

Warwick Izzard
4th Floor
Competition Group
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA

26th November, 2010

Dear Warwick

Fair and reasonable charges for fixed call termination

We welcome the opportunity to comment on the draft guidance for fixed termination rates on CP networks.

Regulated conveyance rates have remained relatively stable in recent years, whilst equipment costs have been falling. These efficiency gains mean that CPs should be able to recover their termination costs from the LES rate. We agree with Ofcom that it would be hard to justify a termination rate that is higher than that charged by BT.

The problem is that, in requiring CPs to charge BT's LES rate, Ofcom is not taking into account the fact that many CPs, of necessity, hand calls to BT at BT's NGS nodes and therefore pay BT the ST rate. Therefore Ofcom's preferred Option 3 does not result in truly reciprocal or symmetric rates. The ERG Common Position on fixed termination rates stated that asymmetry in termination rates requires adequate justification.

It is inconceivable that any but the largest of NGN operators would want to interconnect at the DLE level with BT, irrespective of any incentives or disincentives provided by wholesale conveyance rates. To do so would be inefficient and therefore it would be perverse if CPs were incentivised by conveyance charges to interconnect at the DLE to get reciprocal termination rates. For NGN network operators in the 21st century, there is no "build or buy" debate.

BT's Single Tandem rate is currently at 0.3715 ppm, which represents an uplift of 0.1155 ppm on the LES rate. We believe that the ability to impose this higher rate rewards BT for maintaining its TDM network and puts BT at a competitive advantage to other terminating operators. We therefore do not believe that this satisfies the policy objectives in relation to NGNs which Ofcom set out in its January 2010 Statement:

- To provide incentives for efficient investment in NGNs; and
- To promote effective competition based on NGN infrastructure.

Magrathea

Tel: 0845 004 0040

Fax: 0845 004 0041

We suspect that, with BT's current network architecture (where BT's switching is centralised at the NGS and the line cards are controlled from the NGS location), the LTC leg (between DLE and NGS node) costs very little to convey. The 21CN architecture brings the number of NGS nodes down to between 20 and 30.

Even though the market for LTC has been deemed to be competitive, alternative transit operators are not offering rates close to BT's LES rate as they have no commercial incentive to do so.

The regime will only be truly reciprocal and symmetrical if other CPs can obtain an equivalent termination rate from fewer points of interconnect. Otherwise, BT will benefit from the lower termination costs of more efficient networks through being able to pay a lower termination rate.

Therefore we support the idea that BT should offer an IP interconnect product at 20-30 (or fewer) POIs, at which CPs would obtain the LES termination rate (or slightly uplifted to cover the interworking costs). BT would also offer TDM interconnection at these 27 POIs, also at the LES rate. This would be an effective way to *simulate* an NGN interconnect from BT and would enable BT to offer reciprocal termination rates to CPs. It would also encourage it to migrate its own systems to NGN sooner, rather than later.

It is crucial, for reasons of fairness, that this product should be available at the same time as Ofcom brings these new guidelines into force (on 1st October, 2012, or whatever date Ofcom decides). It is also important that BT offers a fit for purpose IP interconnect product that is a significant improvement on the current IP Exchange offering.

We do not believe that BT will offer such a product that conforms to CP requirements voluntarily by 1/10/2012. We therefore believe that Ofcom should make this mandatory now, rather than waiting until the 2013 market review. It may not be reasonable to expect all CPs to migrate to NGNs at this time, but it is reasonable to expect BT to offer a simulated NGN interconnect on the grounds of reciprocity and fairness.

In the absence of such an offer from BT, CPs should be able to obtain termination rates which mirror those charged by BT for a comparable service, i.e. much closer to the Single Tandem rate.

We disagree with Ofcom's assessment in the Opal dispute that the IP core in an NGN network amounts to a single switching layer. We accept that it is not necessarily reasonable to expect BT, with its TDM network, to hand traffic over at a CP node which only accepts IP traffic (as was the case with Opal's ASX call server). However, this IP node *does* represent a switching layer in the CP's network and it should be acknowledged as such. We note that Ofcom considered that interconnection at Opal's GSX corresponded to the local exchange segment and the single tandem segment in BT's network.

Yours sincerely

Linus Surguy
Technical Director