vodafone

Vodafone Response to Ofcom Statement and Consultation:

Porting charges under General Condition 18, statement on guidance and consultation on new mobile DCC

Vodafone welcomes the opportunity to comment on the Consultation element of this Statement and Consultation on porting charges under GC18. The consultation invites comments in relation to the proposed revised levels of the mobile DCC. We note with regret however, that in the Statement component of the document Ofcom has continued with the present differentiation between mobile and fixed in relation to the level of porting charges: in mobile there is a very specific quantified ceiling DCC being prescribed by Ofcom whilst in the fixed world Ofcom has restricted itself to only a broad level of guidance on the appropriate methodology for deriving a compliant APCC rate, without attempting any formal quantification of that level.

It is inevitable that with the on-going decline in the level of the DCC, the materiality of the charge to mobile operators will similarly decline. Ofcom suggests that currently the value of DCC charges in total to the industry as a whole is around £3m, and that this might decline to £2.6m under the present proposal. But given the dual directionality of the DCC charge for each operator, in that some DCC rated outbound traffic can be a revenue stream and some inbound traffic a source of cost, the materiality of the net impact on an individual operator of a change in the level of the DCC further declines, particularly for an operator that tends towards an equal inflow and outflow of porting traffic.

In this context, extended discussion of the merits of particular elements of the forward looking calculation is of limited relevance. So whilst Vodafone may have reservations with some of the detail of the DCC calculation, we are in practice broadly indifferent to this prospective change. We see little merit in detailed examination of the present proposed change, given that for 2015/16 it amounts to a movement from 0.027p to 0.024p, i.e. a change of only 0.003p per minute. We confine our response therefore to a few simple comments.

Responses to specific questions

Question 1: Do you agree with how we have derived the level of the maximum DCCs? If not, please explain why.

Our understanding of the current position is that the future levels of the DCC suggested in the present consultation are based on the current, provisional, version of the MTR cost model dated June 2014. Along with other operators, Vodafone made in our August 2014 response to the MTR consultation detailed criticisms of that version of the MTR model and also made suggestions for its improvement. We would expect that these issues will be addressed in the final MTR model version that accompanies the MTR Statement that is planned for March 2015. It is this potentially revised March 2015 version of the model that will actually be used by Ofcom as the starting point for producing a DCC calculation that will be employed to set the future ceiling DCC level for 2015/16 and beyond. As a result of the potential for revisions to the MTR model, the DCC rates therefore that will be presented in any future DCC Statement that follows the MTR Statement may or may not be different from the present provisional levels suggested in the current consultation.

This approach makes sense to Vodafone. There is no harm that arises from developing the DCC calculation method using the provisional version of the MTR model, but it would be wrong to base the final level of the DCC or any other similar rate from any provisional model that accompanies a consultation rather than from a final model that accompanies a Statement.

The difference between the current level of the DCC for 2015/16 of 0.027p that was set by the February 2014 DCC statement and the present provisional proposal of 0.024p is relatively trivial – the switch from LRIC+ to LRIC, from 50% to 100% recovery and to a different generation of the MTR model have collectively virtually cancelled themselves out. Whilst Vodafone may have reservations with some of the detail of the DCC calculation, we are in practice broadly indifferent to this prospective change and see little real value in exploring the detail of the calculation.

The only comment that we would wish to make at this stage relates to the volume forecasts shown in figures 9.3 and 9.7 – it can be seen that Ofcom is forecasting a significant future increase in ported traffic in both relative terms (as a proportion of the total volume of voice traffic) and in absolute terms. We do not believe that this forecast is reasonable. In the context of MNP, Vodafone suggested in 2008 that it was likely that the volume of ported traffic in relative and absolute terms would start plateauing, after the first few years of number portability (during which period ported traffic volumes were inevitably rising). The evidence of figure 9.7 suggests that this view has been proved correct – the significant growth in ported traffic ceased around 2008 and the actual level of porting traffic in 2013 is little different from that experienced in any of the past few years. The suggestion shown in figure 9.7 therefore that forecast porting traffic will suddenly start rising in the future and will keep rising in perpetuity is a little strange – if Ofcom were to base the forecast growth simply on levels of absolute volumes and relative proportions of total traffic over the last 5 years or so, it is likely that an outcome not dissimilar to the low scenario would be the result. We suggest that this would be the more reasonable forecast to adopt than the “medium” scenario currently used in the modelling.

Question 2: Do you agree with setting the DCCs in nominal terms? If not, please explain why.

Question 3: Do you agree with our proposals around the timing of a new maximum DCC and for future DCC reviews? If not, please explain why.

We see these two questions as being interlinked. Whilst there is at a theoretical level a concern about the principle of setting rates on a nominal basis given that they are in fact generated from a model that functions in real rather than nominal terms, we entirely agree from a practical point of view that there is a benefit from setting several years' maximum DCC rates on nominal terms at a single step, but only when this is done for a relatively limited and defined period. The avoidance of the additional administrative requirement of re-setting any new maximum rate on an annual basis is welcome. We therefore see the advantage of creating DCC certainty from setting rates for a limited number of years in a single process.

However rates cannot be set in perpetuity. We are pleased that Ofcom has adopted our suggestion of regularly linking the DCC rate revision process to each successive future MTR statement, to avoid the risk of downstream disputes – given that MTR reviews are now likely to be at three year intervals, a nominal DCC set for the same forward looking three year period seems eminently reasonable, given the materiality of the likely maximum DCC rate.

Vodafone Ltd 10th November 2014