



Non-confidential

Vodafone Response to Ofcom's Consultation: Narrowband Market Review

Proposals on price notification remedies in the WCT
markets and regulation of BT's interconnect circuits



Introduction

Vodafone welcomes the opportunity to provide feedback on Ofcom's proposals regarding price notification remedies for wholesale call termination, and clarification of Ofcom's thinking with respect to BT's interconnect circuits.

Price Notification

Vodafone agrees that with a large volume of regulated providers of wholesale call termination, a requirement for each individual regulated provider to notify Ofcom in advance of any pricing change would be unduly onerous.

As many communication providers link their geographic termination rates to those published by BT, requiring prior notification would mean that Ofcom would be inundated with communications from regulated providers every time BT made any change to its rates. Further, in some cases providers link their pricing to BT rates directly via contractual reference to the BT Carrier Price List (CPL), so a requirement for them to notify Ofcom would result in the need to take action prior to the price change taking effect, as opposed to during the month at which the change occurred¹. We therefore consider it pragmatic for regulated providers to merely notify Ofcom at a nominated date during the year.

It should be noted that the regulated price of wholesale call termination as notified to Ofcom annually may differ from the practical rate offered to originating networks. For example:

- Vodafone offers geographic transit services (i.e. an holistic call delivery service to all geographic numbers, regardless of the terminating network). For these services, a commercial rate is typically offered, which will represent a blend of regulated wholesale call termination for the relatively small volume of calls terminating on our own network, and market-driven pricing for transit calls to other networks.
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¹ For example if the price of a provider's wholesale call termination changed effective 1st June because it was contractually linked to that of BT, it would only be necessary to amend systems during June, in time for the interconnect bill run at the end of June. In contrast, a requirement for prior notification would mean action needed during May.



Delivery of traffic to BT's switches using IP interconnection

Vodafone welcomes Ofcom clarification of its proposals relating to regulation of IP interconnection to TDM services. We note that although the proposal is framed in the context of IP interconnect circuits (the title of this consultation), in reality the intended practicable effect is on determining the point/technology at which regulated wholesale call termination rates apply. However, while laudable, we do not believe that Ofcom's clarification addresses the concerns Vodafone has put forward.

Before getting into our concerns, we must highlight some imprecise wording in Ofcom's proposals. The consultation speaks of *"...interpret[ing] our proposed interconnection requirement to provide access as applying to IP interconnection at BT's DLE"* [our emphasis]. However, this is incorrect. We believe that Ofcom's proposals are intended to relate to *"providing access via IP interconnection to number ranges hosted on BT's DLEs"*. A requirement to provide IP interconnections at the DLE level would be meaningless – it would imply the impractical need to interconnect to 600+ logical handovers at hundreds of physical sites, when it is clear that IP interconnection requires only a limited number of larger connections nationally.

Notwithstanding this, our understanding of Ofcom's proposals is that if an originating/transit IP-based provider is offered IPX termination rates by BT that are so compelling that it closes its DLE handovers to migrate to IPX, and subsequently discovers that there are no competitive transit providers to constrain BT's IPX pricing when they came to renew their commercial rates, then Ofcom could/would step in and mandate that BT's IPX pricing is fair and reasonable.

Vodafone considers that this approach is flawed:

1. The measures would not kick in - the circumstances where a provider that currently uses DLE connections migrates to an unregulated IP offering (hence closing their DLE connections) are unlikely to occur given the market pricing available today

BT's current IPX pricing for termination to geographic numbers hosted on DLEs is 0.1259/0.067/0.0653ppm³, in contrast to BT's regulated DLE pricing of 0.0439/0.0201/0.0159ppm – an IP excess of up to 300% over the regulated TDM rate. Other than at the margins, an IP-based provider with existing DLE connections would not rationally take up the IPX offering for geographic traffic, indeed as Vodafone migrates our fixed network to IP, we are deploying gateways to replicate the DLE connections. From our standpoint, although Ofcom is correct at para 3.9 that IP traffic is inextricably rising, there is no corresponding reduction in TDM volumes at least in the case of BT

² Consultation, para 3.13

³ Daytime/evening/weekend



geographic traffic as CPs are required to continue to gateway to TDM, adding a completely unnecessary physical step to the call path as a result of the commercial environment created by regulation.

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Vodafone considers that Ofcom may have misunderstood and misinterpreted the attractive IPX pricing as relating to geographic traffic.

2. Ofcom's proposals are unclear, ✂.
3. The one scenario where the measure could conceivably arise is where ✂ unilaterally pressed a "self-destruct" button and closed their DLE presence, in the hope of gaming the regulation to cause fair and reasonable provision for IPX interconnection to be invoked. ✂ We do not consider this a realistic outcome as the network doing this would face short-medium term pain as set out in (1) and unpredictable gains as set out in (2): notwithstanding this it would be perverse for Ofcom to devise regulation that is most likely invoked in a gaming situation.

In summary, the provision would likely never be invoked, if it did we would have no certainty that it would be effective, and is open to regulatory gaming.

In contrast, the concern raised by Vodafone – and we believe by other providers – is that BT's tardiness in migrating to modern technology is imposing costs on those network operators that have already made such a transition.

There may be a justification that where networks with heterogeneous networks interconnect, the costs of *technology gatewaying* are shared: Ofcom's approach of the terminating operator setting the technology is an attempt to specify this given the two-way nature of voice traffic, but misfires because the reality is that while terminating TDM operators apply a surcharge where interconnection is IP, the reverse is not the case – so whatever the regulatory guidance may say, the IP operator is picking up the costs in all cases and TDM operators (i.e. BT) in none.

However, of greater significance is the costs of *network architectures* where heterogeneous networks interconnect. It is not gatewaying IP traffic to TDM which imposes the bulk of the interconnect costs on IP networks, instead it is the necessity to interconnect to 600+ TDM nodes, meaning highly inefficient route dimensioning and the need to support carriage of TDM traffic to hundreds of sites which would otherwise not be connected, via legacy SDH transmission.

This clarification of Ofcom's proposals does nothing to address the above issues. What is needed is a properly regulated IPX service. It could well be that the pricing is higher than that of direct DLE interconnection, to take account of some of the cost of gatewaying the traffic. Price regulation should not, however, allow recovery of the cost of getting from IPX interconnection to DLEs; firstly because the



regulatory cost model for wholesale call termination is already reflective of a limited number of IP interconnects, and secondly because to do so would reward BT for its technology choices.

Vodafone once again urges Ofcom to consider whether its proposed approach is fit for the IP era in which we're now living.

Vodafone Ltd

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