

Catherine Galvin
Floor 4
Competition Group
Ofcom
Riverside House
2A Southwark Bridge Road
London
SE1 9HA

24th March, 2011

Dear Catherine

NTS Retail Uplift and Bad Debt Surcharge

Magrathea is grateful for the opportunity to respond to this consultation. Our comments are limited to the questions on the PRS Bad Debt Surcharge.

About Magrathea

Magrathea provides carrier services and managed solutions to a wide range of service providers. Our services include termination services, hosting and numbering services, SIP trunking and co-location.

Question 9: Do you agree with our assessment of the potential options regarding the structure of the recovery for bad debt on PRS calls?

Subject to our answer to Q.10 below, we agree with Ofcom's proposal that the surcharge should take the form of a single fixed percentage of retail revenue.

We accept that retailers are not able to distinguish services of different types according to number range for bad debt purposes, other than certain adult content services. We also accept that there appears to be no strong correlation between price point and the incidence of bad debt. We also believe that there is no particular merit in disaggregating the surcharge between different terminating networks to reflect different levels of bad debt occurring on different networks.

Question 10: Do you agree that BT's attribution methodology for bad debt is an appropriate starting point to use in assessing the incidence of bad debt on PRS calls?

BT examines the revenues relating to a sample of its customers whose account balances have been written off. The percentage which relates to PRS calls is then applied to BT's

total bad debt charge to derive an estimate of PRS bad debt, with the assumption that those revenues that were examined are representative of the whole.

We do not believe that BT's own accounting information is the best method of determining an appropriate surcharge for PRS bad debt. BT may be less efficient at managing its bad debt than other operators. Terminating operators should not have to bear the cost of this inefficiency.

We therefore believe that it would be appropriate for Ofcom to conduct a study of PRS bad debt levels across all retailers to determine an industry wide level which can be used as a proxy for the surcharge.

We accept Ofcom's point that a decrease in the number of complaints does not necessarily correlate with a decrease in the level of bad debt. But we do believe that Ofcom should not accept an increase in BT's recorded bad debt without examining whether this is reflected elsewhere in the industry. Otherwise, BT will be rewarded for its inefficiency.

5.2% is almost double the current rate of 3% and BT should be required to do more to explain the reasons behind such a high percentage increase.

Question 11: Do you agree with our view that no adjustment should be made to the PRS Bad Debt Surcharge for inefficiency? If not, please provide analysis and evidence to support your arguments

No, we do not believe that enough work has been done to establish conclusively whether or not BT's levels of PRS debt are higher than industry norms.

We accept that some of BT's bad debt (on all calls) is outside of its control and reflects externalities such as the economic environment. But Ofcom is right to make the point (para 6.122) that most PRS Bad Debt Surcharge is borne by other operators (its competitors), so BT has little incentive to minimise bad debt on PRS calls.

Although BT's *overall* incidence of bad debt was found to be no higher than Virgin Media and Talk Talk's, this does not rule out the possibility that the bad debt level for PRS is higher than average, especially given the incentive problem described above. We believe that Ofcom should do more work to establish the level of PRS bad debt amongst other operators.

BDO found that PRS is not individually considered within BT's debt management policy, so problematic usage of PRS is not likely to be identified. BT also offers quarterly billing in arrears and credit limits are not universally applied. Whilst we accept that BT should not require its customers to pay by automated payment, BT is able to require monthly billing without automated payment. Although the profile of quarterly billing customers may be such that they are more likely to default than monthly payers, this does not detract from the fact that usage is more easily monitored and controlled with monthly billing. So we believe it remains probable that BT could lower its incidence of bad debt for PRS if it moved all of its customers on to monthly billing. Absent that, there should be an adjustment for inefficiency.

Magrathea

Tel: 0845 004 0040

Fax: 0845 004 0041

www.magrathea-telecom.co.uk

Question 12: Do you agree that in the current circumstances it is appropriate for the PRS Bad Debt Surcharge charge control to have effect on the first of the month following our final statement? If not, please supply reasons why this would be the case.

We do not object to the timing of the increase, but we remain opposed to the level of the surcharge.

Yours sincerely

Linus Surguy
Director