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Our ref- Ofcom Response : WLRChargecontrols 09

Dear Sirs,

This letter contains Post Office Limited's response to the Ofcom consultation: Charge Controls for Wholesale Line Rental and related services.

Post Office Limited, a wholly owned subsidiary of Royal Mail Group, is the operator of the network of Post Office outlets. Post Office outlets provide a range of essential services including HomePhone® and Broadband for residential consumers, posting letters and postal packets, pension and benefit payments, banking facilities and bill payments. Many of these services provide essential support for the socially excluded.

Post Office HomePhone® and Broadband services are supplied on a fully managed basis; meaning that although Post Office Limited owns the customer relationships with subscribers, the underlying service delivery infrastructure is provided by a third party.

Post Office Limited welcomes the opportunity to respond to Ofcom's consultation regarding charge controls for Wholesale Line Rental (WLR) and related services.

Post Office Limited created HomePhone® to be a simple product with easy to understand tariffs, a straight forward contract with no minimum term and accessible to all households. Our key values we strive to deliver across all our products are being fairer, easier and better.

WLR is the key wholesale input used to deliver our HomePhone® service, therefore any changes in how WLR is sold or what it costs has a major impact on the HomePhone® service we offer to customers.

Post Office Limited welcomes the proposal to simplify the current WLR variants as this should allow Openreach to deliver WLR in a much more effective and efficient manner, which logically should result in lower costs. However, the proposals set out in the consultation would allow Openreach to increase the charges for the so called "core" WLR service. This would appear to be counter productive.

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From analysing the data set out in the consultation, it would seem to us that Ofcom has overstated the move away from traditionally delivered voice services. Furthermore, by failing to manage the timing of the related consultations and market reviews required to ensure consistency between the change controls for WLR and Local Loop Unbundling (LLU) the opportunity for distortions in competition has occurred. The timing of this consultation means that the WLR charge controls will not come into effect until six months after the implementation of the LLU charge controls. The step change in WLR to align the two controls would result in a significant increase in the WLR charge, which is unlikely to be able to be absorbed by Communication Providers (CPs) and would therefore require an increase in Retail prices, thus disadvantaging CPs who sell WLR based fixed voice services – such as Post Office Limited.

Post Office Limited also believes that Ofcom has failed to take into consideration the needs of vulnerable customers that may require any faults experienced to be fixed as a matter of urgency, perhaps due to health reasons. Post Office Limited therefore recommends that Ofcom ensure that a fault fixing care package is made available and a charge control applied to ensure that it is both accessible and affordable.

We have based the remainder of our response on the questions from the consultation.

Question 3.1 Do you agree with our preferred option to set a control on a WLR core rental service to be available both to residential and business customers with the option for number entry to residential and business directories? Or do you consider that the alternative use of a basket would be a more appropriate control?

Post Office Limited agrees that simplifying the WLR products so that they may be tailored towards different markets (i.e. residential and business customers) is sensible and should ultimately lead to a reduction of Openreach's product management costs. Therefore the most appropriate way to regulate WLR rental going forward would be to impose a single charge control for the core service, with further charge controls for the additional related services.

Question 3.2 If we are setting the control on a core WLR rental service are there any other features of the WLR Premium service, other than entry in a business directory, that would be required in the revised core rental service so that it would be suitable as a basic business product?

As Post Office HomePhone® is as the name suggests, a product designed for residential customers, we do not believe it is appropriate to comment on how other Service Providers



who target business customers may perceive their basic requirements. However, Post Office believes that vulnerable customers, who may require that any faults experienced are fixed as a matter of urgency due to health issues etc, should be able to access different care packages at a reasonable price and we therefore ask how Ofcom will guarantee that the wholesale charges that would facilitate this are reasonable.

Question 3.3 Please provide you views on the requirement for and if necessary, duration of any transition period for the implementation of a core WLR service?

Any change to how Service Providers purchase WLR from Openreach is likely have an impact on ordering and management systems, therefore any transition period should take into account how long it would take for Service Providers to make the relevant changes. Post Office Limited HomePhone® is supplied by way of a fully managed service from an underlying wholesale company. We are therefore reliant on them to ensure that all changes affecting the supply of the elements that make up the HomePhone® service are implemented in a timely manner. It is our belief that in this case this should take no longer than 6 months, however it should be noted that CPs will be in the process of planning migrations from WLR2 to WLR3 platforms in similar time frames and therefore this should be borne in mind when setting the length of the transition period.

Question 3.4 What is your view on the appropriate basis of charges (cost orientation) regime for WLR Premium and other higher care level services? Do you consider that the other obligations on Openreach (perhaps supplemented by guidance on interpretation) are sufficient control on the WLR Premium charge without an addition basis of charge condition? (Responses to these question will be considered in conjunction to the basis of charges (question 13.3) proposed in the Wholesale Review consultation).

While we agree in principle with the argument put forward in the consultation regarding removing the obligation of cost orientation for care levels in favour of issuing guidance on what Ofcom would deem to be a fair and reasonable charging basis, Post Office Limited is concerned that this would not address our concerns regarding availability of different care levels to vulnerable customers. Should a HomePhone® customer require a high level of service due to underlying health issues requiring urgent medical assistance, the last thing the customer would want to worry about is whether they could afford to purchase a care level that would ensure that if their phone service was faulty it was fixed as a matter of priority. Post Office suggests that one way forward would be for Openreach to offer separate care packages for business users and vulnerable customers, with the vulnerable customer package subject to cost orientation and the business packages with none to allow Openreach to innovate in it's creation of suitable packages that would meet the demand of Service Providers targeting Business customers.



Question 4.1 Do you agree that it is important to ensure consistency between the WLR and LLU charge controls? In this context, do you agree that we will need to consider consistency in considering the impact on any challenges to assumptions when we are setting the final controls?

Consistency with LLU in regard to setting charge controls based on current cost accounting with fully allocated costs is ideal in principle, however due to the very different markets being served by Providers offering LLU based products and those using WLR, care must be taken that the resulting charge controls do not disadvantage one over the other when it comes to delivering market specific communication products. As has already been explained, Post Office Limited HomePhone® product is aimed at residential customers, specifically, residential customers that make use of Post Office Limited's other services. Our aim with creating the HomePhone® product was to keep the product simple and to adhere to our core values of offering services that are fairer, easier and better for our customers. While we are not in any way suggesting that we are unique in attempting to offer simple products with straightforward tariffs to customers, our demographic is about as far removed from a regional business LLUO as it's possible to be. As such we suggest that Ofcom takes into consideration the target markets of both LLU and WLR when setting the final controls and ensures that the resulting charges will encourage sustainable competition in all relevant retail markets.

Question 4.2 Do you agree with Ofcom's analysis on the relative charges for WLR and MPF set out here, in Annex 5 of this document and in the Openreach Pricing Framework?

Post Office is concerned that Ofcom believes that there will be a continuing drop off in use of WLR, particularly now it is clear that there will be no substitutable 21CN voice only product available. Furthermore, Post Office Limited is seeing an increasing number of residential customers migrating away from LLU based voice products back to traditionally delivered voice. Furthermore, it would seem from the data available via Industry forums, that the high migration away from WLR to LLU services may have been over stated.

Question 4.3 Do you agree with Ofcom's proposal to set a three and a half year period charge control for WLR?

While Post Office Limited understands why Ofcom is proposing to move from the more usual four year charge control period to three and a half years, we are concerned that by not starting charge controls for WLR and LLU simultaneously, Ofcom's aim of ensuring consistency are impossible to guarantee with the result of that of a possible distortion of competition.

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Question 5.1 Do you agree that Ofcom should continue with its current approach to setting the transfer charge ceiling, recovering the transfer costs primarily through the line rental? If not, please explain why.

No. By recovering transfer costs primarily through line rental, Ofcom is unduly penalising loyal customers. Furthermore, due to the high migration costs between LLU and WLR Ofcom continues to disincentivise migration between the two principle fixed voice delivery mechanisms. Not only does this unfairly favour CP's that offer LLU delivered voice, but it creates an artificial barrier to switching suppliers. Post Office Limited therefore suggests that either the cost structure of the MPF and WLR products in relation to migration processes should be aligned more closely to support ease of switching in all scenarios or additional exchange based work should be considered as an overhead that is required to facilitate migration which is then absorbed as a general cost.

Question 5.2 If we do continue with a low transfer charge do you agree that Ofcom should increase the transfer to £3 with an index? If not, please explain why.

Post Office Limited suggests that the main driver behind setting the transfer charge should be as an aid to promote the ability to switch between providers. As we have already stated above, this should be on a technology neutral basis.

Question 5.3 Do you agree that Ofcom should continue to set a charge ceiling for new connections? Do you agree that it is appropriate to impose of one off adjustment in this case given the difference between existing charges and the CCA FAC cost? Do you agree it is appropriate to consider the relative charge of new line for LLU and WLR in making this adjustment?

Post Office agrees with Ofcom that a charge ceiling be introduced for new line provides and that it is appropriate to impose a one off adjustment to address the difference between current charges and CCA FAC cost. However we don't agree that it is appropriate to consider the relative charge for new lines for LLU when making this adjustment as the revised charge should reflect the CCA FAC costs directly not be adjusted to maintain the current difference between a new MPF being provided for LLU use and a new line for WLR use. It would seem to Post Office Limited that by maintaining the differential the proposed new line charge for WLR use unduly favours LLU delivered voice products.

Question 5.4 Do you agree that Ofcom should exclude the remaining migration charges and calling and network features from the scope of the charge ceiling? If not, please explain why.

Post Office Limited recognises that the infrastructure and systems that underpin the remaining migration charges and calling and network features has limited scope for further



efficiency gains. However we suggest that a charge ceiling should be introduced that would create the appropriate incentives for Openreach to be innovative in seeking new ways of delivering WLR as efficiently as possible. Including the remaining migration charges and calling and network features within the scope of the charge ceiling would create this incentive and therefore appear to be appropriate.

Question 6.1 Do you agree with the approach we have taken to derive the core WLR rental? In particular do you consider the estimates for the cost of the WLR Premium care levels to be reasonable?

As we have already mentioned, Post Office Limited believes that the demand for fixed lines will not fall as dramatically as Ofcom has proposed. Further to this a 2% reduction in faults is not a particularly lofty goal; Post Office Limited suggests that there should be a greater incentive on Openreach to improve performance in this area.

In regard to the cost of supplying Premium care, ninety one pence, although extremely reasonable seems a little on the low side.

Question 6.2 Do you agree with an allocation of common costs to the WLR Premium care level service?

It is highly unlikely that Post Office Limited will have any great demand from customers for a premium care service other than for vulnerable customers. As stated earlier in this response we believe that there should be a separate care level targeted at these customers that would be subject to charge controls.

Question 6.3 Do you have any comments on the likely change in transfer or connection volumes in the latter part of this charge control period?

Post Office Limited continues to see our customer base grow at a steady rate with an increase in customers migrating away from LLU. Our forecasts suggest that will not change unless we are forced to increase our Retail charges by more than our forecasted rates of inflation due to an increase in wholesale charges in excess of this.

Question 7.1 Please set out your views on the proposals set out in Section 7, together with the potential implications of the those proposals for CPs and for consumers, and the factors you consider we should take into account when determining the final pricing regime.

Post Office Limited has several concerns regarding the proposals set out in Section 7, not least of all 2010/11 Core Rental and transfer charge controls. The increase to Wholesale Charges that the proposed charge controls allow is likely to force an increase in associated Retail Prices. Post Office Limited aims to provide affordable HomePhone® that is able to



compete with BT Retail across their range of packages, even their basic packages aimed at households with low incomes. A significant increase to Wholesale Retail Prices is likely to price traditionally delivered voice services out of this market, thus forcing households on low incomes back to the incumbent. The timescales to implement the changes, as has already been stated in this response seriously disadvantage Post Office Limited due to our unique position of having over 11,500 branches, and this coupled with our concern of increasing Wholesale costs makes WLR a considerable less attractive option than it is currently.

Post Office Limited believes that Ofcom should consider several key factors prior to determining the final pricing regime, these can be summarised as follows:

- Ensuring ease of switching suppliers – no matter how the voice service is delivered, be it by WLR or LLU, but without penalising loyal customers.
- Ensure that vulnerable customers have access to affordable priority fault fix care packages.
- Ensure Openreach have a continued incentive for the efficient supply of WLR and associated services.

Question 7.2 Do you agree with our treatment of the first year RPI adjustment to ensure consistency with the LLU proposals?

Post Office Limited is very concerned about the step change RPI adjustment proposed by Ofcom for the first year. While we fully understand why Ofcom had to delay issuing this consultation the result of delaying this consultation will be to dramatically increase the charge that Openreach is able to charge for WLR. This increase is unlikely to be able to be absorbed while keeping retail charges static. This would in turn have the effect of distorting competition in the voice market.

Question 7.3 Do you agree with the proposed 25 days implementation period? If not please state your reasons and a preferred period?

Any changes to wholesale prices will clearly have an impact on margin and profitability of the associated retail products. It takes time to analyse these impacts and agree if the retail prices will have to change as a result. Once this work has been completed Post Office Limited will need to implement any necessary price change through our sales channels, one of which is by way of the Post Office branches that are located throughout the country. As we currently have around 11500 Post Office this has to be carefully coordinated to ensure that all branches sell the same product at the same price. This takes time to arrange. Post Office therefore suggests that an implementation period of at least 90days would be more appropriate so that we are not unfairly disadvantaged.

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Question 7.4 Do you agree with our assessment that the proposed changes to conditions and directions meet the tests set out under the Act?

Post Office Limited is aware of an appeal against the Ofcom decision regarding the new pricing framework for Openreach. Our initial assessment of the appeal is that it has the potential to impact any Statement that Ofcom may issue to conclude this consultation.

Question 7.5 Please provide any other comments you may have in response to the proposals set out in this document.

Should you have any questions relating to any part of this response, please do not hesitate to get in touch.

Yours Sincerely,

Nancy Saunders
Head of Telecoms Regulation
Post Office Limited

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