

Cover sheet for response to an Ofcom consultation

BASIC DETAILS

Consultation title: Routing calls to ported telephone numbers

To (Ofcom contact): Warwick Izzard

Name of respondent: Howard Erdunast, BT Group Regulatory Affairs
Department

Representing (self or organisation/s): BT

Address (if not received by email):

CONFIDENTIALITY

What do you want Ofcom to keep confidential?

Nothing

Name/address/contact
details/job title

Whole response

Organisation

Part of the response
parts?

If there is no separate annex, which
parts?

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Name

Signed (if hard copy)



26 October 2009

**BT'S RESPONSE TO OFCOM'S CONSULTATION
"ROUTING CALLS TO PORTED
TELEPHONE NUMBERS"**

BT would welcome any comments on the contents of this document which is also available electronically at <http://www.btplc.com/responses>

Comments should be addressed to Howard Erdunast, BT Group Regulatory Affairs Department, pp C81, BT Centre, 81 Newgate Street, London EC1A 7AJ, or by e-mail to howard.erdunast@bt.com.

EXECUTIVE SUMMARY

BT welcomes the fresh approach taken in this review to the subject of routing calls to ported telephone numbers by Ofcom following the successful CAT appeal by Vodafone and interveners. We believe that it is a good piece of analysis and we agree with Ofcom's conclusion that the only case that merits further consideration relates to mobile calls to ported mobile numbers (calls to and from 07 mobile numbers) as the other cases fall so far short.

That said, even in the mobile to mobile case, the benefits that Ofcom establishes may not really be sufficient to warrant the five MNOs establishing a direct routing solution, as the benefits to customers with an average £200 annual bill would be less than 20p per annum, less than 1/10th of 1% of their call bill. The benefits through competition of such a small benefit to consumers do not appear sufficient to warrant the investment and implementation risks for the MNOs concerned or indeed consumers of negative unforeseen consequences arising.

If Ofcom concludes that direct routing should be facilitated for mobile calls to mobile numbers, BT agrees that

- the five MNOs should be given the opportunity to work together without a firm regulatory mandate
- in order to encourage such co-operation, Ofcom should reserve the right to mandate a course of action and time scales
- the provisional time scales Ofcom now sets out, with the focus on integrating this work with activities MNOs would be undertaking in the normal course of their business appears more proportionate than the course of action Ofcom took that was appealed successfully
- the proposed timescales now set out are far more reasonable than those previously appealed, and
- any solution implemented should be future-proofed to ensure that it can be used on fair and equitable terms by smaller providers and new entrants as they emerge should they wish to do so.

In terms of Ofcom's Options, BT believes that:

- Option 1 (do nothing) should not be ruled out
- Option 2 (industry-led initiative) appears preferable to Option 4
- Option 4 (regulatory mandate) should not be ruled out if Ofcom is unpersuaded by Option 1 and industry does not take up Option 2
- Option 3 (changing the routing incentives for calls to ported numbers) is the least attractive option for the reasons set out by Ofcom in the consultation and no doubt others and BT believes that this course of action should be rejected.

BT's response is in the form of answers to Ofcom's questions.

Section 3

Question 3.1: Do you agree that there is a problem in the way mobile originated calls to ported mobile numbers are routed? If not, why not?

Onward routing has been the UK's Number Portability methodology for many years, and generally works effectively. BT believes that the main problem with the existing MNP process has hitherto been expanding it to accommodate new entrants in reasonable timescales at reasonable cost. Few if any systems are without shortcomings and we accept that there are other shortcomings with the existing system too, some of which are referred to by Ofcom.

BT would welcome Ofcom's clarification that "**mobile originated calls to ported mobile numbers**" means calls from 07 mobile numbers to ported 07 mobile numbers since the numbering rules do not preclude the use of some other number types for mobile services, these numbers generally being covered by other porting practices.

Question 3.2: Do you agree with our assessment of the issues associated with onward routing?

BT recognises the potential issues associated with the differences between onward and direct routing that Ofcom sets out: efficiency of routing, loss of number as well as service should a communications provider collapse, quality of service and service inter-operability.

Section 4

Question 4.1: Do you agree with our proposed approach for assessing the net benefit? If not please explain why not.

Yes.

Question 4.2: Do you agree that we have identified the relevant cost drivers resulting from a move to direct routing? If not please explain why not.

Yes.

Section 5

Question 5.1: Do you agree with our assessment of doing nothing? If not, please explain why.

Whilst we agree largely with the assessment, we agree less with the conclusion – we believe that the “do nothing” proposition is not without significant merit as the relative benefit to consumers appears quite small.

Question 5.2: Do you consider that an industry agreed solution is likely to emerge that would deliver direct routing no later than 2012? If not, please explain your reasons. Would you be supportive of such a solution?

BT is neither supportive nor unsupportive of such a solution. Whether the five MNOs primarily concerned would make a public commitment to introduce direct routing would seem to rather depend on the extent to which they i) accept that the existing process is problematic, ii) believe that their organisations would save costs with the introduction of a new solution, iii) consider that any money spent on this solution would reap greater benefits than if it was alternatively invested and iv) consider it likely that their probable share of the investment and their share of the benefits of the investment would be equitable. BT’s experience of the previous work under the aegis of UKPorting would suggest that it may not be easy to achieve consensus.

In terms of the benefits that might flow to customers to justify such an investment, even at Ofcom’s highest benefit case of £90M over ten years, assuming a static 76M customers, the benefit to customers would only work out at about a penny a month, reducing a £200 annual bill to about £199.88, a saving to customers of about six ten thousandths of a per cent.

The base case assessment of a £26M benefit over 10 years would show a benefit of less than a third of this figure, about 3.5p off a £200 annual bill.

Given the risks associated with such a project, the potential downside of the CBA, the economic climate, the amount of management time likely to be required to deliver the project and alternative investments that could be made, BT would be surprised if the majority of MNOs would consider that the benefits to them or consumers would be sufficient to take the steps needed to implement direct routing voluntarily.

Question 5.3: What steps do you consider Ofcom should take to ensure that such an industry commitment is serious? Do you agree with the proposed steps set out by Ofcom or are there additional measures that should be taken?

Whilst BT does not have strong views on the matter, the possible steps that Ofcom has set out would appear to be reasonable.

Question 5.4: What steps do you consider should be taken to ensure that any industry solution that emerges does not foreclose the opportunity for other mobile operators to participate in the short term or longer term?

Ofcom should ensure that whilst any solution needs to be designed, developed and owned by the five MNOs, it should be designed at the outset in such a way that other companies can have access to it should they wish to, or by virtue of porting volumes become obliged to, on reasonable terms, including costs and timescales.

Question 5.5: If there was a firm commitment to an industry-led solution, what role would you expect Ofcom to play?

Whilst Ofcom's role in relation to a project involving the five MNOs is perhaps to some extent not a matter for BT, we would expect it as far as possible to leave it to the companies concerned. We might expect it to

- set milestones along the way that it expected the MNOs to meet to reassure it that the project was on track,
- help unblock disagreements between MNOs
- to ensure that the prospective interests of smaller players and potential new entrants were represented, so that the solution introduced became available on reasonable terms to third parties who may wish in future to adopt direct rather than onward routing. Their needs should also be directly represented to ensure that the database could cheaply and simply be populated with their ported 07 numbers should that be required.

Question 5.6: Do you agree with Ofcom's proposal for a backstop to mandate direct routing in the event that an industry initiative fails? Do you agree that reviewing the situation in late 2010/early 2011 is appropriate before deciding on the need to mandate?

As indicated in the previous answer, we would expect Ofcom to agree with industry milestones along the way to 2012, so that if it became clear that a lack of commitment was manifesting itself for example through missed milestones that jeopardised the project end date, action could be considered.

If Ofcom is serious about introducing a 2012 deadline, the potential ability to mandate a deadline could be helpful to focus minds.

It is also worth noting that Ofcom's parallel consultation on Number Portability processes may also impact on the timescale for any solution for direct routing. It would seem likely that if the donor-led status quo were maintained, the time line for implementing direct routing should be more predictable as the work previously undertaken by UKPorting would be more likely to remain relevant.

Question 5.7: Do you agree with our assessment of Option (3)? Please set out your reasons.

Yes.

Question 5.8: If Ofcom was to take Option (3) forward, what would be the costs involved in (i) making changes to wholesale billing systems and (ii) other costs? Please explain the basis of your estimates.

Without a detailed specification from Ofcom or the mobile industry, it is difficult to assess what would need to be done by BT to implement Option 3. Our initial view is that costs to cascade the charge to the originator are likely to be significant, especially if it were required on a per call basis. Of course, Option 3 would not be without cost to others in industry. We would agree with Ofcom also that were Option 3 adopted, routing that minimised costs would take place, to bypass the charge as far as was possible.

Question 5.9: Do you agree with Ofcom's assessment that mandating direct routing for mobile originated calls to ported mobile numbers is likely to be the most effective way of removing routing inefficiencies? If not, what other factors that we should take into consideration, and why are they relevant to our analysis?

BT welcomes Ofcom giving the five MNOs the opportunity to propose their own solution without Ofcom needing to intervene by way of mandating a solution or timescales, and all things being equal, a self-determined solution, perhaps independently assessed, should be more optimal than an Ofcom mandated one. However, retaining an option to intervene would appear to be an appropriate safeguard if Ofcom remains convinced of the need for action within a certain timeframe and rules out Option 1.

Question 5.10: Do you agree that if Ofcom were to mandate direct routing, the obligation should be designed in a way that would avoid mobile operators having to use direct routing where the scale of ported traffic is not sufficient to justify the up-front investment to implement direct routing?

Yes, the direct routing solution should only be used when newer entrants themselves believe that they have reached a scale where the benefits of direct routing kick in.

BT believes that it should be possible for any solution to be designed in such a way that others can use it on reasonable terms, including costs and timescales, without either contributing up-front or “freeloading” subsequently.

Question 5.11: Do you agree that by framing the obligation in a way that obliges mobile operators to route calls to mobile ported numbers in the same way as non ported traffic should avoid the risks of any unintended consequences? If not, please comment on how this obligation could best be framed.

One area that could perhaps be clarified is that any proposal should be framed to ensure that any obligation only applied to calls to or from 07 mobile numbers as specified by the National Telephone Numbering Plan. BT would be concerned if mobile calls using other number types were also inadvertently brought within scope, as it is not clear how MNP processes at this stage could dovetail with fixed porting processes.

Question 5.12: Do you agree that the obligation to provide information on ported mobile numbers should apply to all mobile network operators from the start and not just the five incumbent MNOs? Do you agree that if there is a central database of ported mobile numbers, this should contain all ported mobile numbers including those of newer entrants who would not be obliged to implement direct routing from the start?

It is difficult to see why an obligation to populate the database (that would not be without cost) should arise on new entrants who did not route using the database, with the benefits accruing to the five incumbent MNOs. BT believes that the terms on which the database might be populated by third parties should be a matter for commercial negotiation.

Question 5.13: What do you consider to be an appropriate timescale for implementation of direct routing from the point at which Ofcom issues a final decision? Please provide a full and detailed explanation as to why you agree or disagree with the 2012 target date proposed by Ofcom.

This is a matter for the 5 MNOs, though BT does not believe that the benefits set out of moving to direct routing are likely to be sufficient to make it attractive to MNOs. However, should Ofcom decide that direct routing for mobile calls to mobile numbers (ie from and to 07 mobile numbers) should be achieved sooner rather than later, rather than agree solely an end date, BT would recommend that the 5 MNOs agree with Ofcom the milestones for say half a dozen significant events, with timescales between milestones

presuming greater importance perhaps than the milestones themselves. Ofcom and industry should also note that a move to direct routing would also be likely to impact the way BT's Number Portability transit product set would operate. Any consequential changes could be completed in parallel with other work. However account would need to be taken of this early on since it would affect billing requirements in particular. That said, we would not expect this to jeopardise a 2012 date unless overlooked until late in the day. BT would suggest that one of the first tasks to be undertaken should it be agreed that mobile to mobile direct routing be implemented sooner rather than later would be to test the realism of the 2012 end date, perhaps facilitated by an independent third party

Section 6

Question 6.1: Do you agree that it is appropriate for Ofcom/industry to appoint a qualified independent third party to work with industry to develop a provision technical specification for direct routing? If not, please state why.

BT agrees that there is likely to be a role for an independent third party should Option 2 or 4 be progressed if Ofcom does not believe that it has the resource or expertise required. One role of such a resource should be to help represent the interests of newer entrants and potential entrants.

Question 6.2: Do you agree with the criteria for selecting an independent expert/consultancy? If not, please state what different/additional skills or qualities this independent party should bring?

The criteria set out appear sound.

Question 6.3: If you would like to recommend suitable experts/consultancies to Ofcom, please do so, on a confidential basis.

No comment.

Question 6.4: Do you agree that three months is an appropriate period of time to produce a provisional technical specification from which stakeholders can derive reasonable accurate cost estimates? If not, explain why and detail what you consider to be an appropriate time scale.

Based on the previous work under the aegis of UKPorting, we believe that three months is likely to be optimistic especially with respect to the current financial conditions and likely shortage of resources in the MNOs to commit to this work. Six months may be more reasonable.

Question 6.5: Do you agree that a further three months is a sufficient period of time to derive cost estimates based on the provisional technical specification? If not, please explain why and detail what period you think would be appropriate.

Based on the previous work under the aegis of UKPorting, we believe that three months is likely to be optimistic especially with respect to the current financial conditions and likely shortage of resources in the MNOs to commit to this work. With the need to get industry agreement then 6 months may be more reasonable.

Question 6.6: Do you agree that the conditions we have set out as being necessary to make this process successful in its aims are appropriate?

No comment.

Question 6.7: Do you have any other suggestions which would help make this process constructive and effective?

No comment.

Question 6.8: Do you agree with Ofcom's proposed next steps following responses to this consultation? If not, how do you think Ofcom should proceed to bring this assessment of calls to ported numbers to a final decision?

BT believes that Ofcom has two courses of action open to it. Pursuing the course of action set out, i.e. inviting MNOs to commit to a timescale for introducing direct routing of mobile calls to mobile numbers, failing which Ofcom would mandate its introduction in the sort of time scales indicated. Alternatively, Ofcom could review the case for the introduction of direct routing of mobile calls to mobile numbers, and conclude that in particular in the current economic climate, that the status quo may continue. BT believes that the latter case is stronger than the former, though the former is not without merit.

BT would re-affirm its view, shared by Ofcom that there is no case for mandating direct routing for other call types. BT also believes that Ofcom should discard Option 3.

Annex 5

Question A6.1: Do you have any comments on the assumptions used in the CBA?

Our view of the CBA is based largely on historical trends, in which the growing force of mobiles as the preferred platform in voice telephony is clear. The number of fixed lines (i.e. numbers) has been declining in absolute terms since the early part of this decade (Figure 1). According to Ofcom's Communications Market Report 2009, this has contributed to a lower proportion of households having landlines today (87%) than in 2003 (93%).

Fuelled principally by growth of pre-pay subscriptions since their introduction in 1998, today mobile lines (i.e. numbers) account for almost 70% of voice lines (i.e. numbers) – up from less than 10% in the mid-1990s (Figure 2). According to the Communications Market Report 2009, as many as 22% of the DE social group and 24% of the 16-24 age group are mobile-only.

Figure 1: Fixed Lines (i.e. Numbers) are Declining

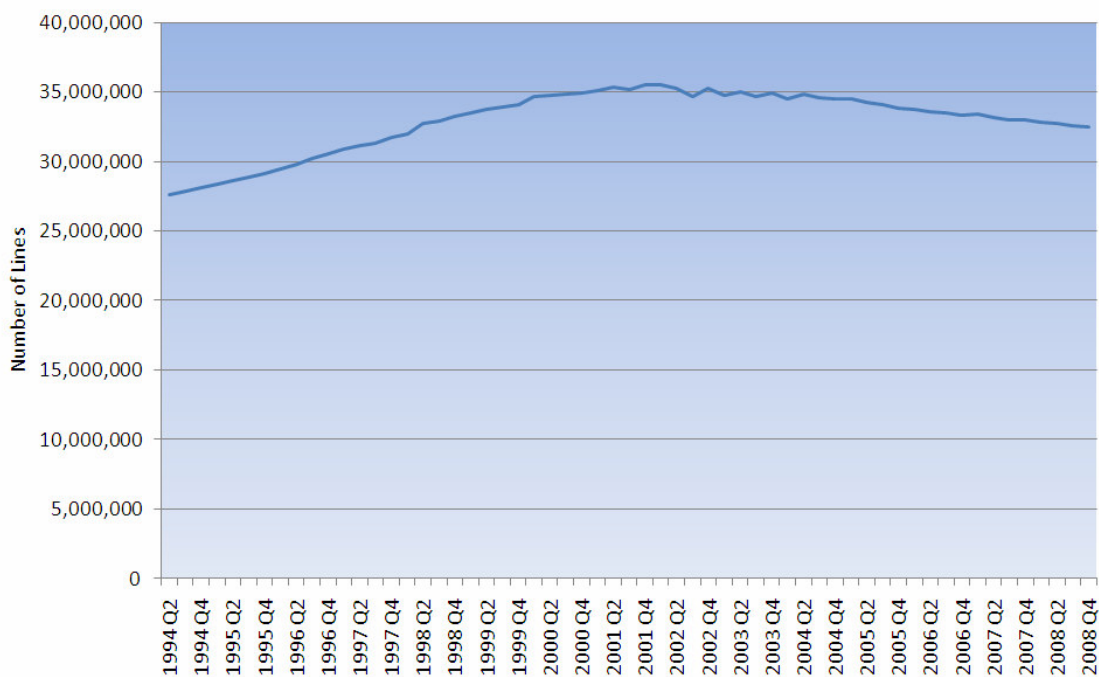
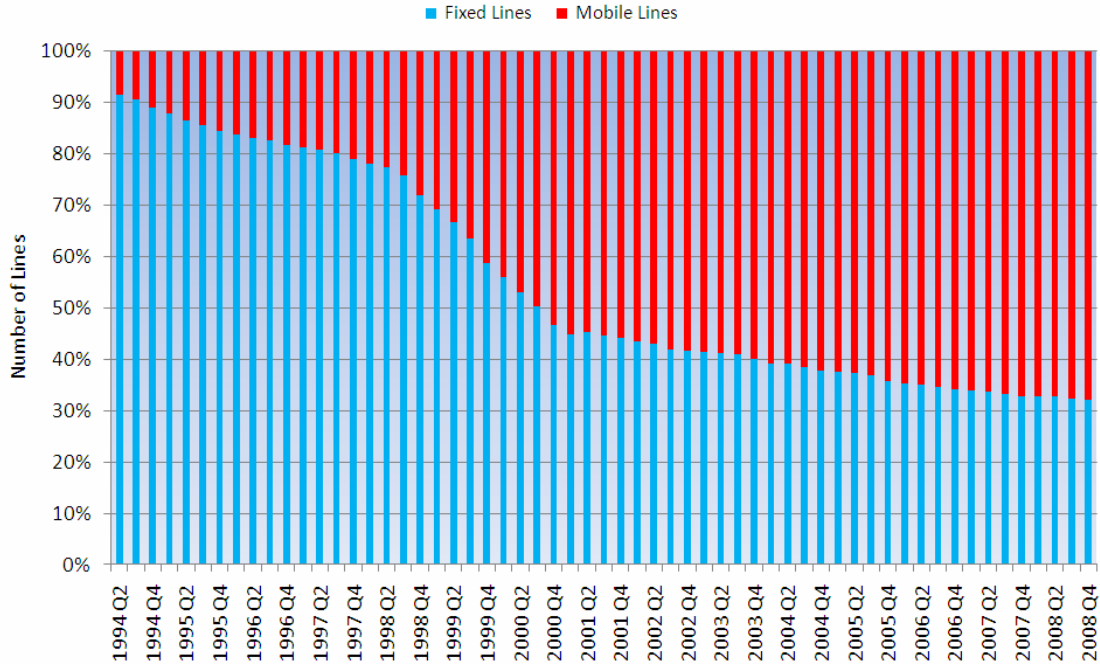
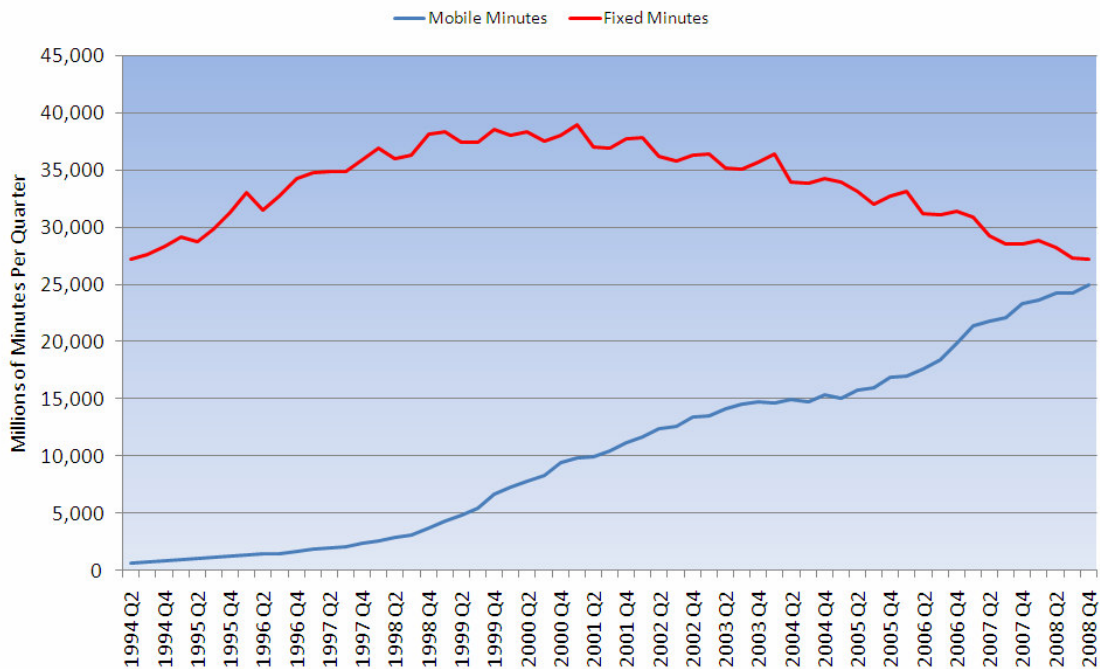


Figure 2: Mobiles Account for 70% of All Numbers



These mobile numbers are being used to make progressively more geographic, international and mobile-to-mobile voice calls (Figure 3). So, there is a clear shift in preferences to making voice calls via mobiles.

Figure 3: Mobile Minutes About to Overtake Falling Fixed Voice Minutes



The benefits from direct routing are linked to call volumes– the avoided porting conveyance costs and avoided incremental transmission cost of the additional interconnection transmission link that is required for an onward routed call relative to a directly routed call. Ofcom forecasts an absolute decline of fixed minutes (-7.85% pa compound average) against an absolute growth in mobile minutes (2.73% pa compound average) over the next 10 years – assumptions which, given the historical movements of fixed and mobile minutes in Figure 3 above, seem reasonable to us.

These relative growth rates, and the lower avoidable costs (i.e. benefits) per minute for direct routing related to ported fixed numbers compared to direct routing of mobile calls to ported mobile numbers, mean that the mobile only case is more likely to stack up.

Falling numbers of fixed lines (i.e. numbers), lower savings, and falling volumes of fixed voice minutes are key reasons why there is no economic case – i.e. positive net present value (NPV) – for direct routing of calls to ported fixed numbers under any call configuration. Ofcom finds the NPV over 10 years of options involving fixed calls ranges from -£86m to -£215m.

Ofcom identifies a NPV range for the mobile-only configuration of -£19m to £90m, with a central value of £26m. We believe Ofcom has identified the correct capital and operational cost drivers for this, has correctly only looked at the incremental costs involved in direct routing – the “additionality” it gives rise to in terms of costs – and has correctly identified the benefits of direct routing. The issues that might then arise are with Ofcom’s estimation of the level of these costs and benefits, and with their distribution between the different mobile network operators. We have no visibility of these.