

Throughout the year Oftel worked with ICSTIS (the premium rate services regulator), the DQ industry and consumer groups to ensure that there were sufficient safeguards in place to protect consumers in the newly competitive environment. For example, DQ service providers have clear guidelines they must adhere to when publishing prices and there must be suitable complaint and refund procedures for poor service. In December 2003 ICSTIS will conduct a review of its guideline on DQ services, and stakeholders will be asked to comment on the most appropriate way forward for regulating the newly competitive market. Oftel has fully supported ICSTIS' decision to fine a number of companies for breaches of the code.

Metering and billing

As of 30 June 2003, all public telephone providers in the UK – with a turnover of £40 million a year or more – were covered by the Metering and Billing Scheme. This is designed to provide assurance to customers that the billing systems used by telecoms companies in the scheme are accurate.

Managing numbering resources

One of the most important resources in the telecoms market is the vast pool of telephone numbers that allow

people access to the wide range of different telephone services now available. It is Oftel's job to manage this resource carefully and responsibly and to protect it for the future benefit of consumers.

During the period January to September 2003 Oftel allocated 1,925 blocks of numbers. Over the whole year this is likely to amount to around 2,560 blocks, up from 2,452 blocks in 2002. This incorporates a further 20 per cent increase in allocations relating to premium rate services.

Emergency service calls

The number of calls to the emergency services in the first nine months of 2003 appears to have levelled off. Previous growth has been attributed to the major growth of mobile originated calls and the number of active mobile handsets now appears to be close to saturation.

During 2003, Oftel worked closely with the industry to develop the use of location information to emergency organisations for all emergency calls. By the end of the year, the mobile industry expects to provide such information for emergency calls; the UK will be the first European country to do this. Location information has been provided for fixed emergency calls for several years already.

Emergency service calls, January-September 2003

	Total 999 calls (millions)	Answered in less than 5 sec. (%)	Answered in less than 15 sec. (%)	Answered in less than 20 sec. (%)	Average time to answer (sec)
BT	25.2	96.3	n/a	99.98	n/a
Cable & Wireless	7.2	n/a	n/a	n/a	2.31
Kingston	0.154	n/a	99.9	n/a	0.8
Total	32.554				

The fixed market

Competition in the fixed market continued to grow in 2003, and Oftel continued with its work – begun in 2002 – to move away from the traditional price controls on BT's retail domestic call prices to an approach based on increasing competition further through a new wholesale line rental product. The basis of this work is outlined below.

Wholesale line rental

Wholesale line rental (WLR) allows alternative suppliers to rent telephone lines on wholesale terms from BT and resell them directly to consumers. This enables alternative providers to provide a single bill that covers both line rental and telephone calls and deal exclusively with the customer.

A WLR product (WLR1) is already available from BT, but Oftel does not believe it is 'fit-for-purpose' as a mass-market product nor will it lead to a significant increase in retail competition.

Therefore, during 2003 Oftel worked with BT and with WLR service providers on a second phase of WLR implementation (WLR2). WLR2 will develop further the WLR1 product to provide a smoother transfer process and ensure that service providers have an equivalent service to BT Retail as well as reduced transaction costs, all of which should result in improved quality of service to end users.

WLR2 is expected to be commercially available from Spring 2004.

Price controls

In the meantime a consultation process during 2003 on the fixed narrowband retail market proposed that the price control introduced in August 2002 should continue under the new European regime.

The control is based on BT's lowest spending 80 per cent of residential customers to reduce customers' bills by the rate of inflation. The control will be revised to one which pegs prices to the rate of inflation once the new wholesale line rental product has been fully implemented by BT and is being used by other operators to provide services.

Carrier pre-selection

Another area which is boosting competition in the fixed market is carrier pre-selection (CPS). Oftel worked closely with CPS operators, BT and consumer groups throughout 2003 to ensure that the revised customer order process introduced in 2002 was flexible enough to allow large volumes of new orders to be processed whilst providing protection for consumers to prevent unauthorised transfers.

As a result, CPS enjoyed a year of remarkable growth with the number of lines with CPS increasing threefold, climbing to over two million by October.

Oftel carried out two important CPS related investigations during 2003. In January, Oftel opened an investigation into BT's use of the 'cancel other' function. This allows BT to cancel another service provider's CPS order. In 2002, Oftel had stated this function should only be used in certain circumstances, for example when a customer had been transferred in error to a CPS provider.

In practice, however, BT was using 'cancel other' when it had successfully 'saved' a customer (ie convinced the customer to stay with BT). Oftel believed that this potentially gave BT an unfair advantage in servicing customers, and following its investigation, Oftel issued a direction carefully defining the circumstances in which BT could use this function and forbidding its use if BT 'saves' a customer who has placed a genuine order for CPS.

In July, following a complaint, Oftel opened an investigation into BT's general 'save' activity in the context of CPS. CPS providers were concerned that, because they had to inform BT of the details of their CPS order so that BT could carry out the necessary work to activate CPS, BT would then use this information to target the exact customers it was losing. The investigation found that BT cannot conduct save activity (such as a telephone call to try and convince the customer to stay with BT) if the trigger for that activity was information provided by another communications provider during the CPS transfer process.

The mobile market

Consumers benefited from a growing choice of mobile services and tariffs during 2003.

Growth in ownership of mobile handsets continued – the number of consumers using or owning a mobile phone exceeded 50 million during June.

The mobile market also continued to offer a wide range of services to consumers – the new mobile network, 3, launched the first third generation mobile services, new innovative services, such as picture messaging, became more widely used, and the text messaging boom continued with over 50 million messages now sent daily by UK subscribers.

Removing regulation

Much of Oftel's work in 2003 focused on reviewing competition in the mobile sector, in accordance with new EU requirements.

In the market for making calls from mobile phones, Oftel concluded in October that specific regulation was no longer needed to promote competition as none of the five mobile network operators were found to be in a dominant position.

Regulatory restrictions on Vodafone and O₂ were therefore removed by Oftel, giving the two companies greater flexibility to compete in the market. This was the last step to withdraw regulation in this part of the mobile market.

Consumer awareness

In 2003, Oftel continued its work to raise consumer awareness in the mobile market.

Oftel updated its advice on how consumers can save money when using their mobile phones abroad, for example using a text message instead of a voice call. It advised on the potential savings available, using the example of UK consumers using their mobile phones in France.

Oftel also conducted various consumer awareness research, including mystery shopping activity on the advice provided by mobile companies and retailers on switching mobile suppliers.

Calls to mobiles

Whilst Oftel removed regulation in 2003 from the broad retail mobile market, in the area of calls to mobiles where there is no competition Oftel continued with action to protect consumers from high charges.

As reported in last year's annual report, Oftel confirmed in January 2003 that mobile termination charges should be cut by 15 per cent by 25 July 2003 after the Competition Commission concluded its investigation and found that consumers were paying too much to call mobile phones.

In April, Oftel published modifications to the operators' licences to bring into effect the one-off cut. Three mobile network operators rejected these modifications and filed judicial review applications to overturn the Competition Commission's report and Oftel's implementation of its findings.

However, in June 2003, the High Court rejected the appeal and effectively ruled that the operators had to implement the reductions. All four operators subsequently reduced their termination charges in July.

Separately, as part of implementing the new regulatory framework, Oftel reviewed this part of the mobile market to assess what regulation, if any, is required going forward.

It published a consultation document in May setting out proposals for three further annual cuts of around 15 per cent over the next three years along with plans to regulate the terms under which termination is provided. At the time of going to print the statement was due to be published in December.

The narrowband Internet market

During 2003, the number of UK homes with Internet access grew from 45 per cent in February to 50 per cent in August.

Oftel's latest international benchmarking study, published in October, found that UK narrowband prices were cheaper than all the other countries surveyed for both residential and business users. And UK consumers continued to enjoy a wide variety of tariffs for dial-up Internet access, including metered – 'pay as you go' – and unmetered access, with over 90 per cent of users satisfied with their quality of service.

Unmetered Internet access

A number of improvements were made to BT's wholesale unmetered Internet access product, FRIACO. In July 2003, following an investigation earlier in the year, Oftel ordered BT to reduce its charges by 17 per cent (backdated to June 2002).

Metered – 'pay as you go' – Internet access

Narrowband 'pay-as-you-go' services remain a very important mechanism for Internet access in the UK. The majority of these services operate on 0845 local rate numbers.

In September 2003, Oftel published a consultation document on the retail pricing and numbering arrangements for 0845 and 0870 numbers following proposals by BT to reduce the termination payments for 0845 and 0870 calls.

The document examined whether the link between the retail prices for 0845 and 0870 numbers and the retail prices for geographic local and national calls should continue. Oftel's proposed criteria for assessing these options are the interests of consumers and the promotion of competition.

Oftel is separately investigating BT's recent price cuts for 0845 numbers under the Competition Act.

The new regulatory framework

Following the implementation of the new EC regulatory framework in July Oftel published a review of wholesale unmetered narrowband Internet termination – the services used by ISPs to provide retail unmetered services. Oftel's view is that ISPs now have an effective choice of competitive wholesale services (outside the Hull area). Therefore Oftel has proposed to de-regulate this market.

Supporting Government initiatives

During 2003, Oftel continued to work alongside the Office of the e-Envoy and other Government departments to develop the Government's UK Online strategy.

The aim of the Government's *Get Started* initiative, which ran during Spring and Summer 2003, was to raise awareness of the benefits that the Internet can offer. Consumers were able to request further information via the UK Online helpline, the campaign website or through digital television. The Office of the e-Envoy reported that Oftel's consumer guide, *How to access the Internet at home* was sent to around 40,000 people as part of its free information pack.

The broadband market

Take-up of broadband services in 2003 grew at up to 49,000 new connections a week and in December 2003 there were over 3 million broadband users.

Prices for residential broadband services are amongst the lowest in Europe and also compare favourably with the United States. Over the year August 2002–August 2003, prices dropped by 16 per cent. For basic business services, prices dropped by 12 per cent and for higher speed services prices dropped by 39 per cent. These reductions were the result of wholesale price cuts by BT, and Internet service providers (ISPs) passing these savings on to consumers.

Oftel's broadband strategy

Oftel's primary focus is to meet the needs of consumers through promoting competition at all levels of the value chain.

Oftel's achievements against its four key broadband objectives are outlined below:

Effective and sustainable competition in the provision of broadband networks and services

The UK has one of the most competitive marketplaces in Europe for broadband, with competition at the infrastructure level between cable providers and digital subscriber line (DSL), and over 100 ISPs competing with BT to provide retail DSL services to customers.

Oftel's review of the market for wholesale broadband access, launched in April 2003, will ensure that regulation remains appropriate in light of changing market conditions. The broadband market review is divided into three areas – leased lines, DSL and local loop unbundling (LLU).

- For leased lines, Oftel has proposed regulation at the wholesale level similar to that which applies currently, other than at very high bandwidths where it is proposed that regulation should be

withdrawn. At the retail level, Oftel has proposed regulation only for low bandwidths, as intervention in the wholesale market should be sufficient to drive greater price and quality competition in the retail arena.

- For wholesale broadband access (DSL) Oftel has proposed a specific requirement for BT to provide ATM interconnection as well as a general access obligation.

A second round of consultations will be published in December 2003. Proposals on local loop unbundling will follow in 2004.

Swift and firm corrective action in the event of anti-competitive practices

BT provides a range of wholesale DSL products that are available to all ISPs. Throughout 2003, Oftel continued to monitor BT's rollout carefully to ensure that all ISPs could compete fairly. In July, Oftel concluded that BT's broadband marketing strategy did not breach the Competition Act. This followed a detailed investigation into industry concerns that BT was behaving anti-competitively. Oftel found that BT's current use of its 'blue bill' and '150' customer line did not give it an unfair advantage over other ISPs. The guidelines on BT's marketing activities through the 150 channel are, however, being updated to give the company and the ISP market greater regulatory certainty.

In September, Oftel welcomed BT's decision to make further cuts to the prices of its wholesale broadband Datastream product, which is used by other operators to offer broadband connections to ISPs. This decision followed an investigation by Oftel which concluded that price cuts to BT's end to end wholesale product IPStream were such that operators purchasing BT's Datastream product were unable to compete effectively.

A high level of consumer awareness of the nature of broadband services and choices available

In August 2003, Oftel published *Broadband, a consumer guide*, to enable consumers to take advantage of the opportunities resulting from competition. The guide is for consumers who would like more information about what broadband offers and how to find out what services are available in their area.

Oftel has continued to promote awareness among small and medium size enterprises of the benefits of broadband by helping co-ordinate efforts to raise such awareness through the independently edited Telecoms Advice website (www.telecomsadvise.org.uk) aimed at small businesses and their advisers.

A regulatory framework which is conducive to further investment in broadband and rollout to remote areas of the country

In September 2003, BT announced it had brought broadband services to exchanges serving 80 per cent of all UK homes. Oftel has maintained a continuing dialogue with BT to understand what it believes to be the regulatory constraints on its ability to roll out further, and on 17 November 2003 the Director General welcomed BT's announcement that it was aiming for 100 per cent broadband coverage for the UK by 2005.

Oftel aims to assist the Government in rolling out broadband in areas where it is currently not available. In May 2003, Oftel provided extensive evidence to the Rural Affairs Select Committee inquiry into broadband, and in November, to a similar inquiry by the Trade and Industry Committee.

Oftel has continued to contribute to the development and implementation of the Government's broadband policy, working with the Department of Trade and Industry, other government departments, English Regional Development Agencies and the devolved administrations to help foster a competitive and extensive broadband market. Oftel also contributed to the work of the Broadband Stakeholders' Group, which has an important role to play in extending broadband rollout and take-up throughout the UK.

Broadcasting

Throughout 2003, Oftel and its partners continued to develop broadcasting regulation. A key driver was the new EU regulatory framework for telecommunications regulation which includes specific provisions for certain broadcasting technical services.

Conditional access

Oftel consulted in 2003 on new regulatory options for conditional access services and in July, set new regulatory conditions in line with the Directives. Conditional access services encrypt (or scramble) television programmes so that only those entitled to view them can do so, and is a key feature of subscription TV.

As in other markets, Oftel also put in place a range of measures to continue existing regulations during the change to the new framework.

Terrestrial transmission

A review of the terrestrial transmission services market was launched in October 2003 with a view to updating existing regulation if necessary. Terrestrial transmission is broadcasting radio and television from antennae, such as the mast at Crystal Palace to rooftop aerials. A number of changes are being proposed including the removal of a price control from analogue terrestrial transmission providers, and introducing new regulation that would apply to both analogue and digital services. This consultation closed on 10 November and final proposals will be published by Ofcom in early 2004.

Electronic programme guides

Ongoing work continued with the ITC, and Ofcom, on the future regulation of electronic programme guides (EPGs). EPGs are electronic versions of television listings which viewers use to get information about and access to programmes.

Ofcom will take over responsibility from the ITC for having a code of practice for EPG operators and establishing new regulations under the EU Directives. Oftel, Ofcom and the ITC continue to work on a joint consultation on both the code of practice and the possible new conditions to be applied. Ofcom aims to issue the consultation document in December 2003.

Access control

A similar consultation on the future regulation of access control services is underway. Access control services are used to provide enhanced and interactive television services such as voting and betting. The review was published on 14 November and the consultation closes in January 2004.

International activities

Beyond Europe

Two major government-to-government bilaterals took place this year. The first was in Japan, where Oftel was invited to talk about competition policy. The relationship with Japan was further developed in October when Oftel's Chief Economist was invited to Tokyo to speak about competition issues. The second bilateral took place between the UK and Canada and focused on convergence and Ofcom.

Oftel also built on relationships with other countries beyond Europe. In May 2003 David Edmonds spoke at a conference in Brazil about the importance of independence for the regulator. And Oftel's Broadband Co-ordinator spent a week during September in Guatemala with Regulatel, the Latin American equivalent to the Independent Regulators Group, to talk about the challenges of introducing competition in the UK.

During October Oftel's Director of Compliance spoke in Santo Domingo about broadband and competition issues at a seminar organised by Indotel, the Dominican Republic regulator and held a number of discussions with regulatory and industry interests in the country.

With regard to incoming visits, from January to November 2003, Oftel provided help and assistance to more than 50 foreign delegations, who were mainly interested in the setting up of Ofcom, broadband and accounting separation. Regarding the latter, Oftel held an exceptional two-day meeting with the Romanian regulator in July and the Brazilian regulator in September.

It is understandable that many countries seek visits and assistance from more established regulators, but Oftel's first priority is to the UK market and its consumers and therefore Oftel is not able to meet all of the requests it receives.

European activities

This has been a busy year for Oftel's relations with other EU Member State regulators and the European Commission.

As well as bilateral meetings on a range of subjects throughout the year, Oftel met its European colleagues in the three fora that take forward regulatory work on European communications. These fora are: the Commission-chaired Communications Committee, known as COCOM, attended by Member State regulators and ministries; the Independent Regulators' Group, or IRG, which, as the name suggests, brings together the Heads of National Regulatory Authorities (NRAs) to discuss topics of mutual interest; and the European Regulators' Group, or ERG, which brings these Heads together with the Commission.

All three groups spent 2003 exchanging information as regulators got to grips with the new framework Directives for Electronic Communications. Both COCOM and the ERG were, in fact, created by the Commission as advisory bodies for this purpose.

Oftel continued to take a leading role in 2003 in the five IRG Working Groups. Both the IRG Implementation and Market Data Working Groups were chaired through the year by Oftel.

In June Oftel hosted a high level EU Market Reviews event bringing together senior experts from most European NRAs to share experiences and ideas relating to the market analysis process under the new regulatory framework.

The legislative framework

2003 was a significant year for the telecoms industry as the new EU Directives that came into force in 2002 were implemented in the UK.

This represented a significant change in the regulation of telecoms across European member states, although Oftel's established strategy of appropriate regulation was already consistent with the underlying principles of the new framework.

Oftel continued in 2003 to work to implement the Directives and oversee the removal of telecoms licences that have been replaced by a series of general authorisations.

Implementation of EC Directives

Oftel spent much of the first half of 2003 preparing for the implementation of the four new EC Directives (Framework, Authorisation, Universal Service and Access) that had to be implemented by 25 July 2003.

Oftel issued several consultations and statements on key issues such as dispute resolution procedures and the new general conditions which apply to all communications providers and replace licence conditions which existed prior to 25 July.

The Directives were implemented on time, with the principle provisions being contained in the Communications Act 2003. At the same time, Oftel reissued a number of documents, revised to ensure that their provisions were consistent with the new requirements.

The new regime requires regulators to analyse relevant markets to identify the level of competition and where operators have significant market power, the regulator must impose appropriate regulation.

In line with implementation, Oftel conducted a series of market reviews throughout 2003 to analyse the key telecoms markets. In October, Oftel finalised the first of

these reviews, for the market for calls from mobile phones. Reviews of the narrowband markets were also completed in November and further reviews are due for completion in December. Oftel remains significantly further advanced with these reviews than any other European regulator.

In order there was no break in regulation whilst the market reviews were being conducted, in July Oftel issued continuation notices to roll over existing regulation on a temporary basis whilst the reviews were underway.

A further Directive regarding data protection is due to be implemented in the UK in late 2003.

End of telecoms licences

Another feature of the new regulatory regime was to replace individual telecoms licences with a series of general authorisations. Communications providers no longer need a licence to operate networks or provide services and the new authorisations set out the general regulations to which all network operators and service providers are subject.

Licence fees were also replaced by administrative charges which apply only to providers whose turnover from relevant activities in any year is £5 million or more.

The telecommunications code granted to certain licensees under the previous regime was also replaced by an electronic communications code.

The Communications Bill and Ofcom

Throughout 2003 Oftel worked closely with Ofcom, the Independent Television Commission, the Broadcasting Standards Commission, the Radio Authority and the Radiocommunications Agency to ensure the new regulator was ready to take over responsibility for the communications industry at the end of 2003.

There were two clear strands of work. First, to create the organisational structure for Ofcom and put in place the necessary supporting business processes. And second, to appoint the staff that would work in the new regulator, the majority of which were drawn from the existing communications regulators. This work was overseen by the Ofcom board, the chief executive Stephen Carter and the senior management team.

Although Ofcom does not assume its powers until 29 December 2003, towards the end of the year it was already hard at work on a major review of public service broadcasting that will be a key element of the government's forthcoming review of the BBC's Royal Charter. Oftel also kept Ofcom closely involved in decisions resulting from the implementation of the new EU Directives on communications.

The Communications Bill received Royal Assent on 17 July, which put in place the new regulatory framework and set out Ofcom's powers and responsibilities.

Oftel's stakeholders

Oftel continued during 2003 to seek the views of its stakeholders to help inform its decision making processes. The advice and expertise provided by a wide range of groups and committees helped give Oftel a wider understanding of many key telecoms issues.

Some of the groups' activities in 2003 are listed below.

Advisory Committees on Telecommunications (ACTs)

The ACTs advise the Director General of Telecommunications on issues affecting consumers, including those with least power in the market.

The six committees are: Consumer Communications for England (CCE), Communications for Business (CfB), the Advisory Committee on Telecommunications for Disabled and Elderly People (DIEL) and the Scottish, Welsh and Northern Ireland advisory committees on telecommunications (SACOT, WACT and NIACT respectively).

During 2003, the committees responded to public consultations issued by Oftel, including the series of market reviews, as well as DTI, DCMS and ICSTIS amongst others. All responses were published on the ACTs website, www.acts.org.uk.

In addition to regular committee meetings, members also participated in forums and Oftel working groups through which they provided valuable advice to Oftel project managers.

The Chairmen of the committees met regularly with the Director General in 2003 as the Telecoms Advisory Panel and have published their own annual report for 2002-03.

SACOT, WACT and NIACT commissioned a variety of consumer research during the year including the attitudes and experiences of young people in Scotland towards telecoms; mobile coverage in Wales and its

economic impact; and how consumers in Northern Ireland use telecoms technologies. DIEL joined Oftel and the industry to commission research on consumers who use text communication.

A major focus was the progress during the year of the Communications Bill and efforts concentrated on influencing the effectiveness of consumer representation under Ofcom.

Small Business Task Force

Oftel's Small Business Task Force (SBTF), which includes small business representatives such as the Federation of Small Businesses, telecoms operators and other Government departments amongst its membership, met for its final meeting in April 2003.

Attendees at the meeting put forward a number of recommendations for Ofcom to consider when it takes over Oftel's duties. In particular the SBTF urged Ofcom to continue support for the www.TelecomsAdvice.org.uk website.

TelecomsAdvice, which was set up by the SBTF to provide independent advice to small businesses on a wide range of telecoms related issues, had another successful year with over 130,000 visitors.

The taskforce was firmly of the view that Ofcom should consider the particular needs of small business consumers in its work and stressed the importance of telecoms services to smaller businesses.

The Network Interoperability Consultative Committee

The Network Interoperability Consultative Committee (NICC) is the formal technical advisory body to the Director General.

Key areas of work for NICC in 2003 included:

- further work on the revision of the National Transmission Plan for public networks and the Network Code of Practice for private networks respectively;
- continued work on the programme of the digital subscriber line (DSL) study, including consideration of the effects of interaction of DSL systems in end-user networks with public networks; and
- completion of the conversion to electronic publication of formal NICC output, including the interconnect standards formerly published by the British Standards Institute.

Large Business User Panel

The panel – a group of individuals skilled in purchasing telecoms services for large businesses – continued to perform a valuable role in 2003, providing Oftel's project managers with an appreciation of the concerns and interests of this important group of stakeholders.

Although formal meetings of the panel were less regular during the year, there were other avenues for members to contribute to Oftel's work and project managers remained appreciative of the knowledge and experience provided by the panel.

Inside Oftel

Oftel's Business Support Directorate is responsible for managing Oftel's internal operations and communicating its work to external audiences.

Governance and accountability

The Director General, as Accounting Officer, is accountable to Parliament for Oftel's spending and can be called to appear before Select Committees of the House. In addition to being supported by members of the Executive Board, he is advised by the Audit Committee whose chair is independent of Government. Oftel's accounts are audited by the National Audit Office and an internal audit service is provided by the Department of Trade and Industry.

Resource accounting and budgeting

Spend and budgeting is managed on a fully resource basis which combines accruals (matching costs to the relevant period), costs by objectives, and output and performance reporting. A summary of Oftel's 2002-03 financial accounts and staff numbers is given in Annex 3. Following the Communications Act 2003, which received Royal Assent on Thursday 17 July 2003, Oftel made final preparations for closure and for handing over its functions to Ofcom. The government's expenditure plans for 2004-05 and beyond will therefore no longer include Oftel although Oftel's closing accounts for 2003-04 will be published in the New Year.

Audited resource accounts for the financial year 2002-03 were published on 26 November 2003 and are available from The Stationery Office (HC 21). The National Audit Office issued an unqualified audit opinion on the accounts.

Transparency in budget setting

Oftel's management plan for 2003-04 was published on 1 April 2003. It provided an outline of Oftel's budget for 2003-04 by major spend categories and by both directorate and organisational objective.

Staffing

There has been little recruitment in recent months due to the approach of Ofcom and in the main any new staff have been employed on temporary contracts. The staffing levels have remained constant and the current levels as at 29 September 2003 can be seen below:

Distribution of staff by level as at 29 September 2003:

Senior Civil Service	12
Senior managers, team leaders/ project managers (Level 3)	97
Junior/middle managers, team members, secretarial (Level 2)	101
Administrative, messengers, photocopiers (Level 1)	30
Total	240

Distribution of staff across directorates as at 29 September 2003:

Business Support	39
Compliance	104
Regulatory Policy	91
Director General/ Director of Operations	6
Total	240

Diversity

In recent months Oftel has formed its own Diversity Awareness Group made up of a core group of staff but which is open to all. The group reviews progress on diversity issues and discusses ways in which Oftel might improve its understanding and awareness of diversity issues. Where measures are identified to improve Oftel's handling of diversity issues, the group will ensure that, where practical, these measures are implemented. The group considers diversity issues not just in relation to how they affect Oftel's staff but also its stakeholders, consumers and customers.

Throughout the summer the group arranged a programme of lunchtime seminars where external speakers discussed issues such as diversity within their organisations and why it is an important issue for all staff.

Communicating Oftel's work

Consumer complaints and enquiries

Between January 2003 and November 2003, Oftel's Consumer Representation Section (CRS) handled 188,000 phone calls and replied to 30,000 written complaints and enquiries (letter, fax, e-mail). The number of new cases opened in this period was 109,850. Oftel staff based in Northern Ireland dealt with about 1,000 complaints and enquires between January and November 2003.

Mobile

37,600 complaints were received about mobile services. The main concerns related to the quality of customer service, for example, complaints being ignored, or having difficulty contacting the service provider. Consumers were also unhappy with certain contract terms, being charged for a service that they had cancelled, and problems with the reliability of handsets.

Internet

8,500 complaints were received about both narrowband and broadband Internet services. Overall the quality of Internet service provided (for example, failure to connect and low speeds) was the main concern, followed by customer service issues such as complaint being ignored and difficulty contacting the Internet service provider.

Fixed line

53,000 complaints were received about fixed line service. The main area of complaint was the failure or time taken to repair service. Compensation complaints (in many cases related to the repair difficulties) were also high, as were complaints about the quality of customer service, such as complaint ignored or difficulty contacting the service provider

Other complaints

CRS also received 8,000 other complaints on issues such as unsolicited sales calls, e-mails, text messages, or fax messages.

CRS logs each complaint it receives and monitors complaint levels for each company. Where appropriate Oftel meets with companies to discuss ways in which their service to customers can be improved. In 2003, Oftel also continued to publish complaints data every six months showing the number of complaints per 1,000 customers. This publication highlights both good and poor performers and acts as an important incentive to companies to quickly address any problems faced by their customers.

Research published in 2003 showed a high satisfaction rate amongst consumers dealing with CRS. Eight in ten consumers thought that Oftel's handling of their complaint or enquiry was of the same or better standard than that they had received from other companies or organisations.

Research and Information Unit

The Research and Information Unit (R&I) provided both an internal and external information service. Externally R&I was the main contact point for all publication requests and general enquiries. It also held and maintained the Public Register, which was made available for public inspection by appointment. Internally, R&I provided library and research resources for Oftel staff.

2003 saw R&I closely involved in working towards Ofcom, there was considerable input into the setting up of a Knowledge Centre, sharing expertise on intranet design and content, and involvement in determining a records management programme.

Public enquiries

Answering enquiries and providing hard copies of documents was an integral part of R&I's role. In 2003 R&I received 4,243 enquiries and sent out 9,602 publications.

Press Office

The wide range of work undertaken by Oftel throughout 2003 meant that the Press Office was busy explaining and promoting how consumers benefit from Oftel's decisions.

One major area of work was to promote the benefits to consumers of the Competition Commission's decision in January 2003 that supported Oftel's findings that consumers were paying too much to call mobile phones. Other important issues were the introduction of further competition in the fixed line market through an enhanced wholesale line rental product, and the increasing take up of carrier pre-selection. In addition, the introduction of the new regulatory regime meant publication of a whole raft of documents to implement the regulatory changes and the job of communicating the significance of these events to industry and consumers in the UK.

Oftel News, Oftel's quarterly newsletter, and Oftel's website remained important tools for communicating Oftel's work to its stakeholders. *Oftel News* maintained a circulation of around 11,000 subscribers during 2003 and the Oftel website gained around half a million hits throughout the year.

The Press Office facilitated a large number of media interviews over the year, providing spokespeople for slots on local and national radio programmes and television. Media interviews help communicate Oftel's views on key telecoms issues, especially issues of major consumer interest such as the introduction of the new directory enquiries services.

In addition, Press Office co-ordinated a significant number of speaking engagements for Oftel staff at public events and industry conferences during 2003.

Annex 1: Oftel publications 2003

January

- Draft re-amended direction of BT's retail uplift charge for calls to operators' number translation services
- Draft amended direction resolving a dispute between Energis and BT concerning BT's method of calculating its NTS retail uplift charge
- Draft direction resolving a dispute between Cable & Wireless Communications Limited and BT over a bad debt surcharge relating to calls to premium rate services
- Draft direction regarding BT's NTS discounts for calls to 0844 and 0871 numbers
- Special fee determination
- Access Network Frequency Plan (ANFP) for BT's Metallic Access Network – statement
- Direction relating to a dispute over BT's Transit Risk Review Supplemental Agreement
- Draft direction relating to a dispute between Cable and Wireless UK and BT over the provision of overflow capacity for DQ118 traffic
- Director General's statement on the Competition Commission's report on mobile termination charges
- A dispute between BT and Vodafone regarding wholesale connections between BT's and Vodafone's networks
- Oftel's policy review of two-part charging
- Final direction relating to a dispute between Energis plc and BT over BT's rearrangement charges
- Consultation on the implementation of the Authorisation Directive's provisions on notification and fees
- Study into certain aspects of the cost of capital for the regulated utilities in the UK – research
- Draft guidelines for customer line identification display services and other related services over electronic communications networks
- Statement by the Director General of Telecommunications on the Provisional Order issued against BT on 10 February 2003
- Direction of a dispute between BT and the operators listed in schedule 2 regarding BT's credit vetting supplemental agreement
- Local loop unbundling: Direction on charges for Power at BT exchanges
- Draft direction relating to a dispute between BT and C&W; Easynet; Energis; NTL and Wavecrest over the withdrawal of overflow facilities from NTS traffic
- Dispute resolution under the new EU Directives – a statement by Oftel and the Radiocommunications Agency

February

- Provisional Order under Section 16 of the Telecommunications Act 1984

March

- Opening up the premium rate services range '0904' – statement
- Consultation on charges for Emergency Service (999) calls
- Oftel's race equality scheme – statement
- The Future use of legacy directory enquiry numbers – consultation
- Wholesale line rental: Oftel's conclusions – statement

- Notification of proposals for the designation of universal service providers – consultation
- Review of fixed geographic call termination markets – consultation
- Review of the wholesale international services markets and related remedies – consultation
- Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets – consultation
- Review of the wholesale un-metered narrowband Internet termination market – consultation
- Review of fixed narrowband retail markets – consultation
- Draft determination relating to metering arrangements
- Direction relating to a dispute between Cable and Wireless and BT over the provision of overflow capacity for DQ118 traffic
- Changes to the number portability functional specification to meet the new regulatory regime – consultation
- Proposals to publish a National Telephone Numbering Plan – consultation
- The Oftel Metering and Billing Direction – consultation
- Proposals for the collection of licence fees for the period from 1 April 2003 to 24 July 2003 – statement
- Corporate numbering: a new option for businesses – consultation
- Direction to resolve a dispute between Cable & Wireless UK and BT over a bad debt surcharge relating to calls to premium rate services
- Re-amended direction of BT's retail uplift charge for calls to operators' number translation services from 1 April 2000
- Amended direction concerning BT's method of calculating its NTS retail uplift charge since April 1997
- Direction of BT's retail uplift charge for calls to operators' number translation services from 1 April 2001
- Direction regarding BT's NTS discounts for calls to 0844 and 0871 numbers with effect from 1 October 2002
- Notice under section 17 of the Telecommunications Act in relation to 1st Rate Telecom

April

- Oftel management plan 2003-04 – statement
- The Granting of the Electronic Communications Code by Oftel – consultation
- Intelligent network charge for DLE and ST FRIACO – consultation
- Reviews of dispute procedure schemes – draft guidelines
- Assessing potential consumer savings – consultation
- Review of the leased lines markets – consultation
- Review of competition: mobile access and call origination – consultation
- Public payphones – implementation of universal service obligations
- Direction relating to a dispute between BT and C&W; Easynet; Energis; NTL and Wavecrest over the withdrawal of overflow facilities from NTS traffic
- Carrier pre-selection 'save' and 'cancel other' activity – draft direction

- Draft direction of a dispute concerning BT's retention for the origination of calls to DQ118 services
- Oftel's draft statement of policy on information gathering under section 142 of the Communications Act 2003
- Statement on fixed narrowband market reviews - narrowband and broadband services
- Review of the wholesale broadband access market – consultation

May

- A user's guide to numbering
- Opening up the premium rate services range '0908' – statement
- Oftel Review 1984-2003, Creating competition and choice
- National roaming condition – consultation
- Oftel annual report 2002
- Review of mobile wholesale voice call termination markets – consultation
- Final Order under section 16 of the Telecommunications Act 1984, Condition 21.3 of 1st Rate Telecom's Licence
- Implementation of the Authorisation Directive's provisions on notifications and fees
- Financial reporting obligations in SMP markets – consultation
- Guidelines for the interconnection of public electronic communications networks – statement
- End-to-end connectivity – guidance
- Determination: Metering arrangements

June

- The future use of legacy directory enquiry numbers – statement
- The future regulation of conditional access – Statement
- International benchmarking study of Internet, mobile and fixed services
- Draft Direction in respect of two disputes relating to Vodafone's credit vetting clause
- Indirect access dispute between BT and Cable and Wireless – draft direction
- Approval of a text relay service – consultation
- Conditions regulating premium rate services – consultation
- Notice of intention to issue final order in relation to Komtel's use of automatic calling equipment
- Customer satisfaction with Oftel's complaint handling - Wave 3, April 2003 – research
- Consumer complaints made to Oftel
- BT's Retail Uplift charge for calls to operators' Number Translation Services from 1 April 2001 – amended direction
- Statement on charges for emergency service (999) calls – statement
- Dispute between BT and Vodafone regarding wholesale connections between BT's and Vodafone's networks – direction
- Emergency Planning – draft direction
- Application forms for telephone numbers – draft direction
- Statement of policy on the persistent misuse of an electronic communications network or electronic communications service – consultation

- Direction to resolve a dispute concerning BT's retention for the origination of calls to DQ118 services

July

- Consultation on continuing licence conditions after 25 July 2003
- Carrier pre-selection 'save' and 'cancel other' activity – direction
- The General Conditions of Entitlement – final statement
- National Telephone Numbering Plan – statement
- The number portability functional specification – statement
- Oftel metering and billing direction
- Director General's decision on the Competition Act investigation into alleged anti-competitive practices by BT in relation to its BT Broadband product
- Proposed requirement on dominant providers to publish Key Performance Indicators – consultation
- Indirect access dispute between BT and Cable and Wireless – direction
- Getting the best deal when using your mobile phone in France – statement
- Final order in relation to Komtel's use of automatic calling equipment
- Direction on the Intelligent Network (IN) Charge for DLE and ST FRIACO
- BT's Retail Uplift charge for calls to operators' Number Translation Services from 1 April 2001 – amended direction
- Approval of a text relay service – statement
- Designation of BT and Kingston as universal service providers, and the specific universal service conditions – statement
- Public payphones: implementation of universal service obligations – statement
- Continuation notices relating to continued conditions in class licences
- The regulation of conditional access, setting of regulatory conditions – explanatory statement
- Application Forms for Telephone Numbers – statement and direction
- Continuation notices relating to continued conditions in individual telecommunications licences
- Oftel's statement of policy on information gathering under Section 145 of The Communications Act 2003
- The definition of 'relevant activity' for the purposes of administrative charging – guidelines
- Qualitative research into large business' use of telecoms – research

August

- Oftel's use of public consultation under the new EU Directives – statement
- Reviews of dispute procedure schemes – final guidelines
- Mobile access and call origination services market – consultation
- Mobile phone number portability and SIM unlocking research - Mystery shopping project – research

- Broadband – a consumer guide
- Consumer codes of practice – guidelines
- Emergency planning – statement and direction
- Review of fixed geographic call termination markets – explanatory statement and notification
- Fixed narrowband retail services market identification and analysis of markets – explanatory statement and notification
- Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets – explanatory statement and notification
- Review of wholesale international services markets – explanatory statement and notification
- Review of wholesale unmetered narrowband Internet termination services – explanatory statement and notification
- Guidelines for the provision of calling line identification facilities
- Statement of policy on the persistent misuse of an electronic communications network or electronic communications service

September

- Policy review of two-part charging – statement
- Review of competition: broadcasting transmission services – consultation
- Explanatory statement on continuing licence conditions after 25 July
- 0845 and 0870 numbers: Review of retail price and numbering arrangements – consultation

- Proposal that Condition 43, will cease to have effect in respect of Telex, International Facilities, IPLCs, Featurenet, International Featurenet and certain other virtual private network services

October

- Discontinuing licence conditions continued after 25 July 2003 – consultation
- Statement on Oftel and ICSTIS meeting with The Number
- Review of mobile access and call origination market – Final explanatory statement and notification
- Revised statement of charging principles
- The Granting of the Electronic Communications Code by the Director General of Telecommunications
- Funds for liabilities – statement
- Draft guidelines on how an operator might assess the cover it requires in order to satisfy the Director that sufficient funds are available to meet its liabilities BT's pricing of services for business customers – consultation
- Notification of a proposal to modify the definition of "Relevant Data Protection Legislation" in (1) the general conditions of entitlement and (2) the designation of universal service providers
- International benchmarking study of Internet services
- Statement that Condition 43, which is a continued provision of the continuation notices given to BT and to Kingston, will cease to have effect from 4 November 2003

November

- Competition Act investigation into disconnection of Floe Telecom limited's services by Vodafone limited
- Voice over IP – updated questions and answers
- Discontinuing regulation: mobile access and call origination market – statement and discontinuation notices
- Notification of Contravention of General Condition 1.2 under Section 94 of the Communications Act 2003
- Discontinuing licence conditions – statement
- The future regulation of access control services – consultation
- Evaluation of directory enquiries services – research
- Review of wholesale international services markets – final explanatory statement and notification
- Reporting quality of service information to consumers – consultation
- Consumer complaints made to Oftel
- Draft determination for resolving a dispute between Orange and BT concerning the cost sharing arrangements for customer sited interconnect links connection and rental charges
- Review of the fixed narrowband retail services markets – final explanatory statement and notification
- Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets – final explanatory statement and notification
- Review of fixed geographic call termination

markets – final explanatory statement and notification

- Review of wholesale narrowband Internet termination services – final explanatory statement and notification
 - for the Hull area
 - for the UK excluding the Hull area

December

- Customer satisfaction with Oftel's complaint handling – research

For publications issued after 10 December, please see the Ofcom website at www.ofcom.org.uk.

Annex 2: Expenditure and performance on major projects and programmes

The following indicative table identifies projects/programmes which were estimated to cost more than £250K. The figures reflect approximate staff and consultancy costs. These figures were published in Oftel's Management Plan of April 2003, and were based on a full financial year forecast to give stakeholders approximate examples of where significant resources were to be committed.

Projects/programmes costing over £250k	
A1	EU Market reviews
A6	Strategy and development and implementation of broadband networks
A7	Numbering programme
C4	Consumer representation
D2	Compliance casework and dispute programme
D4	Compliance management office programme
E3	Research into consumer views
E10	Oftel strategy implementation programme

Annex 3: Financial reporting

Expenditure Plans

As reported within the body of this Report, the Communications Act 2003 will lead to the managed closure of Oftel in December 2003. Therefore, Oftel has no planned expenditure for future years. Details of Oftel's expenditure plans to 2003-04 with outturn information from 1998-99 to 2001-02 were published in Oftel's Annual Report 2002 (The Stationery Office, HC 659).

The published Resource Accounts for the final period 2003-04 will reflect the impact of closure costs and provisions. These accounts will be compiled and published in early 2004 to account for and report on income and expenditure during the final period to closure.

During 2002-03 Oftel employed 235 staff in total. The number of staff for the preceding 3 years (1999-00, 2000-01 and 2001-02) was 195, 208 and 236 respectively.

Resource Accounts 2002-03

The following table provides details of the separation of costs by expenditure category in 2002-03 between policy and support activities.

Summary of Resources 2002-03 £'000	Regulatory Policy Directorate	Compliance Directorate	Director General's Office & Business Support	Total
Administration Costs (AC's)				
Pay	4,280	4,169	2,055	10,503
Consultancy	1,199	456	87	1,743
Rent (Ludgate Hill/Shoe Lane)			1,456	1,456
Training (PRTU)	25	22	268	316
Recruitment			135	135
Press/Publicity			222	222
Other Acs	129	73	1,514	1,716
Total Acs	5,634	4,721	5,737	16,092
Programme				
Twinning with Poland	176			176
Advisory Committees on Telecommunications (ACTs)		450		450
Litigation				
Total Programme	176	450		626
Notional costs (eg depreciation)			1,250	1,250
Total Resource costs	5,810	5,170	6,987	17,967
Capital				
Furniture/Office equipment			4	4
IS/IT			338	338
Total Capital	0	0	342	342

Annex 4: Price control 2003-04

BT's retail price control means it is obliged to reduce its prices by RPI-X every year between 1 August and 31 July the following year. The value of X is normally fixed for a four-year period to enable BT to make long term decisions more easily. Following a review in 2002, BT was required to reduce its net revenues by RPI-RPI between June 2002 and July 2003.

Retail Price control, 2002-03

BT had until July 2003 to meet this condition. Provisional data from BT suggests that it has met its obligation for this price control year.

Analogue Leased Lines

There is also a RPI+0 per cent safeguard cap applying to analogue private circuits. This control is currently under review as part of the leased lines market review. A consultation document - Review of the Leased Lines Market - was published on 11 April 2003 and a further consultation document is to be published in December 2003.

Annex 5: Licences register, licences issued in 2003

Public Telecom Operators

March

Teleglobe International Ltd

May

FARICE hf.

July

CVC Acquisition Company UK

Public Telecommunications Operators without Code Powers

May

Vector Ltd

Dantech Digital Ltd

Teraspan Networks Ltd

i55 Ltd

File-Away Ltd

Mobile Public Telecom Operators

N/A

Mobile Public Telecom Operators without Code Powers

February

Wireless Edge Communications Limited

Non-Public Telecommunications Operators

N/A

Individual licence Without Code Powers (Fixed)

March

Loop Scorpio Limited

SANDCO 684 Limited

Class Licence

N/A

International Simple Voice Resale (ISVR)

January

0871 Ltd

Adicom Ltd

B4U Telecom Ltd

Basic Telecoms Ltd

Blue Owl Services Ltd

China Motion (UK) Ltd

City Telecom Ltd

Class Affinity Projects Ltd

Floe Networks Ltd

Gina Computer Services Ltd

Host Regus Ltd

Interstella Communications Ltd

Kas Telecommunications Ltd

Komtel Ltd

Nutel Communications Ltd

O-Bit Telecom Ltd

Poptel Ltd

Primenet Telecom Ltd

Reliance Communications (UK) Ltd

Teleworks UK Ltd

February

Asiatelecom UK Ltd

Communicate 365 Ltd

DataAccess America Inc

Fiber-World

DataAccess America Inc
First Media Ltd
Garstang Telecom
Harrow Telecom Ltd
IPX Voice Ltd
Lebara Ltd
Mira Systems Ltd
Modus Telecom Ltd
Newtel (Guernsey) Ltd
Newtel Ltd
Routo Telecommunications Ltd
T.H. Provider Ltd
Telefonica de Espana Sociedad Anonimia
Wapmx.Com Ltd

March

Broadband Technologies Ltd
Corporate Machines Ltd
Expanse (UK) Communications Ltd
IM Software Ltd
IP Deliver Inc
Officepark Ltd
Perses Telecom Ltd
Real Telekom Ltd
Rvtel Communications Ltd
Telestrat Ltd

April

Domus Net Ltd
Easynet International Ltd
Neutral Extremes Ltd
Starnet Technologies Ltd
Stylecom Ltd
The Comms Consultancy LLP
Unicorn Telecommunications Ltd

May

Alban Telecom Ltd
Clem Com Ltd
Divonic Ltd
Mecca Telecom International Ltd

Netrinsic Ltd
Powergen Retail Ltd
Quotex (International) Ltd
Skytel Ltd
Talk Calm Ltd
Veebox Ltd
YYC Networks Ltd

Satellite

February

Paradigm Services Ltd

Mobile Communications Personal Communications Network Licences

June

Air Radio Ltd

Licence breakdown

Public Telecommunications Operators – 3
Public Telecommunications Operators without Code Powers – 5
Mobile Public Telecom Operators – 0
Mobile Public Telecom Operators without Code Powers – 1
Non-Public Telecommunications Operators – 0
Individual licence without Code Powers (Fixed) – 2
Class Licence – 0
International Simple Voice Resale (ISVR) – 66
Satellite – 1
Mobile Communications Personal Communications Network Licences – 1

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