7 Views of the DGT

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Introduction

7.1. The DGT sent us a main submission—which he also made public—as well as a number of supplementary ones and detailed responses to our questionnaire. We also held five hearings with the DGT and his colleagues from OFTEL. This evidence related to the three references made by the DGT relating respectively to the termination charges levied by Vodafone and Cellnet and to BT's retention on fixed-to-mobile calls. As explained in Appendix 1.1, the investigation for all three references was conducted by the same Group of members in parallel, and evidence was not sought separately for each of them, but rather all evidence was considered in relation to each reference where relevant. In this chapter we summarize the DGT's underlying concerns in making the reference to us and his views on the major issues relevant to this inquiry.

The DGT's concerns

BT's retention

7.2. The DGT told us that the issue of excessive prices for calls-to-mobiles had been raised during the review of BT's retail price control in 1996. Following complaints from business and residential customers of fixed networks that the prices were excessive, the DGT decided that a separate investigation into these prices was appropriate. The investigation covered both the level of charges that the MNOs, in particular Cellnet and Vodafone, charged BT for call termination and the mark-up that BT itself added in setting its retail prices. Calls-to-mobiles accounted for 9 per cent of all telephony revenues of BT and other FNOs and incoming call revenues represented about 20 per cent of the total revenues of the MNOs.

7.3. The DGT took the view that BT added too much into its prices for calls-to-mobiles to cover its own costs. BT added 5.77 ppm on average for calls-to-mobiles compared with 3.39 ppm for inland calls. It was also important to note that BT retained the 5.77 ppm on all calls-to-mobiles, including those answered by recorded announcements (see paragraph 7.8), while the 3.39 ppm was the retention made by BT on successful inland calls (only). The true difference in retention rates was therefore greater than the difference between 5.77 and 3.39 ppm. Calls-to-mobiles used the same parts of the network as inland calls and the DGT considered that there was no justification for a higher amount. Furthermore, tackling BT's retention was important because almost 80 per cent of calls-to-mobiles originated on BT's network and BT's dominant position in the UK access network meant that it acted as a price leader for other operators.

7.4. The DGT was concerned that the level of the price of calls-to-mobiles was too high in relation to cost, because both the termination charges levied by Cellnet and Vodafone on BT and the retention taken by BT were excessive. This concern was compounded by consumers often not recognizing when they were calling a mobile number and paying a premium price.

7.5. The DGT's view was that the termination charges proposed by Cellnet and Vodafone to take effect from August 1998 should be significantly reduced, and that BT should make a reduction of at least the same amount (and the VAT involved) in its retail prices for calls-to-mobiles in order to pass the benefit through to consumers. Further, the DGT considered that BT should reduce its retention from calls-to-mobiles prices to a level no greater than the level of its retention from inland call prices, ie a cut of at least 2.4 ppm (taking the longer average call duration of three minutes for inland calls into account, and subject to an adjustment if unsuccessful calls were no longer charged for (see paragraph 7.43)). He believed that these changes would result in the retail price of a BT daytime call to a mobile phone on the Vodafone or Cellnet networks falling immediately from 32 ppm to less than 20 ppm, a reduction of over 12 ppm.

7.6. In March 1998, in making the present reference, the DGT published a Statement setting out the results of his investigation. He stated that he had concluded that the prices of calls-to-mobiles were, despite some reductions during the period of the investigation, still excessive in relation to cost. He took the view that BT's retention should be no more than 3.39 ppm instead of the 5.77 ppm added by BT. The DGT therefore considered that the level of BT's retention adversely affected the interests of consumers.

Single retail prices

7.7. The DGT also considered that the retail price of calls-to-mobiles should be the same for calls to all the mobile networks after MNP was introduced in January 1999. Customers would, from that date, be able to change mobile networks without changing their mobile phone numbers, so people calling them would no longer know from the number which mobile network they were calling (see Appendix 3.3 for details of the proposed MNP arrangements). The DGT considered that callers from fixed networks should not face higher and unexpected charges for calling a mobile phone which had been ported with its number to another operator which charged more for call termination. It was unreasonable for consumers calling a ported number to pay more than the call charge for the number before it was ported, given that they had no way of knowing that they would be charged more than before and had no choice about ringing that network. Accordingly, although not covered by the present references, the DGT considered that there should be a single set of retail prices for each originating operator for all calls from that operator to all mobile networks (although the prices might vary by time of day and different originating operators could have different sets of prices).

Unanswered and diverted calls

7.8. The DGT included in the Cellnet and Vodafone references specific questions relating to the two operators' practice of charging for recorded announcements on their networks (see Appendix 1.1). He explained that a consumer who made a call on the fixed or mobile networks did not expect to pay when the call was unsuccessful. The practice in the fixed network generally, for fixed network calls to Orange and One2One and for calls from Cellnet and Vodafone to other customers on their own networks, was that callers only paid for a call which was completed. Although there were costs incurred in respect of unsuccessful calls, these were recovered by operators from their charges for successful calls.

7.9. However, where a consumer called a Cellnet or Vodafone phone and the call was not answered, nor a messaging service supplied, the consumer heard a recorded message which simply announced that the call could not be completed because the phone was switched off or out of range. BT's practice, under the interconnection agreements it had with Cellnet and Vodafone which required BT to make a payment to those MNOs for unsuccessful calls transferred, was to raise a charge for the duration of the recorded announcement at normal retail mobile rates, even though the consumer received no useful information.

7.10. The DGT recognized that unsuccessful calls incurred costs, but said that it was unlikely, in the case of these types of call, that cost-reflective pricing would be economically efficient. In the DGT's view, the practice of charging for such calls was against the public interest and should cease.

7.11. The DGT believed charging arrangements for unsuccessful calls from fixed networks to the Cellnet and Vodafone networks should be changed to reflect the current charging arrangements, with which most people were familiar, for fixed-to-fixed calls.

Diversion of calls from mobile to fixed phones

7.12. The DGT also had concerns over the charging arrangements for diversion of calls from mobile phones on the Cellnet and Vodafone networks to fixed phones. Normally, callers diverted from one fixed-line number to another were charged the standard rate for a call to the called number at that time, with the diverting consumer paying for the diverted leg. The same was true of callers to mobile numbers. However, on Cellnet's network, diverted calls were charged from the moment they were diverted back to the fixed network, and on Vodafone's network they were charged from the moment a recorded message announcing the diversion was played. The DGT believed it was unreasonable that callers should be charged for diverted calls before those calls had been answered—and at the high call-to-mobile rate.

The reference

7.13. The DGT stated that he had a statutory duty under the 1984 Act to promote the interests of consumers and to promote efficiency and economy on the part of operators. He believed that the excessive prices for calls-to-mobiles acted against the interest of consumers. The prices were excessive in relation to cost and there seemed no compensating benefits to customers to justify this. In many cases calling customers would not be aware either that they were calling a mobile or how much the call cost. It was the mobile phone owners who chose the network and they generally made the choice on the basis of the charges they had to pay, ie for line rental and outgoing charges, not on the basis of what it cost to call them. In addition, the market for mobile services was not open to further competition because the Government had stated that it would not license additional 'second-generation' MNOs. The high prices for calls-to-mobiles could not therefore be undermined by additional competitive entry.

7.14. Faced with what he considered excessive prices, the DGT said that it would have been open to him to have proposed licence modifications to the operators to put into place direct regulatory controls. However, he noted that the three operators directly involved had, in discussions, refused to reduce charges to the level he considered appropriate and that the MNOs had actually agreed higher rates with CWC which had prevented him from proceeding with a Final Order. It was clear to him that modifications to impose price controls would not be acceptable to the companies. To seek to proceed by agreed licence modifications would inevitably have led to further delay in the reduction of charges. If licence modifications had been proposed and then rejected by the companies the matter would then, in any event, have been referred to the MMC, but only after a further delay of several months. The DGT took the decision to refer the matter to the MMC to investigate how the public interest was affected by the high price of calls-to-mobiles and, if they considered it appropriate, to propose licence modifications to lead to a reduction in those charges (see Appendix 1.1).

Absence of competitive constraints on retail charges

7.15. The DGT told us that he recognized that there was scope for competition in the retail prices charged by FNOs for calls-to-mobiles, but believed that BT was currently a dominant operator in respect of retail services for a large number of customers. This fact was reflected in the current BT retail price control due to expire in July 2001. As competition developed in the residential market, the need for controls of this type should decline as prices were forced to a cost-based level. However, the DGT believed that the time had not yet come, and that controls on BT's prices for calls-to-mobiles were currently necessary.

7.16. The DGT noted that BT (and the MNOs) argued that 86 per cent of calls-to-mobiles were made by the highest-spending residential and business customers. The argument ran that, in setting the BT retail price control, the DGT had stated that these customers were benefiting from competition. Thus there was no need for any form of price control on calls-to-mobiles, as only 14 per cent of all such calls were made by customers not benefiting from competition. The DGT believed this view to be wrong for two reasons. First, it was based on a misunderstanding of how the current price cap worked in practice. Secondly, it assumed that the highest-spending customers were experiencing levels of competition on calls-to-mobiles similar to those which they enjoyed in the case of national and international calls.

7.17. The DGT said that in its consultation document, *Pricing of Telecommunications Services from 1997*, OFTEL had explained that the customers who were most in need of protection from a retail price control were the low- to medium-spending residential customers, together with small businesses. The top 20 per cent of residential customers spent a sufficient amount on national and international calls to attract strong competition. This meant that BT had to offer attractive tariffs to retain these customers. This group of customers did not, therefore, require the full weight of formal price cap protection. Further, it was felt that to include such customers within a price cap could give BT an incentive to focus the price cuts needed to satisfy the price cap on this group of customers. This would have the effect of diluting the benefits of the price cap to those customers most in need of protection. The price control, therefore, applied to prices for the main services consumed by all residential customers. However, the weights used in calculating the price cap were those relating to the spending patterns of the lowest-spending 80 per cent of residential customers. This nevertheless benefited the top 20 per cent of residential customers.

7.18. Similarly, whilst the DGT had considered that no formal price control was needed for business customers, he took the view that small businesses, which had similar spending patterns to low- and medium-spending residential customers, did require some protection. BT was required, therefore, to offer a 'control' package, which would provide call charges no higher than those used for calculating adherence to the price control in the residential market. Whilst this control package was intended for small businesses, it was available to all business customers.

7.19. Regarding competitive pressure on calls-to-mobiles, the DGT did not believe that there was competition for any class of customers, due to the bottleneck characteristics of these calls. He considered that it might well therefore prove necessary for all customers for calls-to-mobiles to have the full weight of formal price cap protection. It would be appropriate to limit the coverage of this control to the lowest-spending 80 per cent of residential customers only if the higher-spending residential and larger business customers experienced a similar degree of competition for calls-to-mobiles to that which they enjoyed in the case of national and international calls. Currently, however, there was a lack of competition in relation to calls-to-mobiles. Much of the slow erosion of BT's market share was due to losses to direct access operators, which competed for the whole of the customer's bill rather than focusing on calls-to-mobiles. As reflected in the current retail price control arrangements, such competition was not yet adequate to afford protection to all customers. As to indirect access operators, these currently accounted for about 1 per cent of calls-to-mobiles minutes and there appeared to be limited prospect of their providing further competition in the future.

7.20. Commenting on BT's suggestion that competition on calls-to-mobiles would develop as it had in the case of international calls, the DGT stated that the international and calls-to-mobiles markets were different in a number of ways. First, the international market was characterized by high profits per customer and a significant level of expenditure per customer. By comparison with international calls, the profits made by BT on calls-to-mobiles per customer were relatively low, since individual customers made fewer such calls and BT's profits were confined to the retention element. Individual customers' spend on calls-to-mobiles was typically between 4 and 10 per cent of call spend, with a maximum of 14 per cent, whereas international calls represented between 8 and 17 per cent of call spend for most customers, with a maximum of 32 per cent.

7.21. Secondly, the introduction of ISR and the licensing of international facilities-based competitors had created the possibility of operators bypassing the incumbent operators at both ends of the route on an international call. This contrasted with the position for calls-to-mobiles, where bypass of the MNO was not possible. Competitors could only resell the BT leg of the call and take a lower margin on this element of the call than BT. They still had to pay the termination rate to the MNO (who was unable to offer a different termination rate because of the non-discrimination requirements in the MNOs' licences). Whereas, in the international field, a number of operators, such as the ISRs, were established with the main aim of attacking the artificially high prices in the international calls market, it was less likely that vigorous competition of this kind would occur for calls-to-mobiles. Actively competing indirect access operators might add calls-to-mobiles to their portfolio of services in order to attract customers. However, presumably on account of the difficulty of offering a significant discount (because only the BT leg of calls could be substituted or bypassed) and still making a reasonable margin, and because of the relatively low amounts of revenue per customer, it appeared that the competing operators were not attracted by BT's excessive retention, even though this was greater than the level made on inland calls.

7.22. In the DGT's view, this probably explained why indirect access operators accounted for only about 1 per cent of all call minutes to mobiles (almost all these calls being made by businesses). By contrast, indirect access operators accounted for approximately 15 per cent of all international calls (with most of these calls again being made by businesses). Taking account of these factors, the DGT considered that it would not be appropriate to regard the international market as a good guide to how competition might be expected to develop in the case of calls-to-mobiles.

7.23. The DGT added that, just as, following liberalization, there had been sharp changes in market shares and reductions in prices in the international market, and regulation was then, to some extent, drawn back, if competition in the calls-to-mobiles market became sufficiently vigorous the DGT would intend to withdraw, as far as he could, from regulation of BT's retail prices.

7.24. The DGT told us that he was aware that an arbitrage opportunity existed that could make it cheaper to divert calls to the UK mobile networks via an international operator (ie international tromboning—see paragraphs 4.55 to 4.62). He did not believe, however, that consumers benefited significantly from such arrangements. An estimated 5 per cent of the total interconnecting traffic to mobiles in 1998/99 would be international traffic, not all of which would have been diverted from the UK. In any event the ability of operators to exploit this arbitrage opportunity was already coming under pressure through the awareness of this issue in international fora, combined with the commercial driver for a solution, and these matters were likely to come to a head in 1998, rather than in a few years' time as suggested by BT.

7.25. The DGT also noted that BT only allowed the 10 per cent discount available under its 'Family and Friends' discount scheme on a single mobile number. (Nor could this number be chosen as the 'Best Friend' number and so qualify for a 20 per cent discount.) He questioned whether, if competitive pressures on BT were as strong as it claimed, BT would restrict calls-to-mobiles to a single number under its principal discount scheme for residential customers.

Allocation of costs

Cost causality

7.26. The DGT explained that, early in its investigations, OFTEL had identified that BT's level of retention for calls-to-mobiles was well in excess of its retentions on other call types on a ppm basis. In order to understand the reasons for this a more detailed look at the attributed costs was undertaken. This showed that there was a major disparity between the amounts attributed to calls-to-mobiles and other inland calls. It was at this stage that the extensive and arbitrary use of turnover as a cost attribution base was identified as the main cause of high unit costs for most categories of cost. In particular, this use of turnover was found to be far more extensive in relation to retail costs than OFTEL had envisaged. In addition, it introduced an element of circularity where high turnover (resulting mainly from high prices) led to a high allocation of retail costs, thus justifying a high retail price. This conflicted with the key regulatory accounting principle of cost causality built into the Accounting Documents approved by the DGT (see paragraph 5.17).

7.27. The DGT told us that the high-level Accounting Documents were an integral part of the regulatory framework built into BT's licence. As such, changes to them required his agreement. Detailed methodologies, however, were contained in a separate document which did not require his agreement.

7.28. Furthermore, it was important to note that the Accounting Documents were ranked in BT's licence (Condition 20.B.5(a)(ii)) in a hierarchical order, so that if there was any inconsistency between them it was clear which document took priority. Top of the hierarchy was the 'Regulatory Accounting Principles' document which included the key principle of cost causality. Second in order of priority was the 'Attribution Methods' document which set out a high-level view of cost attribution to be used for different cost categories. The DGT contended that BT should not hide behind the extensive use of arbitrary attribution methods in this document when, following investigation, it was shown to be deficient compared with the overriding principle of cost causality.

7.29. The DGT believed the principle of cost causality should be followed as far as possible by BT in identifying appropriate bases for cost attribution. OFTEL's investigations indicated that BT could go much further in identifying appropriate cost drivers before resorting to more arbitrary bases of attribution. There were a number of areas where a company of BT's stature and with BT's resources should be doing far more in seeking to understand the underlying cost causality. Particular examples included bad debts, marketing and sales.

7.30. The DGT was supported in his views by two advisers, Mr S Carne and Mr N McDonald. In particular, Mr McDonald commented that it appeared from reading the report by BT's consultants, Arthur Andersen, that they were not supportive of much of BT's allocation methodology. Indeed, Arthur Andersen's report served to alert the careful reader to the rather bland approach that BT seemed to have adopted (and relied on) with regard to its justification for its present basis of allocation of costs to calls-to-mobiles. Whilst BT followed the general principle of cost causality when it was easy to do so, once this became difficult it took what it considered a reasonable view instead of persisting with the (hard) work of determining cost causality as best it could.

7.31. The DGT considered that BT had failed to explain satisfactorily and justify adequately its retail costs attributed to calls-to-mobiles. In 1997/98 these amounted to 4.06 ppm, compared with 0.50 ppm for inland calls and 0.55 ppm for inland plus mobile calls. BT had failed to offer conclusive evidence to support wide individual variations in particular cost categories on the grounds of cost causality. There appeared to the DGT to be no reason why retail costs for calls-to-mobiles should vary significantly from those for other inland call types. The DGT said that he had examined each of BT's categories of retail costs and margins for calls-to-mobiles and he believed there was little evidence to support a greater retention on calls-to-mobiles than an equivalent benchmark retention earned by BT on inland calls to fixed lines, although he had not proposed alternative attribution methods in detail to those in BT's Accounting Documents.

7.32. The DGT further observed that, if BT's outpayments to MNOs for terminating calls-to-mobiles were put on one side, the 'network cost' to BT (the cost of the call being conveyed across the

BT network) was similar to the network cost of its inland calls after deduction of the corresponding termination costs—less than 1 ppm in 1996/97.

Reallocation of retail costs: effect on current price control

7.33. The DGT commented that his investigation into the prices of calls-to-mobiles was an alternative to including them, or at least BT's retention, in the current retail price control. If the DGT had included calls-to-mobiles in the price control, he would have done so in a way which allowed BT to make a retention on them which was similar to that for all the other calls. BT might argue that to implement such a proposal now would mean ignoring some costs which were currently allocated to calls-to-mobiles, that those costs would be 'stranded', and that if they were recovered over all inland calls the price cap would have been set more loosely. However, this was not the case. OFTEL had remodelled the retail price control assumptions on the basis of including calls-to-mobiles and all retail costs and had found that there would have been no effect on the price control formula. (Equally, while it was a possibility that, if calls-to-mobiles had been included in the price control, the increase in total call profits from these calls would have led to an increase in the tightness of the overall price control, it was found unlikely that this would have proved to be the case.)

7.34. The DGT believed his proposal that BT's retention on calls-to-mobiles should be constrained to the level of its retention on all inland calls was fair both to customers and to BT, and consistent with the retail price control.

Profitability of fixed-to-mobile calls

7.35. The DGT told us that, put simply, the commercial imperative of a company such as BT was to earn a return on capital employed (ROCE) sufficient to service its debt and satisfy its shareholders. It was this measure that he regarded as the key to understanding the financial performance of BT's products, rather than, for example, an arbitrary ROS figure. Indeed, BT's calls to mobile activity was a high-volume business dominated by fully variable input costs of interconnection, where an acceptable ROS might well be lower than 5 per cent, but still generate a reasonable ROCE. The DGT considered that his proposals would allow BT to recover the cost of retail activities at the level incurred for inland calls and achieve a profit giving an ROCE in excess of BT's cost of capital, but consistent with the regulation of retail prices. In other words, BT would retain a similar amount per minute from its customer whether the call was made to a fixed phone in the UK or a mobile phone.

7.36. The DGT pointed out that in 1996/97 a comparison of the ROCE for each call type showed calls-to-mobiles achieving the highest return and international calls (perhaps the call type where BT faced the most intense competition) the lowest return. The ROCE ranged from 208 per cent down to 60 per cent respectively.

The DGT's conclusions and proposals for remedies

7.37. The DGT stated that in considering whether the matters referred to them operated against the public interest, the MMC were required by section 13(8) of the 1984 Act to have regard to the matters as respects which duties were imposed on the Secretary of State and the DGT under section 3 of the 1984 Act, which included:

(a) the ability of providers of telecommunications services to finance the provision of their services;

(b) the promotion of consumers' interests in respect of the prices charged for, and the quality and variety of, telecommunications services;

(c) the maintenance and promotion of effective competition in the provision of commercial telecommunications activities;

(d) the promotion of efficiency and economy on the part of those engaged in such activities; and

(e) the promotion of research and development and the development and use of new techniques by such persons.

7.38. In addition, to determine whether, having regard to section 3 of the 1984 Act, the matters referred to them operated against the public interest, the MMC might, if they identified adverse effects, need to consider whether or not there were any countervailing benefits such as might justify a conclusion that, taken overall, the matters referred did not operate against the public interest.

7.39. The DGT published his own view on these public interest issues, in relation to the matters specified in the terms of reference, in his main submission (see paragraph 7.1); he also published details of proposed licence modifications. His conclusions and licence modification proposals are reproduced in the following paragraphs.

BT's charges

7.40. The DGT concluded that BT's charges for calls-to-mobiles had significant adverse effects in that:

(a) BT was dominant in the fixed access market;

(b) BT's retention on calls-to-mobiles was excessive and substantially above costs;

(c) BT's charges to consumers in respect of unanswered and diverted calls-to-mobiles were made in circumstances where the consumer was generally unaware of being charged and did not expect to be charged having regard to operators' practices in relation to other categories of unanswered and diverted calls; and

(d) BT's charges in respect of unanswered and diverted calls were excessive and bore no necessary relation to cost.

7.41. Those adverse effects were against the public interest having regard to the matters specified in section 3 of the 1984 Act, in particular the promotion of consumers' interests in respect of charges, the maintenance and promotion of competition and the promotion of efficiency and economy.

7.42. There were no countervailing benefits capable of outweighing those adverse effects. (Any costs incurred by BT in respect of unanswered or diverted calls, from which the consumer gained no benefit, could be, and normally were in the case of other such calls, recovered through charges for successful calls.)

7.43. Thus, in the DGT's view, BT's charges operated against the public interest with the adverse effects specified in paragraph 7.40. Those adverse effects were capable of being remedied by licence modifications. Such modifications should provide that:

(a) BT's charges on calls-to-mobiles be reduced to such level as would secure a retention which was no more than reasonable (being less than 3.39 ppm);

(b) the allowable retention be pegged to be no greater than the retention on inland calls; and

(c) BT should not raise any charge in respect of unanswered calls nor for diverted calls before they were answered for calls to Cellnet's and Vodafone's networks (in which case a small allowance might be appropriate to provide for the higher incidence of unsuccessful calls-to-mobiles compared with calls to fixed networks).

Other possible remedies

The MMC's hypothetical remedies

7.44. The DGT took the view that there were no remedies adequate to deal with excessive calls-to-mobiles prices, other than some appropriate form of price control arrangements. As regards any requirement for Vodafone and Cellnet to publish their termination charges in sales literature, the large difference between the termination charge and the corresponding retail price was likely to lead to consumer confusion and dissatisfaction; moreover this would be exacerbated once MNP was introduced and particularly if each MNO could set its own tariff gradient. If the MNOs truly wanted to compete on the basis of lower termination charges they would be self-motivated to promote the fact in whatever way they deemed best, without the necessity for any licence modification. As regards BT, while the DGT acknowledged that the layout of BT's bills could be improved and that, ideally, calls-to-mobiles would be listed separately and the called mobile network identified, he did not consider the layout to be so bad as to require a licence modification (although he would wish to discuss it further with BT), particularly as the introduction of 07 numbering would make mobile numbers more recognizable as such by consumers.

7.45. Neither did the DGT believe, from past experience, that BT was able to exert sufficient downward pressure on Cellnet's and Vodafone's termination charges that regulation of BT's retail charge alone, without any direct control of termination charges, would provide an adequate remedy. On the other hand, consistent with his view as to the current dominance of BT in respect of retail services for a large number of customers, and hence the need for the current retail price control, the DGT was equally clear that it would not be an adequate remedy merely to regulate termination charges without regulating BT's charges.

7.46. Although the DGT was envisaging that the BT price control in respect of calls-to-mobiles would expire at the same time as the existing BT retail price control, on 31 July 2001, he saw no practical or other advantage in making the control on termination charges run concurrently with that, provided that it was BT's retention, rather than the absolute level of the retail price of calls-to-mobiles, that was regulated. If, however, it was the retail price that was regulated, that would probably require the two controls to be dovetailed on a concurrent basis.

Inclusion of calls-to-mobiles in current price control

7.47. The DGT's comments on the exclusion of calls-to-mobiles from the current BT retail price control, and the likely effect of reallocating retail costs away from calls-to-mobiles, have been given in paragraph 7.33. The DGT reiterated that he would not propose to add calls-to-mobiles to the basket following the present inquiry. In addition to the practical difficulties that this would engender—with or without incorporating a sub-cap as suggested by BT—his own proposal that BT's retention on calls-to-mobiles should not be allowed to exceed its retention on inland calls would peg the calls-to-mobiles retention to a level which was squeezed by the price cap in any event. This would provide the benefits of control via a price cap without the disadvantages he had identified.

One2One's alternative regulatory solution

7.48 The DGT said that, in his view, One2One's proposal to control BT's retention alone (see paragraph 8.70) was insufficient and its argument that call termination would become competitive was unconvincing. One2One's second proposal, relating to an IN solution for MNP, ignored the work done by the industry to date; would not be feasible for years rather than months; did not appear to lead to lower prices; and sought to load mobile costs on FNOs.