

Wholesale Line Rental: Oftel's conclusions - statement

11 March 2003

Summary

1 Background

S.1 Oftel's 2001-2 review of the fixed telephony market concluded that BT has market power in the provision of both calls and access. One reason for this is BT's ability to provide a bundled calls and access service, which provides BT with a significant competitive advantage over alternative service providers.

S.2 In August 2002 Oftel modified BT's licence to require it to provide a new 'Wholesale Line Rental' (WLR) product. This will allow alternative suppliers to rent access lines on wholesale terms from BT, and resell the access lines to the end-user, enabling the alternative supplier to provide a single bill that covers both line rental and telephone calls. In order to provide BT with an incentive to introduce WLR as quickly and fully as possible, Oftel indicated that it would relax the controls on BT's retail prices (from RPI-RPI to RPI-0%) when it is satisfied that a 'fit-for-purpose' WLR product has been made available by BT and is being actively used by competitors.

S.3 BT introduced a basic WLR product (WLR1) at the beginning of September 2002. However, it was recognised that WLR1 would need to be developed further if it was to be a 'fit-for-purpose' product in the mass market. Oftel published a consultation document on 14 November 2002, in which it set out its detailed proposals for WLR2.

S.4 Oftel has received 29 responses to the WLR2 consultation document. This Statement summarises these responses, and sets out Oftel's analysis and conclusions for the way forward for WLR2.

2 Product Specification

S.5 Oftel set out in its consultation document the tests it proposed to apply in order to determine whether a particular wholesale input should be included within the WLR2 Product Specification. This Statement confirms these tests, and applies them to reach the following specific conclusions:

- All basic analogue line types (residential and business, single and multiple) shall be included in WLR2.
- Oftel has considered which special line types should be included in WLR2, and concluded that private payphone exchange lines shall be included within WLR2, with use where appropriate of the meter pulse facility, and that out-of-area lines shall be included within WLR2.
- Wholesale equivalents shall be provided within WLR2 for the full range of analogue Select Services that is made available by BT Retail to end-users. DDI shall be made available on analogue lines, and full support shall be provided for number portability. Those supplementary services for which a practical supply-side substitute is available shall not be included in WLR2.

- Additional network services shall be made available in order to allow WLR2 Service Providers to manage their service. These services include IA call barring, Route 15X to service provider, Route to credit control, Call mapping, and Outgoing call barring.

S.6 Oftel acknowledges that it has so far only determined charges for the transfer and rental of a basic analogue line. Oftel expects that BT will propose charges for other services early in the WLR2 implementation phase, as part of the commercial discussions with SPs. Oftel sets out in this statement the principles that it expects to be adopted by BT when setting these charges. The basic principle is that charges must be set in a manner that is consistent with any SMP obligations for cost-orientation and non-discrimination that are placed on BT under the new EU regime.

S.7 Digital line types shall be excluded from the specification of WLR2 used for the fit-for-purpose test. Oftel remains of the view that this exclusion will have a material impact on SPs ability to address the business market, but acknowledges that it is unable to compel BT to accept the inclusion of digital line types within the current voluntary framework. The extension of regulation to digital line types must be based on a rigorous competition analysis, and Oftel will be addressing this requirement in the relevant market review (*Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets*, to be published in March 2003).

S.8 FeatureNet and FeatureLine lines shall be excluded from the specification of WLR2 used for the fit-for-purpose test. A decision by Oftel to regulate these services would amount to a major extension of regulation into the VPN and Centrex markets, and this must be based on a detailed and rigorous competition analysis. Oftel has commissioned a study of this issue, and expects this study to be completed in spring 2003.

S.9 There are a number of services that will not be included in WLR2, but which are provided over the same line. It is important that this does not create a barrier to the take-up of WLR2. Oftel notes that any service incompatibility with WLR2 will create a potential barrier, either directly, because it will result in a WLR2 order being rejected, or indirectly, because the need to strip the incompatible service can be exploited by BT as part of its 'save' process. Oftel therefore concludes that service incompatibilities must be minimised.

S.10 Oftel has reached the following conclusions as to how certain specific services shall be handled:

- CPE rented by BT to an end-user shall continue to be billed directly by BT to the end-user via a separate account.
- Other services provided over the same copper loop used by analogue PSTN telephony, but in a different frequency band (e.g. DSL, Redcare), shall not result in a WL2 order being rejected.
- Services that allow customers to make calls from other telephones, and charge them to a customer's own directory number (e.g. BT Chargecard and BT Ring Me Free) shall be billed directly to the end-user via a separate account.

S.11 Where a service incompatibility is unavoidable, Ofstel will determine on a case-by-case basis which service takes precedence. In any case where a service incompatibility results in services being be stripped from an existing line, it is essential that the end-user is made aware. BT shall inform the end-user of the loss of any services using the mandatory 'losing' letter. It is also essential that the WLR SP is made aware of the loss of any services, so that they can properly manage their customers' expectations. This notification should take place at the earliest possible stage of the ordering process, and certainly before the end-user is informed.

S.12 Ofstel will expect WLR SPs to provide access to a range of 118 DQ numbers. WLR SPs will not be expected to provide access to all 118 DQ numbers. Ofstel will review this situation after 12 months.

3 Process Issues

S.13 Much of the process design for WLR2 represents a set of compromises that are necessary between two fundamental considerations. On the one hand, the principle of equivalence states that SPs must have the opportunity to implement business processes that could deliver an equivalent quality of service to that delivered by BT Retail. On the other hand, it has been recognised that the initial launch of WLR2 will have to build on the functionality provided by the existing WLR1 and CPS ordering systems, and this constrains what can practically be achieved for WLR2.

S.14 In order for WLR2 to be fit-for-purpose as a mass market product, it is essential that the ordering system is implemented in a highly efficient manner, that minimises transaction costs incurred by service providers. This Statement sets out Ofstel's conclusions in relation to a number of more specific requirements that follow from this:

- The need for a high degree of automation
- The appropriateness of a pre-qualification process
- The need for an efficient means of validating orders
- The need for an efficient means of handling rejected orders

S.15 This Statement sets out some specific requirements in relation to the combined ordering and provisioning processes for WLR2 and CPS:

- A gap of no more than one day between WLR2 and CPS activation is acceptable. This gap must be invisible to the end-user. This requirement is commonly referred to as "WLR+1".
- Where a WLR2 transfer involves retaining the same CPS configuration on the line(s) after the transfer as existed before, then there should be no interruption to the existing CPS service. This requirement is commonly referred to as "Seamless CPS transfer".

S.16 Oftel recognises that a substantial amount of design work is still required on the general processes for the provision and transfer of WLR2 lines, as well as on a number of more specific processes to handle specific issues (e.g. home-movers). Oftel expects this work to form a key element of the WLR2 implementation programme.

S.17 This Statement sets out Oftel's conclusions in relation to the processes for the management of faults on WLR2 lines. These include:

- WLR SPs shall be able to contract for the full range of SLAs that are available to BT Retail (currently Standard Care, Total Care, Prompt Care, Priority Service), and do so on terms that are cost-oriented and non-discriminatory.
- WLR SPs shall be able to address faults on WLR lines in as effective a manner as BT Retail. In order to be able to do this, they shall be able to submit a fault report to BT electronically, and track the status of that report. They shall be able to trigger a line test, and view the line test results essentially in real-time.
- WLR SPs shall have a similar ability to book engineering visits as that available to BT Retail. Engineers that visit an end-user of a WLR SP shall comply with a set of guidelines for the management of such visits, to be agreed as part of the WLR2 implementation programme.

S.18 This Statement sets out Oftel's conclusions in relation to billing, debt management, fraud and security on WLR2 lines. These include:

- WLR SPs shall be provided with raw CDRs (i.e. not of billable quality) every 4 hours, in order to allow the identification of fraud.
- WLR SPs shall be provided with billable quality CDRs on a daily basis, but separated by a small time gap from the date of the actual calls. Other billing data shall be provided on a monthly basis.
- WLR SPs shall have the ability to manage debt by applying a series of escalating service restrictions to a WLR2 line.

S.19 This Statement sets out Oftel's conclusions in relation to the handling of malicious calls. Oftel does not believe that it is practicable for WLR SPs to respond to malicious calls without a substantial degree of support from BT. BT shall therefore provide to SPs the same support for handling malicious calls that it provides to BT Retail.

4 System capacity, operational management and forecasting

S.20 SPs will submit orders for WLR2 via an electronic Service Provider Gateway (SPG). The development and operational costs of the SPG and associated systems will make up a substantial proportion of the total costs for WLR2. These costs will be dependent on the volume of transactions.

S.21 Oftel analyses in this Statement whether the SPG capacity currently planned by BT is likely to be sufficient. Based on a detailed top-down forecast of the market for WLR2, Oftel concludes that:

- A total of 2.871 million orders are expected for the provision or transfer of WLR2 lines in the first two years after launch.
- Order volumes are expected to peak approximately one year after launch, at which point an order volume of 209,000 per month is expected.
- BT has stated that the SPG will be able to handle a total of 500,000 transactions per month. After allowing for Cease and Cancel orders, the SPG is expected to be able to handle 384,000 orders per month for the provision or transfer of WLR2 lines.
- This current SPG capacity of 384,000 orders per month provides substantial headroom compared to the peak projected demand of 209,000 orders per month. It is not necessary at this stage to invest in increased SPG capacity.

S.22 Oftel will review these forecasts on a regular basis. This will ensure that that any future need to upgrade SPG capacity is identified at an early stage, and will also ensure that the forecast is of use to BT as an input to its operational planning. Some changes will be required to the forecast methodology, in order to provide additional detail, and these changes are set out in this Statement.

S.23 Whatever the SPG capacity, there is always a risk that it will be exceeded on a day-to-day basis. This Statement therefore sets out a process for rationing the available capacity in a transparent and efficient manner. Key elements of the process are:

- Each SP will submit a three-month rolling forecast to BT. BT will use these forecasts to determine whether the total volume of orders is expected to exceed capacity during the forecast period. If not, then no further action is required.
- If the forecast volume of orders is expected to exceed capacity, then BT will scale back each forecast. This will provide SPs with advance warning of capacity constraints, allowing them to adjust their marketing activity.
- The algorithm to be used when scaling back SP forecasts is set out in this Statement, and takes account of the historical accuracy of each SP's forecasts. This will provide an incentive for accurate forecasting.

S.24 The individual forecasts submitted by SPs are intended primarily as an input to the rationing process. BT may also have credit vetting processes, which may make use of individual forecasts by SPs. However, Oftel does not believe it will be necessary to use the SP forecasts as the basis for BT's operational planning, since it expects this requirement to be met by the top-down forecast discussed above.

5 Consumer issues

S.25 WLR2 is expected to encourage competition, and will therefore bring significant changes in the way that services are marketed to consumers. In view of previous experience in the energy sector, as well as with other telephony services such as CPS,

Oftel believes that a number of consumer protection measures will need to be introduced alongside WLR2. These are set out in this Statement and summarised below.

S.26 Consumers wishing to transfer between telephone companies shall receive a mandatory letter from both the gaining and losing telephone companies. These letters shall be restricted to neutral/factual information, with no 'save' or marketing content. There is some flexibility as to the precise format of these letters, as long as they conform to Oftel's overall guidelines, and Oftel will be monitoring developments closely to ensure that this is the case.

S.27 There shall be a standard switchover period of 10 working days (excluding Saturdays) for WLR2, irrespective of the method of sale. This is intended to provide sufficient time for the transfer letter to be received, considered and acted upon by the consumer. Oftel will consider in light of experience whether it is reasonable to review this period.

S.28 Consumers will have the right to change their mind after any statutory cooling-off period, but before the switchover period is completed, and remain with their current provider, and not be subject to any form of financial penalty. The same applies to slamming, where this is detected before the switchover period is completed. Further work is required to consider the desirability of a fast-track reversion process, which would apply in cases where slamming is detected after the switchover period is completed.

S.29 BT Retail provides some retail packages that are designed to meet social objectives in relation to vulnerable parts of the community (e.g. Light User Scheme). Oftel has considered whether enhanced consumer protection measures are required for such packages, which would prevent the line being transferred to a WLR SP without positive confirmation from the end-user. Oftel has concluded that exchange lines over which such services are provided shall be excluded from WLR2. If an SP submits an order for WLR2 on such a line, the order will be rejected by BT, and the SP will have to ask the end-user to cease LUS if they wish to transfer their line to that SP.

S.30 Oftel will however keep this issue under review, based on early experience with the standard consumer protection measures for the WLR and CPS services. Oftel will also continue to consider, in discussion with stakeholders, whether the enhanced consumer protection that it believes to be required can be provided by some other means than is proposed here. To prevent the measure creating an unreasonable barrier to switching, Oftel proposes to review the guidelines for exiting special schemes.

S.31 All SPs shall be required to have Codes of Practice, incorporating provisions that promote good practice and responsible sales and marketing for WLR2. Guidance on Codes of Practice has been published on Oftel's website. Oftel will be updating its consumer guide on WLR2 and considering an appropriate distribution strategy with stakeholders ahead of launch of WLR2.

6 Cost recovery

S.32 In setting the starting charges for WLR2, in its June 2002 statement, Oftel allowed for the reasonable costs of developing and operating the SPG, to the extent that these were known at the time the charges were determined. However, it now appears that the actual costs of WLR2 may differ from the amount allowed for in the line rental, and may be significantly greater. Oftel has therefore had to review its original proposals.

S.33 This Statement sets out Oftel's conclusions in relation to the recovery of BT's costs for WLR2. These conclusions are based on two underlying principles:

- The need to ensure proportionality in relation to what is included in WLR2.
- The need to ensure transparency in relation to the cost of those items included in WLR2, and the associated cost recovery mechanism.

S.34 Oftel will meet the requirement for proportionality by, where necessary, subjecting any proposed development to a Cost Benefit Analysis (CBA). Oftel notes, however, that it is likely to be in the best interests of BT and SPs to reach a consensus without Oftel intervention as often as possible, since formal intervention by Oftel in every element of the WLR2 programme is likely to be costly, time consuming and disruptive.

S.35 The CBAs will be based on cost estimates provided by BT. Oftel expects BT to provide as much transparency of its analysis to SPs as is consistent with BT's legitimate requirements for commercial confidentiality. Where SPs have concerns in relation to BT's cost estimates, and commercial confidentiality prevents these concerns being addressed, then Oftel will review the cost estimates with BT.

S.36 Oftel expects that each element of cost within the WLR2 programme will fall into one of three categories: system setup costs, per operator costs, and per line costs. Oftel has considered the appropriate cost recovery mechanism for each of these categories of cost, based on six principles of cost recovery. Oftel concludes that, as a general principle, system set up costs should be recovered from all BT retail customers and WLR service providers, whilst per operator and per line costs should be recovered from service providers alone.

S.37 However, Oftel does not propose to modify the basic WLR2 line rental, established in the retail price control review in June 2002. This was a key element in the incentive package that was originally agreed by BT, and it would not be appropriate to attempt to renegotiate this now. It is therefore necessary to reconcile the existing line rental with the principles set out above, and this Statement sets out in detail how Oftel intends to do this.

7 Implementation programme and fit-for-purpose assessment

S.38 The regulatory basis on which BT is implementing WLR2 is novel, in that BT has been offered an incentive to deliver this, in the form of the relaxation of retail price controls. This Statement sets out how Oftel intends to make its formal assessment of whether WLR2, as delivered by BT, is fit for purpose.

S.39 Oftel's assessment of WLR2 will combine a broad assessment of whether WLR2 as implemented is fit for purpose, with a preliminary assessment of the market impact. There are three main elements of this assessment.

- Oftel will first assess whether WLR2 as delivered is compliant with the Product Specification. Where there are differences, Oftel will assess whether these are likely to be material.
- Oftel will then assess whether this product has been implemented in an effective manner, which minimises barriers to effective retail competition. In order to carry out this assessment, Oftel will review data on a set of Key Performance Indicators, which will be used to measure the effectiveness of key business processes.
- Finally, Oftel will assess the initial market impact of WLR2. Oftel expects, for example, that by the third month after product launch the order volume should have grown to around 25,000 orders per month for new end-users of WLR2 plus CPS, plus a further 25,000 transfers per month from CPS only to WLR2 plus CPS. Oftel expects to see within these overall totals a significant level of orders associated with both the residential and business markets. Oftel will use these thresholds as indicators of whether WLR2 is on track to have the desired impact. Oftel will also consider other factors, such as whether WLR2 is being actively used and marketed by competitors to BT in a way that is likely to bring material competitive pressures, and whether consumer awareness of WLR SPs and their products is on a rising trend.

S.40 Oftel expects to carry out its assessment of WLR2 at least three months after full product launch. The process will be triggered by BT, who will inform Oftel when it believes that it has met all the core requirements for the WLR2 product. This Statement sets out in more detail how the assessment will be managed.

S.41 After this Statement is published, Oftel will continue to work closely with BT and with SPs on the WLR2 implementation programme. Oftel will use a set of milestones to monitor progress. This is necessary in order to provide an appropriate degree of visibility of BT's implementation programme, as well as to manage interdependencies with SPs' implementation programmes.

S.42 Oftel reserves the right at any time to carry out a more formal project review, in order to determine whether the incentive regulation being applied by Oftel still seems likely to be successful, or whether alternative remedies to BT's dominance of the relevant retail markets should be considered.

Chapter 1

Introduction

1.1 Background

1.1 Oftel's 2001-2 review of the fixed telephony market concluded that BT has market power in the provision of both calls and access. BT continues to have a large share of both the calls and access markets, and makes very high returns on calls, well in excess of the level necessary to maintain a sustainable business.

1.2 The introduction of indirect access (IA) and carrier pre-selection (CPS) has resulted in a significant increase in the level of competition in the market for calls. However, IA and CPS do not allow alternative suppliers to provide access lines as well as calls. BT's ability to provide a bundled calls and access service provides it with two forms of competitive advantage:

- BT is able to offer its retail customers a single bill for calls and access. Market research shows that the need to pay two bills represents a significant barrier to consumers switching to CPS.
- BT is able to develop a wider range of tariff structures than alternative operators, ranging from a high line rental inclusive of calls, to a low line rental combined with more expensive call charges.

1.3 In August 2002 Oftel modified BT's licence to require it to provide a new 'Wholesale Line Rental' (WLR) product. This will allow alternative suppliers to rent access lines on wholesale terms from BT, and resell the access lines to the end-user, enabling them to provide a single bill that covers both line rental and telephone calls.

1.4 In order to provide BT with an incentive to introduce WLR as quickly and fully as possible, Oftel indicated that it would relax the controls on BT's prices (from RPI-RPI to RPI-0%) when it is satisfied that a 'fit-for-purpose' WLR product has been made available by BT and is being actively used by competitors. A relaxation of price controls is appropriate if the market for these services becomes more competitive, as competition should itself put downward pressure on prices.

1.5 BT introduced a basic WLR product (WLR1) at the beginning of September 2002. BT branded this product as 'Wholesale Access'. This had similar functionality to the existing Calls and Access product, but with cost-oriented prices set by Oftel. However, it was recognized that WLR1 would need to be developed further if it was to be a 'fit-for-purpose' product in the mass market.

1.6 Oftel identified in June 2002 some essential features of an enhanced WLR product (WLR2). These included a highly automated ordering process capable of handling high transaction volumes, and seamless inter-working with Carrier Pre-Selection (CPS). Following further detailed discussions with industry, Oftel published a consultation document on 14 November 2002, in which it set out its detailed proposals for WLR2.

1.7 Oftel has received 29 responses to the WLR2 consultation document. These responses can be broadly divided into three groups:

- BT
- Service Providers (SPs): this category consists of 19 submissions from alternative suppliers interested in using WLR2, including a submission from an industry body representing these suppliers (FSPA).
- Consumer groups and independent submissions: this category consists of 9 submissions including 2 from the Welsh and Northern Ireland ACTs, 6 from consumer organisations or representatives of consumer interests, and 1 from NCS Pearson.

1.8 This Statement summarises these responses, and sets out Oftel's analysis and conclusions for the way forward for WLR2.

1.2 Structure of Statement

1.9 The majority of the respondents have provided answers and comments on some or all of the specific questions for consultation raised by the Consultation Document. These provide the bulk of the detailed commentary in this Statement and are treated in the same chapter headings (2 to 9) as in the Consultation Document. Oftel's analysis, and its conclusions in relation to each issue, is set out in the relevant chapter.

1.10 In addition, many of the respondents have highlighted their summary of the main WLR2 and other related issues. These provide a top-level perspective with which it is useful to start this Statement (see Section 1.3 below).

1.11 Annex A of this Statement provides a more formal Product Specification, setting out the features and processes to be included in the WLR2 product. Oftel expects this Product Specification to form the basis for its fit-for-purpose assessment of WLR2. Annex B of this Statement sets out the assessment criteria that Oftel will use to determine whether WLR2 as implemented is fit-for-purpose.

1.3 Summary of Consultation Document Responses

Overall

1.12 A majority of the responses refer to the good progress that has been made in recent months. Oftel welcomes this feedback. It is clear that there is still a lot to do before WLR2 is implemented and its benefits delivered, and Oftel is committed to continuing to work with the industry to ensure that all available resources are applied most effectively to achieve this.

BT response

1.13 Having delivered WLR1, BT states that it remains committed to delivering a fit for purpose WLR2 product, the main elements of which could be available by October 2003. But BT expresses strong concerns in relation to many of the issues raised in the consultation. Key concerns relate to the general scope of the product, the specific inclusion of ISDN, and Oftel's proposals for cost recovery:

- BT expresses general concern at the extensive range of the proposals in the WLR2 consultation document. BT argues that if the range of product is too extensive, there is a danger that the market effectively becomes one of resale, rather than effective competition with scope for innovation and differentiation. BT also argues that this proposed scope is inappropriate, given that the introduction of WLR2 is not a formal regulatory requirement under European Directives.
- BT specifically rejects the inclusion of ISDN in WLR2. BT argues that it offers a growing portfolio of digital products in the Calls and Access package, and that there is no case for ISDN to be regulated by inclusion in WLR2.
- BT disagrees with Oftel's proposals in relation to cost recovery. BT argues that all costs associated with WLR2 should be recovered from Service Providers.

1.14 BT notes that its agreement to work towards WLR2 was based on Oftel's position as set out in the June 2002 statement. BT expresses concern that in the November 2002 consultation document Oftel is seeking to add new conditions to the requirement for WLR2. BT states that if this were to happen, then BT would be unlikely to implement WLR2 as envisaged, even though this would mean that BT would not then gain the benefits of moving to RPI+0.

SP responses

1.15 As might be expected, the responses from SPs are in many respects diametrically opposed to those from BT. The most common concern is that the WLR2 package currently proposed does not offer full "equivalence of opportunity" between SPs and BT Retail. This leads a number of SPs to question the commercial viability of WLR2. Concerns are expressed in relation to three key areas, functionality, costs and process:

- SPs argue that they must have access to the same functionality (e.g. line types, line features) as BT Retail if they are to be able to compete effectively. For many SPs, WLR2 is primarily about the ability to provide an equivalent bundle of services to BT Retail. As a result, many SPs argue that there are very few circumstances in which the wholesale inputs to a BT Retail service should not simultaneously be made available to SPs.
- A number of SPs specifically emphasise the importance of including ISDN in WLR2, arguing that without this there is no prospect for effective competition in the business market.
- Several SPs comment on the importance of equivalence to BT Retail in relation to costs. They note that whereas the wholesale line rental charged by BT is £28 per quarter, the line rental charged by BT Retail to end-users is circa £24, and

emphasise the importance of transparency in relation to the line rental transfer charge between BT Retail and BT Wholesale.

- Several SPs express concern in relation to Oftel's proposals for cost recovery. They note that these proposals result in SPs paying a line rental that is higher than the transfer charge between BT Retail and BT Wholesale, placing BT Retail at a competitive advantage.
- Most SPs voice significant concerns over the number of process compromises brought about by the absence of an integrated gateway and ordering process. There is a general view that these compromises will generate real additional costs for SPs, placing BT Retail (which does not bear equivalent costs) at a further advantage.

1.16 Some respondents have provided input on matters not directly covered by the consultation but nevertheless related to the WLR2 programme. The two main topics are current WLR1 and CPS process issues, and the application of the principle of equivalence to call conveyance charges:

- Several SPs note that a substantial amount of work on process issues is already underway in the context of WLR1 and CPS. This has resulted in a number of problems being identified, and these will need to be taken into account in the work on WLR2.
- Several SPs comment on the importance of equivalence to BT Retail in relation to the cost of carrying calls. They note the cost advantage conferred on BT Retail by its ability to provide end-to-end call conveyance over BT's network. CPS operators have to transit all calls via their own network, and this will normally result in calls being routed less efficiently.

Consumer groups and independent submissions

1.17 The focus of responses in this category is primarily on consumer protection issues. NCS Pearson also makes a number of observations on process issues, based on its extensive experience with CPS in other countries.

1.18 Based largely on 'horror stories' and other experience from the energy sector where end-users (especially the vulnerable) have been the victims of unscrupulous selling practices, the respondents emphasise the following points:

- Despite the incentives to comply with the Code of Practice (CoP) there will inevitably be breaches, and it is essential that Oftel is prepared for these, actively monitors the market and uses the powers at its disposal to enforce the CoP.
- Processes should minimise the risk of slamming (in this respect, the proposals in the Consultation Document are welcomed).
- Statutory cooling-off periods must be met, end-users' statutory rights should always be retained.

- If slamming nevertheless occurs, there should be a quick no cost and no fuss recourse for the end-user to revert back to the original SP.

Oftel comments

1.19 Oftel has taken note of all the views expressed and the calls for further information and assurances from many respondents on a number of issues.

1.20 Oftel has taken note that some of the consumer groups felt quite strongly that there was insufficient time for them in the 1 month consultation period to adequately consult their membership in order to properly address the wide and important range of issues raised by WLR2. Oftel regrets this effect of the time constraint created by the programme timetable, and does welcome the primary consumer focus provided by those responses. Many of the organisations in question have been directly contributing during the WLR2 Task Group phase of work, and Oftel hopes that this previous and on-going involvement in finalising the WLR2 product will mitigate those concerns.

1.21 It is clear from the summaries provided above that there are a number of material differences between the WLR2 product asked for by SPs, and the product that BT is willing to provide. Nevertheless, Oftel believes that a careful analysis of each issue raised does yield a coherent set of proposals for the way forward. These are detailed in subsequent chapters.

1.22 Oftel notes the comments that have been made on process issues in relation to WLR1 and CPS. Oftel acknowledges that the WLR2 implementation programme will build heavily on work that is already underway for WLR1 and CPS. Outstanding process issues will therefore have to be considered as part of the WLR2 implementation programme.

1.23 Oftel notes the comments from some SPs in relation to the difficulty of using CPS to compete with BT Retail's end-to-end call conveyance. This is clearly an important issue. However, it is also beyond the scope of this document, and so we do not discuss it further here.

Chapter 2

WLR2 product description

2.1 Background

2.1 BT Retail offers its customers a wide variety of different types of access line. In order to be able to compete effectively in the same market, an alternative Service Provider (SP) must be able to offer the same range and quality of services.

2.2 This does not mean that WLR2 should simply provide SPs with the wholesale equivalent of the same set of products offered by BT Retail to its customers. What it does mean is that the wholesale inputs available to SPs under WLR must create an equivalent opportunity, not just to duplicate the services offered by BT Retail, but to bundle those inputs in different ways in order to create new products.

2.3 These wholesale inputs can be divided into two parts. Firstly, the set of basic line types to be provided under WLR2; secondly, the set of supplementary services that can be applied to each line type, in order to provide different retail services.

2.4 This chapter reviews the range of analogue line types and supplementary services used by BT Retail, and then discusses which of these should be included in the WLR2 product. There is a distinct set of issues in relation to digital line types, and the discussion of these is consolidated into Chapter 3 of this statement.

2.2 General approach

Oftel's consultation document proposals

2.5 The principles adopted by Oftel in deciding whether a particular wholesale input should be provided are set out in general terms in the Access Guidelines ("*Imposing access obligations under the new EU Directives*", Oftel, September 2002). In deciding whether a particular wholesale input should be included within the WLR2 Product Specification, Oftel proposed to apply the following more specific tests. These tests would be applied both to the existing sets of line types and line features, and to any new line types or features introduced by BT:

- Is the wholesale input necessary to allow an SP to compete fairly with BT Retail in the residential and business retail markets for telephone calls and access services?
- Does the wholesale input represent a basic capability of BT's access network, so that BT is effectively dominant? Or is this an add-on, which SPs can reasonably be expected to obtain elsewhere?
- Is BT likely to incur significant cost in making available this wholesale input, and if so, does the level of demand from SPs justify this cost?

BT response

2.6 BT's main concern was that 'equivalence' should not be interpreted as simply meaning replication of its systems and products for wholesale access. If too much of the value chain is provided through wholesale supply, then retail competition risks becoming simply a resale market, rather than an opportunity for innovation and differentiation. BT did accept that SPs should be able to enter into fair competition with BT on products and customer experience.

2.7 BT broadly supported the tests proposed by Oftel, but added that the inclusion of each line type and feature needs to be assessed on a case by case analysis of the detail.

SP responses

2.8 For most SPs, the precise interpretation of the principle of equivalence was also the main issue. Most of the SPs broadly accepted Oftel's proposed tests, but several concerns were noted:

- The third test could conflict with the other two, since it could be easy for BT to claim that the cost of making available a particular feature was significant.
- The tests are somewhat subjective, with the actual outcome depending strongly on the interpretation of words like 'fair' and 'significant'.
- It is difficult for SPs to prove that significant demand exists, particularly since they have no access to information on the installed base of different line types and features.

2.9 SPs emphasised the importance of being able to offer a single bundle comprising all end-user services. The ability to replicate the bundles offered by BT Retail is a major driver behind the introduction of WLR2. All SPs therefore argued that they should have wholesale access to those line types and features for which there is reasonable demand. A small number of SPs went further than this, and argued that all lines and features should be included in WLR2 as a matter of principle, or proposed alternative principles that would be likely to result in the inclusion of almost all lines and features.

2.10 Several SPs noted the importance of timing. SPs argue that they must be able to launch equivalent features at the same time as BT Retail. This requires BT to make available to SPs early information on relevant products being developed for BT Retail.

2.11 Several SPs commented that they are not aware what the charge will be for those line types and features that are included. Nor are they aware of the principles and process to be adopted in setting these charges. Several SPs argue that these charges should be cost-oriented. Many SPs argue that whatever the charge is, it must apply to BT Retail as well as to themselves, and that this must be demonstrated in a transparent manner.

Consumer groups and independent submissions

2.12 For this category of respondents, the high level product definition issues are limited to asking SPs to offer special services or packages such as for the disabled, equivalents to the Light-User Scheme, etc. The Telephone Helpline Association asks about packages that would suit the range of call patterns that its users typically have.

2.13 The single respondent who commented on the specific tests proposed believed that they were reasonable.

Oftel analysis and conclusions

2.14 It is necessary to consider the issue of which services should be included in WLR2, and the related issue of how charges for these services should be set.

Inclusion of services in WLR2

2.15 Oftel believes that the tests as proposed are reasonable, and provide an appropriate framework for considering whether a particular line type or feature should be included in WLR2. Interpretation issues will be resolved as the tests are applied in practice. In any case, some degree of flexibility is required in order to ensure that the outcome is proportionate. For example, it may be proportionate to require a legacy service to be made available on transfer terms (i.e. when an end-user already has the service), but not proportionate to require it for new provision.

2.16 Oftel does not believe that it would be proportionate to require all line types and features to be made available as a matter of principle. Oftel does however recognise the concern expressed by SPs regarding their need to be able to replicate the service bundles offered by BT Retail. The unavailability of a particular line type or feature could have a material impact on competition, even if the absolute level of demand is low, if it forms an essential element of a particular service bundle. Oftel will take this service bundle issue into account on a case-by-case basis.

2.17 Oftel acknowledges that it may be difficult for SPs to assess the level of demand for a particular line type or feature, given the lack of knowledge of the installed base. BT has provided Oftel with information on the take-up of most line types and features discussed in the consultation document, and Oftel has taken this information into account when assessing the case for inclusion in WLR2.

2.18 Oftel acknowledges that when BT Retail launches a new service, then consideration must be given to the inclusion of a wholesale equivalent in WLR2. This does not however mean that there must automatically be a wholesale equivalent of every service provided by BT Retail. Oftel expects the three tests summarised above to apply to new services as well as to existing services.

2.19 Oftel acknowledges the importance of an early decision regarding the availability of new wholesale services. As noted in the Access Guidelines (Para. 3.12, "*Imposing access obligations under the new EU Directives*", Oftel, September 2002) BT will need to consider its obligations to provide access on non-discriminatory terms when it intends to launch a new retail service, and has been designated as having SMP in an associated wholesale market. Under the new regulatory regime, such an operator must ensure that, when launching a retail service, it is in a position to meet all reasonable requests for corresponding wholesale products. If this is not the case, the enforcement of the non-discrimination obligation may mean that the SMP operator, in order to comply with its obligation, may have to withdraw the related retail product.

Charges for WLR services

2.20 Oftel acknowledges that it has so far only determined charges for the transfer and rental of a basic analogue line. It would have been impractical for Oftel to set charges for the full range of line types and features that are expected to be available within WLR2. Oftel does however expect that BT's proposed charges will be tabled early in the WLR2 implementation phase, as part of the commercial discussions with SPs.

2.21 The basis for setting a charge for a WLR2 service will vary, depending on which wholesale market that service is in, and the competitive conditions in that wholesale market:

- Most of the services offered under WLR2 will lie within one of the access markets defined in the relevant market review (*Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets*, to be published in March 2003). This market review will set out Oftel's proposals for how the charges for such services should be set.
- A few of the services offered under WLR2 might be a service bundle, comprising one service that does lie within one of the access markets referred to above, and another service that does not. The principal example of such a service bundle is a voice messaging service, which combines access line functionality with a call termination service. Such services are discussed further below. The appropriate method of setting charges for such services will have to be considered on a case by case basis.

2.3 Line types

Oftel's consultation document proposals

2.22 Oftel proposed in its consultation document that single and multiple analogue lines should be included in WLR2. Where appropriate, residential and business variants of each line type should be made available.

2.23 Oftel reviewed a number of specific special line types provided by BT Retail. These included private payphone lines, NHS lines, temporary lines, out-of-area lines, low-loss exchange lines, non-served premises, ships-in-dock, FeatureNet and FeatureLine. Oftel concluded that special line types should only be included if significant demand exists.

2.24 Oftel proposed that private payphone lines should be included within WLR2. Oftel invited views as to whether the meter pulse facility associated with some such lines should be included in WLR2.

BT response

2.25 BT's position is that all the basic analogue line types are already in WLR1 and will be included in WLR2. All special line types are by default excluded from WLR2 unless significant demand can be proven.

SP responses

2.26 All respondents supported the inclusion of the basic analogue line types in WLR2, and some SPs argued that by default all special line types should also be included.

2.27 Many SPs commented on the need to include specific special line types. Most references were to the inclusion of FeatureLine and FeatureNet. One SP argued that business users require these services and have no truly equivalent alternative supply to BT. A number of other SPs pointed out that FeatureLine is available in CPS and that significant demand has already been demonstrated in that context.

2.28 Particular SPs mentioned a variety of other specific line types as potentially having significant demand. These included payphone lines, NHS lines, temporary lines (and ships in dock), out of area lines, and low loss exchange lines.

2.29 One respondent did not believe that meter pulse was needed in WLR2, but five SPs supported its inclusion for reasons varying from wanting the facility, being aware of applications that require it, extending its current inclusion in WLR1 to WLR2, and believing it should be included if there is demand or until the facility is phased out altogether.

Consumer groups and independent submissions

2.30 The single respondent mostly agreed with the proposals and pointed out the need for regular review.

Oftel analysis and conclusions

2.31 The way forward is clear for basic analogue line types. These are already included in WLR1, and their inclusion in WLR2 is uncontroversial. The situation in relation to the other line types is discussed in more detail below.

FeatureNet / FeatureLine

2.32 Of the special line types, most of the concerns expressed by SPs relate to the inclusion of FeatureNet and/or FeatureLine in WLR2. These are the platforms used by BT to provide VPN and Centrex services to the business telephony market. Oftel certainly acknowledges the importance of alternative suppliers being able to offer VPN and Centrex-like services to the business market. However, a decision by Oftel to regulate VPN and Centrex services would amount to a major extension of regulation, and into markets that have hitherto been seen as potentially open to competition.

2.33 A number of complex issues need to be considered before taking such a decision. These include:

- Alternative suppliers may be able to provide their own VPN services, at least in the case of large business sites, by using leased lines to link customers to their own VPN platform. Would the functionality and cost-base of such a solution permit alternative operators to compete with BT Retail ?
- What options are available to alternative suppliers for the provision of VPN services to small business sites ? If, as is possible, different solutions are required for different site types, can these provide a comparable degree of inter-operability to BT's FeatureNet Embark service ?
- BT's Centrex service can be regarded as the provision of a virtual PBX, based on the provision of PBX services by the serving local exchange. Centrex services were originally launched when PBXs were complex, and expensive to maintain. Are the advantages of a 'virtual PBX' still material, given recent advances in PBX design ?

2.34 Oftel acknowledges that the supply-side substitutes to FeatureNet and FeatureLine do not provide precisely the same functionality as FeatureNet and FeatureLine, nor do they necessarily provide an equivalent cost base. However, Oftel believes that further analysis is required in order to determine whether any differences are material, and hence determine whether the inclusion of FeatureNet and/or FeatureLine in WLR2 would be proportionate.

2.35 Oftel notes the comments made by SPs in relation to the availability of FeatureNet and FeatureLine in CPS. However, the situation is somewhat more complex than has been suggested. Whilst it is true that there has been significant take-up of CPS using FeatureLine, it has so far not proven possible to launch CPS using Featurenet, due to a lack of operators interested in trialling this service.

2.36 Oftel has commissioned a detailed study of the FeatureNet / FeatureLine issues, and expects this study to be completed by spring 2003. Oftel will then need to consider how to implement any recommendations. These line types will not be included in the Product Specification for WLR2, and will therefore not form part of the fit-for-purpose assessment of WLR2.

Other special line types

2.37 Oftel has applied the three tests set out at above in order to determine whether each of the other special line types should be included in WLR2. In doing so, Oftel has taken into account usage data supplied by BT. Oftel has also taken account of the bundling effect discussed above, which means that the unavailability of a particular line type could have a material impact on competition, even if the absolute level of demand is low, if the line type forms an essential element of a particular service bundle. Oftel's conclusions are as follows:

- Private Payphone Lines. Oftel remains of the view that private payphone lines should be included in WLR2. Oftel believes that the meter pulse facility that is included in WLR1 should also be included in WLR2.
- NHS lines. Oftel remains of the view that NHS lines should be excluded from WLR2. SPs must have access to the same range of SLAs as BT Retail, and this will allow them to offer an equivalent service.
- Temporary lines. Oftel remains of the view that Temporary lines should be excluded from WLR2. The number of Temporary Lines now in service is extremely small, essentially due to the widespread availability of mobile phones.
- Out-of-area lines. Oftel is of the view that out-of-area lines should be included within WLR2, as long as the cost of including them is proportionate. The number of out-of-area lines in service is small, but a number of SPs have argued that these form an essential element in many service bundles aimed at the business market. Oftel also notes that SPs have no means of supplying an equivalent service other than via BT's network.
- Low loss exchange lines. Oftel remains of the view that low-loss exchange lines should be excluded from WLR2. The number of such lines in service is small, and declining, and Oftel has been provided with no evidence that these lines form part of any particular service bundle. Oftel acknowledges that SPs have no means of supplying an equivalent service other than via BT's network, but does not believe this by itself forms sufficient justification for the inclusion of this line type within WLR2, without some evidence of real demand.
- Non-served premises. Oftel remains of the view that lines to non-served premises should be excluded from WLR2. The number of such lines in service is small, and Oftel has been provided with no evidence that these lines form part of any particular service bundle.
- Ships in dock. Oftel remains of the view that lines to ships in dock should be excluded from WLR2. The number of lines in service is now extremely small, essentially due to the widespread availability of mobile phones.

2.38 The only change to Oftel's consultation document proposals is the inclusion of out-of-area lines. Note however that Oftel does not expect that order volumes will be high, and it should therefore be sufficient for SPs to be able to order out-of-area lines using a

manual process. If the cost of developing such a manual process proves disproportionate, then Oftel will review its decision to include out-of-area lines in WLR2.

2.4 Select Services

Oftel's consultation document proposals

2.39 A particularly well-known group of services are the Select Services, provided to allow end-users to manage their calls. Capabilities provided to the end-user include the ability to identify who is making a particular call, prevent unwanted calls, and ensure that calls that are wanted get through.

2.40 The Select Services have high profiles in both the residential and business markets. They form the basis of much of BT Retail's product differentiation, especially between residential and business variants of the same line type. Oftel was therefore of the view that an SP attempting to compete with BT Retail must have available the full range of Select Services.

2.41 Most of the Select Services can only be provided by BT, due to the degree of dependence on BT's access network. Oftel proposed that these services should therefore be included within the WLR2 product. Oftel provided in Annex A of its consultation document a detailed table setting out which select services were required for each line type, and which should be chargeable.

BT response

2.42 BT's position is that the majority of analogue select services are already in WLR1 and will be included in WLR2. In response to the detailed proposals set out in Annex A of the consultation document, BT provided its own table detailing whether specific select services are included or not. There was no comment on the Oftel proposals relating to how select services would be charged.

SP responses

2.43 Since Oftel's position was to include all relevant select services in the appropriate line type, SPs in general did not comment in detail beyond agreeing with the Oftel proposals. Some SPs repeated the case for all BT select services to be included in WLR2 in order to offer end-users a complete single bill service, and to avoid BT retaining a billing relationship with the end-user.

2.44 Two SPs asked about the availability of a wholesale and unbranded equivalent to the BT Answer voice messaging service, citing their concern that Call Mapping is not a viable basis to provide an equivalent substitute service.

Consumer groups and independent submissions

2.45 The single respondent supported the proposals but noted with concern the high degree of dependency on services provided by BT.

Oftel analysis and conclusions

2.46 Oftel remains of the view that the complete set of analogue select services should be included in WLR2, due to their high profiles in both the residential and business markets, and due to the fact these can only be provided by BT.

2.47 Oftel can confirm that BT will be providing a wholesale and unbranded version of BT Answer, known as Wholesale Messaging.

2.5 Other End-user Services

Oftel's consultation document proposals

2.48 In addition to the core set of Select Services described above, BT offers a number of related services over PSTN lines. The status of those services of which Oftel is aware is summarised below.

2.49 There are a number of PSTN lines on which BT Retail provides rented Customer Premises Equipment (CPE). This can range from single line telephones to PBXs rented to business customers. They may include some legacy hard-wired apparatus. Oftel proposed in its consultation document that:

- Where the CPE has significant value, as in the case of a rented PBX, BT Retail will continue to rent the CPE to the end-user, but via a separate retail contract.
- Where the CPE does not have significant value, as in the case of a legacy residential telephone, it is not sensible for BT Retail to have a continued billing relationship with the end-user. BT should therefore bill the SP for the rental of the handset

2.50 Direct Dialling In (DDI) is a service which allows individual extensions on a PBX to be directly contacted via their own number. DDI can be supported by multiple analogue lines, as well as by basic and primary rate ISDN. Oftel argued that the DDI service is essential in order to allow SPs to compete in the business market, and proposed that it should be included within the WLR2 product.

2.51 Number Portability allows an end-user transferring between SPs, whether using BT's network or not, to retain its number. The provision of number portability is a regulatory requirement and so remains part of WLR2.

2.52 SPs have suggested that BT Retail might be able to use a 'golden numbers' service as a means to attract new customers, by allowing end-users to select a favoured number from a list of available numbers. Oftel proposed that, if BT Retail

provides this service to its customers, SPs should be able to do the same to ensure that they are not at a competitive disadvantage.

2.53 BT Direct Connect allows for the immediate automatic routing of calls to a pre-programmed telephone number as soon as the handset is lifted. Oftel proposed that this service be excluded from WLR2.

2.54 Network Call Performance provides detailed information on all calls made on analogue and digital lines, including the volume of calls receiving the engaged tone, the number of calls going unanswered and the time taken to answer successful calls. Oftel has been informed that the data for this service is not collected by BT's local exchanges, but by the CPE on a business site. Oftel therefore proposed that this service be excluded from WLR2.

2.55 BT provides a charge advice service, under which customers are contacted on completion of each call, and provided with a voice announcement indication of the call cost. It would clearly be inappropriate for BT to advise end-users on the call charges being made by a WLR SP, and Oftel therefore proposed that this service be excluded from WLR2.

2.56 BT offers a temporary transfer and call interception service. Oftel proposed that this does not need to be included within the WLR product, since an SP wishing to provide a similar service should be in a position to use the standard call diversion facility, with their own call interception service.

2.57 Night-busying provides an end-user with the ability to set chosen exchange lines so that incoming calls receive a 'busy' tone. Oftel proposed that this service be excluded from WLR2.

2.58 BT Retail offers end-users a bypass number facility. Oftel proposed that this be included within WLR, bundled where appropriate with other select services.

BT response

2.59 BT expressed strong opposition to Oftel's proposal on the transfer to SPs of rented CPE. BT argues that telephony equipment is an open and separate market from the access line market, and that there is nothing to prevent SPs offering their own services. Where BT rents equipment to domestic and business customers it does so under a separate contract.

2.60 BT is prepared to make DDI for analogue lines available to SPs as a chargeable option.

2.61 BT will support number portability. On golden numbers, BT have accepted the need for equivalent treatment of SPs and BT Retail end-users, and will be developing proposals for such a procedure.

2.62 BT Retail no longer offers bypass number as a stand-alone service. This service is only available bundled with call barring or call diversion. The volumes are very low and BT argued that it should not be required to provide this on a wholesale basis unless there is reasonable demand.

2.63 BT clarified that it does not offer a temporary transfer and call interception service in relation to malicious calls, as suggested by Oftel in the consultation document.

2.64 BT had no further comment on other end-user services.

SP responses

2.65 A number of SPs generally agreed with all of Oftel's proposals, a majority agreed on those services to be included, but some were concerned about those services which would either be excluded or for which significant demand needed to be demonstrated.

2.66 On rented CPE, most SPs supported Oftel's proposal. One SP suggested that the SP could also purchase the CPE, or the contract with BT could be ceased. Another suggested that a business end-user with a large CPE could have the option to pay rental to either BT or the SP. One SP was concerned that BT could take advantage of its on-going CPE relationship with the end-user to the detriment of the SP.

2.67 On temporary transfer and call interception, some SPs commented that in view of the emergency nature of malicious calls that BT is best equipped to handle the situation and should provide the same assistance to SPs as it does to BT Retail. This service should be included in the wholesale line rental charge.

2.68 A number of SPs were concerned at the possible exclusion of Direct Connect, Network Call Performance, charge advice and night busyng. They argued that it is very hard for them to demonstrate significant demand for these services, but that their exclusion does give BT Retail the advantage of being able to offer a service which SPs cannot easily or cost effectively reproduce.

Consumer groups and independent submissions

2.69 The single respondent concurred with Oftel that there is no reason to include products that SPs can offer independently but that at the same time SPs should not be disadvantaged.

Oftel analysis and conclusions

2.70 On rented CPE, Oftel remains concerned that, if BT continues a billing relationship with end-users for CPE, then this might undermine the effectiveness of WLR2. On a more practical level, Oftel also has some concerns about the implications for fault management of having CPE and the access line leased from different service providers.

It is frequently claimed that it is difficult to identify whether a fault arises from CPE or from an access line, and having the two provided by a different supplier is likely to add complexity to fault management processes.

2.71 However, Oftel acknowledges that this issue was not addressed in its original proposals, and so Oftel accepts that it cannot include this as a requirement for WLR2. Oftel therefore accepts BT's proposal that rented CPE should be stripped off an access line, and billed separately to the end-user.

2.72 Oftel notes that BT is willing to make available DDI on analogue lines, as proposed in the WLR2 consultation document.

2.73 Oftel also notes BT's agreement to provide full support for number portability.

2.74 On golden numbers, Oftel has clarified with BT that BT Retail does not currently have any process whereby its end-users are able to choose special numbers. BT has accepted the need for equivalence in this area, and should any such process be developed in future it will be offered equally to both BT Retail and the SPs.

2.75 On BT Direct Connect, Oftel agrees with the SPs who have argued that this could be an important service in some parts of the business market. Oftel acknowledges that SPs need to be able to offer an equivalent product in order to offer the same range of service bundles as BT Retail. However, Oftel is of the view that SPs can offer an equivalent service using CPE with an autodialler in conjunction with a standard access line. Oftel therefore remains of the view the Direct Connect should not be included within WLR2.

2.76 Oftel has also reviewed its original proposals in relation to the inclusion of Network Call Performance, charge advice, temporary transfer and call interception, and night busyng. Oftel remains of the view that these should not be included within WLR2.

2.77 Oftel notes that BT no longer provides bypass number as a standalone service. Oftel accepts BT's proposal that this should only be available on a wholesale basis when bundled with call barring or call diversion.

2.6 Legacy Services

Oftel's consultation document proposals

2.78 A number of legacy services (e.g. Remote Call Forwarding, Call Transfer) are still on BT's retail price list. The functions provided by these services are now provided by more modern equivalents (e.g. Smart Divert) and Oftel proposed that these legacy services should not be included in WLR2.

BT response

2.79 BT accepted Oftel's proposal.

SP responses

2.80 A number of SPs agreed with Oftel's proposal or were not aware of any legacy service for which significant demand exists.

2.81 But other SPs expressed some concerns, for example that BT Retail might pay less for a legacy service than a SP for its modern equivalent, or that BT could revive a retail legacy service offering at a cheaper rate than SPs. As a result, some SPs asked for a clear list of legacy services no longer available for new provision and for their modern alternatives to be available in WLR2.

2.82 One SP asked for the switch based Remote Call Forwarding service to be retained, as the modern equivalent does not offer the same functionality in certain specific circumstances.

2.83 Another SP pointed out that a WLR transfer order should not be rejected due to the presence of a legacy product, instead that product should be seamlessly stripped.

Consumer groups and independent submissions

2.84 The single respondent was not aware of any legacy service for which significant demand exists.

Oftel analysis and conclusions

2.85 Oftel remains of the view that, where the functions provided by a legacy service are provided by more modern equivalents, it is not necessary for the legacy service to be available in WLR2.

2.86 Oftel notes the concern expressed by one SP that Remote Call Forwarding does not have a modern equivalent that provides the same functionality. Further analysis is required to determine whether any differences between Remote Call Forwarding and its modern equivalent are material, but if they are, then Remote Call Forwarding should be included in WLR2.

2.7 Network Services

Oftel's consultation document proposals

2.87 Oftel proposed that BT Wholesale should offer a variety of services as part of the WLR2 product in order to allow SPs to manage their network, and their customer base. These services are summarised below.

2.88 Call Mapping enables third party service providers to offer a Voice Messaging service to BT fixed single line end-users with network features equivalent to those of the BT Call Minder service. This includes a special Proceed Indication, and control of ringing duration prior to diversion. For more detail, see BT Suppliers Information Note 287.

2.89 Outgoing Call Barring is a service that prevents outgoing calls from a specified line. This prevents end-users who have not paid their bills increasing their level of debt, but is not as extreme as disconnecting them.

2.90 Indirect Access (IA) Call Barring is a service that will allow SPs to prevent end-users making IA calls (including the use of the 1280 CPS over-ride code). Oftel believes that the requirement to provide indirect access services should be applied only to operators that have Significant Market Power in the relevant market. In the national markets for access and calls, this is BT. Oftel's view is therefore that service providers using the WLR service should not be obliged to allow their retail customers to choose to route their calls via an alternative IA operator.

2.91 Oftel views optional IA Call Barring as an essential element of the additional competitive offering that WLR2 should provide. Oftel is aware that some service providers would prefer not to allow their customers to have a choice to route calls via alternative operators. They argue that they need to guarantee that they will receive the customer's call income if they are going to be able to offer innovative tariffs, such as lower price fixed elements being subsidised by higher price variable elements.

2.92 Nevertheless, Oftel believes it is important that customers who will not have the ability to make IA calls be made aware of this when they choose a new SP. Oftel proposed that when a WLR SP sends a welcome letter to the customer during the switchover period the SP must make clear if IA is not to be provided. In addition, Oftel's Consumer Guide to WLR2 will make clear that the availability of IA is an issue that a prospective WLR customer should consider. These proposals are discussed further in Chapter 6.

2.93 The calls affected by IA Call Barring will be all calls that are made to "Type B" codes used for Indirect Access on a list maintained by Oftel. Calls made to any number on this list will result in a generic recorded announcement provided by BT. IA Call-barring will be optional: SPs will be able to determine on a per-line basis whether this capability is enabled. There will also need to be an option for SPs to add IA call-barring to, or remove it from, a line that is already subject to WLR2.

2.94 Route 15X to Service Provider is a service which diverts customer service calls to the relevant department of the SP. BT Retail has well-recognised numbers for residential customer service (150), business customer service (152), residential fault reporting (151) and business fault reporting (154). Under WLR2, BT will translate these numbers to an appropriate number provided by the SP, and route calls accordingly. Oftel believes that this is an important customer service facility given the potential

impact on WLR SPs' ability to offer a customer experience that is competitive with BT. Oftel therefore proposed that this service be made available to SPs by BT.

2.95 Route to Credit Control is a service that allows SPs to manage end-users who have not paid their bills. A line on which this service is activated will continue to receive incoming calls. It would also be possible to continue making calls to an allowed set of numbers (112, 999, 1471, 0800, 0500, 0808, 15x). However, calls to all other numbers (including CPS calls) would be routed to the credit control department of the SP. Oftel believes this is an important customer service and debt management facility which BT should provide in order to provide equivalence with the facility provided to BT Retail.

BT response

2.96 BT responded that Outgoing Call Barring (OCB) is already in WLR1 and hence will be in WLR2. Call Mapping is also already available, and will continue to be available.

2.97 BT will also offer Route to Credit Control in WLR2 as a chargeable option.

2.98 However, BT is opposed to including Indirect Access (IA) Call Barring because end-users should retain the choice of access to all competitive offerings.

2.99 BT is also opposed to including Route 15x to Service Provider, arguing that the industry should promote non-geographic numbers (e.g. 0800) as the primary way of accessing customer service. Also, some end-users with an SP may retain other services with BT and will want to retain the ability to reach BT customer service using 15x. To help end-users who erroneously get through to BT's 15x services, BT would be willing to hold lists of SP published customer service numbers.

2.100 BT also commented that although it has commented on feasibility and costs for some of these network services, it does not consider their inclusion in WLR2 to be a fit for purpose requirement.

SP responses

2.101 For all the proposed services other than IA Call Barring, all the SP respondents supported Oftel's proposals. On Route 15x to Service Provider, two SPs had questions about how the routing will be implemented and how the calls will be charged (bearing in mind that 15x calls are free to BT Retail end-users).

2.102 But there were mixed SP views on IA Call Barring. Many supported the Oftel view, emphasizing that a SP business case would be undermined without the option of IA Call Barring and agreeing that end-users who switch need to be made aware of it. However, one SP was unconvinced about the demand for IA Call Barring in view of the costs. And one SP argued that IA Call Barring may be illegal, quoting an EU Directive and arguing that it would be detrimental to IA providers and UK end-users generally by reducing competition and choice.

Consumer groups and independent submissions

2.103 The two respondents both supported Oftel's proposals, emphasizing that it is essential for end-users to be made aware of IA Call Barring.

Oftel analysis and conclusions

2.104 Oftel has noted the input from BT in particular, but believes that the way forward is to leave its proposals unchanged.

2.105 In the case of "IA Call Barring", Oftel remains of the view that the requirement to provide indirect access services should be applied only to operators that have Significant Market Power in the relevant market. Oftel has previously argued that alternative operators will be less likely to develop innovative tariffing structures if they are unable to apply IA call barring. This would not benefit competition. Oftel does however recognize the importance of ensuring that customers who will not have the ability to make IA calls are made aware of this when they choose a new SP.

2.106 In the case of "Route 15X to Service Provider", Oftel does support BT's suggestion that the industry should promote non-geographic numbers (e.g. 0800) as the primary way of accessing customer service. This is already happening: for example, fault reports for a fixed line are commonly reported via a mobile phone using a non-geographic number. This does not however remove the need also to implement "Route 15x to service provider", due to the high consumer awareness of 15x numbers.

2.8 Service incompatibilities

Oftel's consultation document proposals

2.107 There are a number of services which Oftel does not expect to be provided as part of WLR2, but which are provided over the same line. In such cases it is necessary to understand whether these services are compatible with the WLR2 product, and if not, how this incompatibility is handled.

2.108 One important category of services are those which are provided over the same copper loop used by analogue PSTN telephony, but in a different frequency band. Obvious examples are BT's Wholesale DSL service, and the Redcare alarm monitoring service. Oftel proposed that analogue WLR2 should be able to co-exist with these services.

2.109 There will be some BT lines which have been taken over by an OLO under the terms of Local Loop Unbundling. Such lines clearly cannot be made available under WLR. Oftel noted however that trials of line-sharing are currently underway, and this is intended to allow an OLO to take over only the high frequency portion of a copper loop.

If these trials result in a line-sharing variant of the LLU product being made available, then Oftel proposed it should be compatible with WLR2.

2.110 BT Chargecard allows end-users to make direct-dialled calls from any BT phone, using an account number and PIN number. The call is then charged to the user's own directory number. Oftel understood that use of BT Chargecard is likely to be incompatible with WLR, and Oftel therefore proposed that this service be automatically stripped off any line transferred to WLR2.

2.111 BT Ring Me Free allows end-users to pay for selected incoming calls. End-users are allocated a 12-digit personal code, which they can provide to their friends and relatives. The person placing a call dials a 5 digit access code, followed by the personal code, and the call is then routed to the correct destination. Oftel understood that use of BT Ring Me Free is likely to be incompatible with WLR, and Oftel therefore proposed that this service be automatically stripped off any line transferred to WLR2.

2.112 BT Retail provides a variety of other retail bundles which combine an access line with appropriate call handling services. Examples include the SurfTime internet access product, and the NetChat VOIP service. Oftel understood that end-users transferring to a WLR SP cannot continue to receive these retail services, and Oftel therefore proposed that they will automatically be stripped off any line transferred to WLR2.

BT response

2.113 BT agreed with Oftel's proposals, but believes that end-users should be made fully aware (via the advice of transfer letter or courtesy call) of which services will be stripped on transfer, as they could be of particular value to the end-user.

SP responses

2.114 The majority of respondents agreed with Oftel's proposals, but many made additional observations.

2.115 Two SPs pointed out the importance for SPs of being fully advised of which services will be stripped and what alternative substitute services might be available, in order to properly manage the end-user's expectations.

2.116 Three SPs had concerns about ensuring that BT does not exploit the presence of services to be stripped, by using minimum contract periods or other terms to raise charges or restrict the end-user's ability to switch, or by inappropriately emphasising in the advice of transfer letter the services which the end-user will be losing.

2.117 Two SPs felt strongly about improving options for the Chargecard service. With 5 million Chargecard users, a wholesale Chargecard variant should be offered in WLR2, or it should be possible to transfer it to a retail credit card variant which BT already

offers. As a minimum, if the end-user wants to retain its Chargecard service, it must be transferred to a new separate CSS account.

2.118 Two SPs had particular concerns and questions about the implications of stripping services such as Surftime on billing, routing, and network efficiency.

Consumer groups and independent submissions

2.119 Both respondents agreed with Oftel's proposals, one emphasised that end-users should be made fully aware of which services will be stripped on transfer.

Oftel analysis and conclusions

2.120 Oftel's primary objective is to ensure that the presence of multiple services offered over the same exchange line does not create a barrier to the take-up of WLR2. Any service incompatibility with WLR2 creates a barrier, either directly, because it will result in WLR2 orders being rejected, or indirectly, because the need to strip the incompatible service can be exploited by BT as part of its 'save' process. Oftel therefore concludes that service incompatibilities must be minimised.

2.121 The specific services discussed here fall into one of three categories. The first category of services are those services provided over the same copper loop used by analogue PSTN telephony, but in a different frequency band (e.g. DSL, Redcare). It is clear that analogue WLR2 should be able to co-exist with these services. Oftel therefore expects that a WLR2 order for such a line should be successful.

2.122 The second category of services contains those services that allow customers to make calls from other telephones, and charge them to a customer's own directory number (e.g. BT Chargecard and BT Ring Me Free). These services clearly cannot continue without any change when the line (and number) is taken over by a WLR SP. This does not however mean that it should be necessary to terminate the service. Oftel expects that these services will continue to be provided by BT, and that they will be billed directly to the end-user via a new and separate account.

2.123 The third category of services are those where BT Retail provides a specific retail wrap around a standard set of wholesale services. An important example of this is Surftime. This is a call origination service provided by BT Retail for internet access, where the retail customer pays on an unmetered basis for the call origination element of internet access calls.

2.124 Other operators could provide a similar retail service once a WLR SP has taken over a line, using either the FRIACO (Flat Rate Internet Access Call Origination) wholesale service from BT, or one of the various FRIACO-based services that are now available. There is also no technical reason why Surftime should not continue to be provided by BT once a WLR SP has taken over a line, and Oftel believes that this should be a matter for commercial negotiation.

2.125 There may be some cases where there is a fundamental incompatibility between WLR2 and another service on the same line. Oftel will determine on a case-by-case basis which of the services takes precedence. If WLR2 takes precedence, then the other service must be stripped from the line when it is transferred to a WLR SP. If the other service takes precedence, then an order for WLR2 will have to be rejected.

2.126 In any case where services are to be stripped from an existing line, it is essential that the end-user is made aware. BT shall inform the end-user of the loss of any services using the mandatory 'losing' letter.

2.127 It is also essential that the WLR SP is made aware of the loss of any services, so that they can properly manage their customers' expectations. This notification should take place at the earliest possible stage of the ordering process, and certainly before the end-user is informed. Ideally, it would be possible for an SP to check for the presence of such services on a line before submitting a firm order.

2.9 Handling of social telephony products

Oftel's consultation document proposals

2.128 BT Retail provides some retail packages that are designed to meet social objectives in relation to vulnerable parts of the community. Examples include the Light User Scheme, In-Contact, the Chronically Sick and Disabled Scheme, and Schools' Internet Caller. Because of the nature of the end-users for these services, Oftel believed it may be inappropriate for these lines to be transferred from BT to a WLR SP without a positive confirmation from the end-user that they wish to cease the social telephony product.

2.129 One method of ensuring this would be to specify that a WLR order submitted by the SP for a line on which these services are provided be rejected, but with a reject code which specifies precisely what service is causing the rejection. The WLR SP would then be able to go back to the end-user, and ask them to cease the service with BT, in order to allow the transfer to go ahead. Oftel proposed that this approach be adopted initially but be subject to review in the light of experience.

BT response

2.130 BT responded that it is happy to discuss the most suitable approach, but data protection obligations must be recognised and end-users must be made aware of the social telephony products which they are losing on transfer.

SP responses

2.131 Five SPs responded that no extra protection was required in the actual transfer ordering process, arguing that they will be offering equivalent if not better social

telephony products, that some extra protection can be applied elsewhere (e.g. greater information at the point of sale or in the advice of transfer letter) if required (e.g. for vulnerable end-users), and that the practice can be reviewed and changed if needed. Therefore, the same robust one-stage transfer order process should be used as for ordinary products and end-users.

2.132 Six SPs took the opposite view, agreeing with Oftel's proposals for a two-stage transfer order process as extra protection. One proposed that the end-user should cancel in writing, another recognised that only some end-users needed extra protection, another proposed reviewing the process in light of experience. Several believed that there should be no charge (or a reduced charge) for the second transfer order.

Consumer groups and independent submissions

2.133 Three respondents (Welsh and Northern Ireland ACTs and an individual consumer respondent) agreed with Oftel's proposal for extra protection, two with a strong position aimed at protecting from unscrupulous selling practices and noting other mechanisms to strengthen the protection. One respondent was less strong, noting that not all end-users need the protection, wanting to ensure they are not deterred from switching to better SP products, and proposing a less blunt procedure.

2.134 Three respondents (Age Concern, Disabled & Elderly Committee and the Public Utilities Access Forum) took the opposite view, concluding that provided that end-users are adequately informed about the choices and their attention is drawn in the letter to the services that will be lost on transfer, then there was no need for extra protection in the transfer order process.

2.135 One further respondent (Telephone Helpline Association) was concerned that SPs won't offer an adequate range of alternative social telephony products and this should be monitored.

Oftel analysis and conclusions

2.136 Oftel has noted the split views on this issue, but remains of the view that enhanced consumer protection measures are required to protect vulnerable customers who are users of social telephony services. Oftel has therefore concluded that when an SP submits an order for WLR2 on exchange lines over which such services are provided the order should be rejected by BT. The SP will have to ask the end-user to cease LUS if they wish to transfer their line to that SP.

2.137 Oftel will however keep this issue under review, based on early experience with the standard consumer protection measures for the WLR2 and CPS services. Oftel will also continue to consider , in discussion with stakeholders, whether the enhanced consumer protection that it believes to be required can be provided by some other means than is proposed here. To prevent the measure creating an unreasonable barrier to switching, Oftel proposes to review the guidelines for exiting special schemes.

2.10 118 DQ Services

Oftel's consultation document proposals

2.138 In September 2001, Oftel published a Statement (*Access codes for directory enquiry services*) setting out Oftel's decision to introduce competition into the market for directory enquiries calls, by allocating a new range of short access codes starting with 118 to DQ service providers. In this Statement, Oftel concluded that a model of service-based competition, with all operators and service providers on an equal footing, would provide the best deal for consumers in terms of price, quality and choice of service. WLR service providers, as providers of electronic communications services, will be obliged to make (at least) one DQ service available.

2.139 The question arises as to whether WLR SPs should be expected to provide access to the full range of DQ 118 numbers (which in practice would mean those 118 numbers where the DQ SP wishes to have access to the WLR SP's customers). Oftel believed that this should not be onerous on WLR SPs due to the ability to transit calls to 118 DQ numbers via a transit operator (ie direct interconnection with the terminating operator is not required) and the fact that WLR SPs will have retail pricing freedom (within reason) for these services. Oftel noted that WLR SPs may choose to use CPS from alternative operators for call conveyance. If WLR SPs are expected to provide access to the full range of DQ 118 numbers, consideration needs to be given to whether this would restrict WLR SPs choice of CPS operators to only those that themselves provided access to the full range of DQ 118 numbers.

2.140 An alternative approach would be similar to that adopted for CPS. WLR SPs would be expected to provide access to a range of 118 DQ services other than their own (or their wholesale carrier's), but would not be expected to offer access to the entire range of 118 DQ services. In this scenario, the possible impact on competition in the DQ market would need to be considered, as customers of WLR SPs would not necessarily be able to benefit from a full choice of DQ services (if for example the WLR SP restricted the choice of DQ services available, or charged unreasonably high retail prices for access to these services).

2.141 Oftel invited views as to which of these two options for the treatment of 118 DQ calls should be adopted for WLR2, namely:

- a) should WLR SPs be expected to provide access to the full range of DQ 118 numbers;
- or
- b) should WLR SPs be expected only to provide access to a range of DQ 118 numbers other than their own (or their wholesale carrier's)?

BT response

2.142 BT's view is that SPs should provide access to the complete set of DQ 118 numbers, arguing that to offer access to only a range of numbers would place an SP's interests above the end-user's interests, would be confusing and not provide adequate choice, and would not promote sufficient competition in DQ.

SP responses

2.143 Four SPs responded that SPs should provide access to the complete set of DQ 118 numbers, two arguing that the end-user's choice and interests should override the SP's choice and interests.

2.144 But a much larger number of SPs said that access to only a range of numbers would be sufficient. The arguments put forward included that this would align WLR with current policy in CPS, that it is impractical or an undue commercial burden to require access to the complete set, and that there is sufficient incentive already to provide access to a range of numbers without needing regulatory intervention. One SP pointed out that DQ SPs may wish to contract to only a limited number of WLR SPs, another that the situation could be reviewed after 12 months (as with CPS).

Consumer groups and independent submissions

2.145 One respondent argued that the complete set of DQ 118 numbers should be offered by SPs, and that the current policy in CPS should be changed to also require access to the complete set of numbers (there was also concern at the fact that, as Oftel had pointed out, access to some numbers could cost more). Another concluded that only a range of numbers needed to be offered but that the situation should be monitored and reviewed after 6 months.

Oftel analysis and conclusions

2.146 Oftel concludes that it is best to not impose regulatory intervention until it is shown to be required and that there will be enough incentive for SPs to offer access to a range of DQ 118 numbers. In line with CPS policy, SPs will only be expected to provide access to a range of numbers other than their own (or their wholesale carrier's), and the situation will be reviewed after 12 months.

Chapter 3

ISDN products

3.1 Background

3.1 This chapter considers whether the Product Specification of WLR2 should include wholesale versions of BT's ISDN access line services. Oftel concluded in its consultation document that wholesale versions of BT's ISDN access lines services are necessary in order to allow an SP to compete fairly with BT Retail, specifically in the business retail market for telephone calls and access services.

3.2 Oftel's consultation document proposals

3.2 Oftel believes that the ability to offer ISDN access lines is essential for any alternative supplier attempting to address the business market. An alternative supplier able to offer only analogue access to business customers will be at a substantial competitive disadvantage to BT Retail.

3.3 Oftel acknowledged that there is scope, at the top end of the business market, for alternative suppliers to provide their own ISDN service. They can do this by delivering ISDN30 services over a 2Mbit/s leased line, and there are a variety of means of providing such a leased line. Oftel's analysis suggested this could be a cost-effective alternative to BT's own ISDN30 service, but only if the number of ISDN channels being delivered is high.

3.4 However, for a large part of the ISDN market, BT is the dominant supplier, and is likely to remain so. This includes all ISDN2 lines, and those ISDN30 lines where the number of channels provided is significantly less than 30. Wholesale versions of these products need to be made available by BT if competition is to be effective at the retail level.

3.5 Oftel proposed three options for the nature of the requirements that could be set in relation to the supply of these products:

- Option A: put no formal requirement on BT as part of the specification for WLR2, but rely on BT's willingness to supply wholesale products under C&A;
- Option B: require BT to make available in WLR2 wholesale versions of ISDN 2, or ISDN 30, or both, on the same basis as analogue lines with cost-oriented prices;
- Option C: require BT to make available in WLR2 wholesale versions of ISDN 2, or ISDN 30, or both, but with less onerous obligations than analogue lines.

3.6 Oftel believed that Option A was not an appropriate way forward, since SPs would be dependent on BT's willingness to continue supplying ISDN services on a voluntary basis. There would be no protection for SPs in relation to the terms and conditions on which these services were supplied, nor would there be any *ex ante* restriction on BT discriminating in favour of BT Retail.

3.7 At the other extreme, Oftel believed that Option B would not be proportionate for ISDN30, due to the potential for alternative suppliers to provide an equivalent service, at least at the top end of the business market. Oftel recognised that there was a stronger case for Option B in the case of ISDN2. However, Oftel was concerned that this would be a significant extension of regulation, and argued that such a change would have to be properly considered in a comprehensive market review.

3.8 Oftel therefore proposed that Option C be adopted. Oftel acknowledged that this would result in a risk that BT would set retail and wholesale prices at a level that does not allow for effective retail competition. Oftel proposed to deal with this by monitoring BT's behaviour closely during 2003 and the early life of WLR2, in order to look for any evidence that the retail margins available were insufficient to support effective competition at the retail level.

3.3 BT Response

Overview

3.9 BT made clear in its response to Oftel's consultation document that it does not consider ISDN to be part of the delivery of WLR2. BT stated in its response that it would be unlikely to implement WLR2 as envisaged in the consultation document, even though this would mean that BT would not then gain the benefits of moving to RPI+0. Subsequent discussions have made clear that this is not just unlikely – BT will not include ISDN within WLR2 on a voluntary basis.

3.10 BT's basic argument was that neither Oftel's original Price Control Review (PCR) Consultation Document of July 2001 nor its subsequent Statement of June 2002 indicated that digital variants of a WLR product would form part of WLR2 and the incentive regulation under which WLR2 was to be progressed.

3.11 BT also noted that it wrote to Oftel on 11 November 2002, outlining in some detail the legal and technical arguments why BT believes that the definition of the Fixed Public Telephone Network (FPTN) excludes the greater capabilities of ISDN that are over and above the analogue environment of the PSTN. The reason that this is relevant is that the condition in BT's licence that requires it to provide WLR relates specifically to access services for customers to the FPTN.

Comments on Oftel's analysis

3.12 More generally, BT believes that there is no justification for mandating wholesale ISDN products on either regulatory or competition grounds. BT does not believe that Oftel has made a rigorous analysis of the case for increasing the extent of regulation. BT stated that this comment applies whether or not the proposal is viewed as being part of the WLR2 process.

3.13 BT had two major concerns about Oftel's justification for regulatory intervention:

- That the competition analysis presented in Chapter 3 of the Consultation Document was insufficiently rigorous to justify a conclusion that BT is dominant and should therefore be subject to *ex-ante* regulation.
- That Oftel has failed sufficiently to take into account that BT already supplies Digital Calls & Access products and that, given their availability, there is no need for such products to be mandated by regulation.

3.14 BT made a number of more specific points in relation to Oftel's competition analysis. For example:

- BT comments that Oftel has not gone through the formal process of showing that ISDN access services constitute a distinct market from analogue access, and one in which BT is dominant. BT objects to Oftel's more general approach of evaluating whether ISDN is 'significant' in the relevant retail market.
- BT notes that ISDN products form part of a complex web of potentially substitutional products, involving both narrowband and broadband connections and voice and data services. A variety of alternatives are available to ISDN, including cable, DSL, X25, frame relay and IP.
- BT objects to Oftel's emphasis on particular segments of the business market (e.g. SMEs). BT argues that the key metric should be the total number of ISDN channels supplied in the relevant market.

3.15 BT also provides some public policy arguments for not including ISDN in WLR:

- In the context of broadband policy, the extension of WLR to ISDN risks shifting demand away from technologies such as xDSL to an older and less efficient circuit switched technology.
- In the context of the new EU regulatory regime, aimed at harmonising regulation throughout the EU, BT notes that no obligations such as those proposed by Oftel exist in any other EU member states.

3.4 SP responses

3.16 Virtually all respondents concluded that it was essential to include ISDN 2 and ISDN 30 in WLR2. They argue that ISDN is important in both the business and residential markets. They note that BT Retail is dominant in ISDN 2 and ISDN 30, and that ISDN 2 in particular is effectively a monopoly. They also note that BT appears to be making an excessive rate of return on ISDN.

3.17 SPs note that despite BT's dominance, ISDN is the only access mechanism which is completely un-regulated (no *ex-ante* rules requiring non-discrimination, and it can be bundled with other products). This makes it very difficult for SPs to compete in this market.

3.18 Some SPs recognised the growing availability of alternative access methods to ISDN, but argued that the difficulty of switching between them remained a significant barrier for many end-users, with the possible exception of large business sites.

3.19 The key issue for most SPs is price. SPs argued that current ISDN prices are well above cost, and the charges are prohibitive, with SPs unable to sufficiently discount the retail price and make a viable margin on sale. To enable effective competition, it is imperative to bring about a substantial and rapid reduction in prices.

3.20 None of the SPs believes that this will happen with Option A, and thus ISDN must be included in WLR2. There is a small amount of support for Option C favoured by Oftel, but the significant majority of respondents believe Option C is not sufficient as it will not result in prices being lowered enough or quickly enough. The majority of SPs only have confidence that complete regulation under Option B will deliver the required objectives. A small number of SPs qualify this by saying that ISDN 2 should be regulated under Option B, whereas the growing alternatives (e.g. PPCs) to ISDN 30 should be allowed the opportunity to have an impact under Option C.

3.21 Should Option C be adopted, most SPs request that Oftel be prepared to act immediately on prices, to monitor BT behaviour carefully (e.g. on non-discrimination) and to penalise BT for non-compliance.

3.5 Consumer groups and independent submissions

3.22 The single respondent (NIACT) said that 57% of businesses in Northern Ireland (NI) use ISDN, which shows that end-users choose ISDN even where affordable broadband is available. Where there is no affordable broadband, ISDN is the only high speed option, so if ISDN is not included in WLR2 then SPs will be at a significant disadvantage.

3.23 The single respondent agreed that Option A is not appropriate, and also agreed that Option B is not appropriate for ISDN 30, since this would not be proportionate. It concluded that Option C was the most appropriate, and that BT should offer ISDN to SPs to the same specification and on the same terms as to BT Retail.

3.6 Oftel analysis and conclusions

3.24 Oftel has reviewed the responses received. Oftel disagrees with BT's position in general, as well as with a number of specific statements. Oftel remains of the view that the inclusion of ISDN in WLR2 is important in order to deliver effective competition, especially in the business retail market.

3.25 Oftel's original Price Control Review (PCR) Consultation Document of July 2001 and its subsequent Statement of June 2002 did make an explicit distinction between the business and residential markets. It was clear that BT was expected to develop fit-for-purpose variants of WLR2 appropriate for each of these markets.

3.26 It is difficult to see how an implementation of WLR2 that excluded ISDN could be regarded as fit-for-purpose in the business market. Oftel believes that an alternative supplier able to offer only analogue access lines to business customers will be at a substantial competitive disadvantage to BT Retail. This was recognised, for example, during the process of producing forecasts for WLR2 order volumes. The forecast produced by Schema for the business market is highly dependent on the inclusion within WLR2 of a fit-for-purpose ISDN product (see Section 5.2).

3.27 Oftel rejects BT's suggestion that it has failed sufficiently to take into account that BT already supplies Digital Calls & Access products. Oftel has considered whether the availability of Digital Calls & Access is sufficient to allow alternative providers to compete in the business retail market, and concluded that it is not. The primary concern, as noted by most SPs, is price. BT does not comment on the pricing issue in its response.

3.28 However, although Oftel remains of the view that ISDN should be included in WLR2, Oftel also recognises that it cannot within the current voluntary framework compel BT to accept this. Oftel therefore concludes that:

- The Product Specification for WLR2 will exclude all ISDN line types, and all associated supplementary services.
- The assessment criteria for WLR2 will make no explicit reference to ISDN. ISDN may however still have an impact on the top-level assessment of the market impact of WLR2. This is because the level of take-up of business analogue lines could be reduced if the exclusion of ISDN results in a product that is not fit-for-purpose in the business market.

3.29 This does not mean that Oftel has accepted that there is no need for regulatory intervention in the area of ISDN. What it does mean is that any such intervention will have to be based on a rigorous competition analysis, which addresses the various points made by BT (e.g. the need to define appropriate markets, and analyse BT's market power in these markets, taking account of the various forms of substitution that have been suggested).

3.30 The appropriate place for this analysis is a formal market review. Oftel will be analysed the markets for ISDN access line services in the "*Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets*", to be published in March 2003.

Chapter 4

WLR2 process issues

4.1 Background

4.1 This chapter discusses the process issues arising out of the introduction of WLR2. The greatest complexity is in the area of service interfaces, provisioning, and ordering. It is however also necessary to consider other key business processes, such as fault management and billing.

4.2 The business process design must ensure that WLR2 creates the basis for fully effective competition in the retail markets for residential and business customers. SPs must be able to implement business processes that deliver an equivalent quality of service to that delivered by BT Retail. Where these business processes depend on services provided by BT Wholesale (e.g. ordering and provisioning, line diagnostics, billing data), then those services supplied to BT Retail must also be supplied to SPs.

4.3 This does not mean that these services will be provided in the same manner for SPs as for BT Retail. BT Retail has direct access to key back-office systems, such as the Customer Service System (CSS), whereas SPs only have access to these systems via a separate Service Provider Gateway (SPG). What we must ensure is that the direct access available to BT Retail does not confer a significant competitive advantage.

4.4 In order to ensure this, it is clearly important that the use of this SPG does not result in significant process inefficiencies or additional transaction costs compared to those incurred by BT Retail. This is only likely to be the case if a high degree of automation is used, both within the SPG systems themselves, and between the SPG and SPs.

4.2 General issues

Of tel's consultation document proposals

4.5 A major constraint on the WLR2 business process design is that two distinct SPGs already exist, one originally developed for Calls and Access, and one developed for CPS. It was recognised early on in the design process that the cost and timescales for developing a new integrated gateway for WLR2 and CPS would be prohibitive, and result in an unacceptable delay to the launch of WLR2. It was therefore decided to enhance the existing Calls & Access SPG to support WLR2, and to enhance the existing CPS gateway to support any necessary inter-working of CPS and WLR2.

4.6 This decision results in a number of compromises between the principle of equivalence set out in Section 4.1, and what it is practicably possible to achieve, given the design of the existing SPGs. The compromises were analysed in some detail in the consultation document, in order to strike the right balance between the desire to deliver precise equivalence to BT Retail, and the desire to deliver WLR2 in a timely manner.

4.7 It was recognised that some of the functionality required by SPs is only likely to be delivered by a purpose-built SPG, designed from the start to be capable of handling WLR2 and CPS in an integrated manner. Oftel stated that it believed that the implementation of this integrated solution (also referred to as the B2B or WLR3 solution) should formally remain a longer-term objective, and that it was committed to working with the industry to ensure that this objective is delivered.

BT response

4.8 BT understands the overarching industry requirements to improve processes and reduce timescales, but at the same time stresses the importance of striking the right balance in protecting end-user interests and containing costs.

4.9 BT acknowledges that it will not be possible to implement the single integrated SPG on the timescales required for WLR2. BT supports a subsequent move to such a solution as long as all the financial implications are understood, and as long as no undue burden is placed on those CPSOs who wish to continue to operate independently of WLR.

SP responses

4.10 All SPs are very disappointed with the significant process compromises caused by the dual SPG solution for WLR2. These do not provide the required process equivalence between SPs and BT Retail. One SP estimates that the various process inefficiencies associated with Oftel's proposals are equivalent to providing BT Retail with a cost advantage of about £11 per end-user.

4.11 Most SPs also argue that these compromises strongly increase the likelihood that end-users will suffer a poor service experience, a further risk that BT Retail that does not bear, giving it a further advantage. Poor service events can undermine a SP's brand and therefore its ability to compete effectively.

4.12 Some SPs conclude that these compromises are not fit for purpose, others that they are borderline but reluctantly to be accepted in the interest of having a WLR2 product in acceptable timescales. However, almost all respondents say that WLR2 will not be truly fit for purpose for a mass market until the fully integrated B2B solution is available, and argue that there must be a commitment from BT to deliver this.

Consumer groups and independent submissions

4.13 One respondent concludes that the integrated B2B solution would be the best option but would cause too much delay, so the proposed two gateway compromise is the best way forward. The B2B solution can be delivered subsequently.

Oftel analysis and conclusions

4.14 Oftel recognises SPs' concerns in relation to the non-equivalence of business processes, but remains of the view that the proposed package represents the best compromise if BT is to deliver a viable WLR2 product in acceptable timescales.

4.15 The precise impact of each compromise will depend heavily on the detailed design and implementation. Oftel recognises the importance of maintaining a close involvement during the implementation of WLR2, in order to ensure that the right balance is maintained between the principle of equivalence, and the early and cost-effective delivery of a fit-for-purpose product.

4.16 Oftel recognises that it is essential to continue to work towards an integrated B2B solution in the longer term. Since the WLR2 consultation document, Oftel has held two workshops to attempt to scope this work in more detail, and has been impressed by the constructive approach demonstrated at these workshops by all parties.

4.3 Functionality of WLR2 and CPS orders

Oftel's consultation document proposals

4.17 Oftel set out in its consultation document a series of high-level requirements for ordering and provisioning. Most of these requirements relate to the fact that SPs will frequently wish to submit a combined order for CPS and WLR2, and will have to do this via two different gateways. These requirements are therefore in addition to the more normal requirements expected of any individual ordering gateway. Oftel analysed a number of specific scenarios for combined WLR2 and CPS orders, and requested feedback on these scenarios.

4.18 At the same time as submitting a WLR2 order to the WLR2 SPG, it must be possible to submit a linked CPS order to the CPS SPG. The CPS order should be one of a new set of CPS orders, intended to be processed quickly on the CPS Gateway, and with consumer protection measures disabled, because these measures have been initiated as part of the WLR2 order.

Order types

4.19 Oftel proposed that four basic order types should be provided for WLR2:

- The WLR2 'New' order is a request for a new account for one or more lines at the end-user's premises. Such an order might either require the re-activation of an existing physical line, or the provision of a new physical line.
- The WLR2 'Transfer' order is a request for an end-user's existing account (comprising one or more lines and associated services) to be transferred from one SP (the losing SP) to another (the gaining SP). Such an order might take place on a like-for-like basis, where a line is transferred without any change in the

supplementary services or other attributes. Alternatively, a transfer order might include a specific specification of which supplementary services and other line attributes are to be applied.

- The WLR2 'Change' order is a request for any one or more attributes of an end-user's existing account (comprising one or more lines and associated services) to be changed.
- The WLR2 'Cease' order is a request for an end-user's existing account (comprising one or more lines and associated services) to be cancelled.

4.20 Oftel also invited views as to whether two additional order types should be provided:

- The WLR2 'Cancel own' order would be used when an SP wished to cancel an order that it had previously submitted but has not yet been completed.
- The WLR2 'Cancel other' order would be used by SPs to cancel orders submitted by another SP before the order is completed. This order type is currently used by BT during the CPS switchover process either if BT persuades the customer to remain with BT Retail before the switchover date, or if it appears to BT that the customer has been slammed before the switchover date. The appropriateness of BT using 'Cancel other' as part of its save process is currently under review.

4.21 In addition to these order types for WLR2, Oftel proposed an enhanced set of CPS order types, with the following additional features:

- Each CPS order contains an extra data element which uniquely and securely links a CPS order with a WLR2 order or a WLR2 account;
- Consumer protection is disabled;
- Processing is enhanced or prioritised to be executed quickly.

Order synchronisation

4.22 Where a WLR2 order on the WLR2 SPG and a CPS order on the CPS SPG are part of the same overall process of providing an end-user's services, the WLR2 and CPS service activation should be as near simultaneous as possible. This applies not just to cases of transfers, but also to cases where a new line is being provided, or where there is a change of address. Oftel proposed that:

- A gap of no more than one day between WLR and CPS activation is acceptable for WLR2. This gap must be invisible to the end-user. This requirement is commonly referred to as "WLR+1".
- A longer-term objective should be to eliminate the gap completely, by integrating the WLR SPG and CPS SPG.

Seamless transfer

4.23 Oftel also proposed that where a WLR2 transfer involves retaining the same CPS configuration on the line(s) after the transfer as existed before, then there should be no interruption to the existing CPS service. This requirement is commonly referred to as “Seamless CPS transfer”.

BT response

4.24 BT agreed with Oftel that the four basic order types should be taken into WLR2. It supported the introduction of ‘Cancel Own’, which will incur SPG development costs, to replace the current manual process.

4.25 BT proposed that ‘Cancel Other’ should be made available to all SPs, in line with its views expressed in the corresponding CPS-led industry discussions.

4.26 BT agreed with the Oftel proposals for the enhanced CPS order types. However, it clarified that the new CPS order types would not have (or need) enhanced or prioritised processing for fast execution. Because consumer protection would be disabled, the new order will be activated less than 24 hours after submission using just normal CPS processing and queue handling rules (provided the new order is within the CPSO’s daily capacity limit).

4.27 BT firmly believes that WLR+1 is fit for purpose for WLR2. BT noted that, to actually achieve no more than a 1 day gap, the CPS order must be submitted within the right time period (ie just after the WLR2 order is activated) and the CPS order must be within the CPSO’s daily capacity limit. BT confirmed that during the 1 day gap it will bill the SP for calls at the applicable wholesale rate and provide raw CDRs so that the SP can detect any fraud.

4.28 BT noted that it should be possible to implement seamless CPS transfer, but that this requires a full feasibility study.

SP responses

4.29 All respondents agreed with the inclusion in WLR2 of the proposed four basic order types and the addition of ‘Cancel Own’.

4.30 On ‘Cancel Other’, there was the same variety of views, reservations and ideas expressed as recently in the corresponding CPS-led industry discussions, and recognition that the same issues will be faced in WLR2.

4.31 It was suggested by some SPs that it must be possible to submit ‘mixed’ orders (including for multiple lines) in a single transaction and at the cost of a single transaction.

4.32 There was general agreement with Oftel's proposals in relation to new CPS order types, and recognition that end-users must not receive duplicate protection communications. Some SPs also commented that the proposed enhancements must cause little or no undue cost burden on CPSOs who continue to operate independently, and that the impact of working with two gateways must be minimised.

4.33 A number of SPs expressed concern at Oftel's suggestion that a one day gap between WLR2 and CPS service activation is acceptable. Several requested further evidence as to why BT cannot deliver simultaneous activation of WLR2 and CPS.

4.34 As a small compensation for the extra costs and risks imposed on SPs by BT's systems limitations, five respondents proposed specifically that the wholesale call rates which are applicable during the 1 day gap (Wholesale Call Commitment Package) are regulated on a cost-oriented basis. Another SP suggested as an alternative that the calls are charged at the same rate as if CPS had been applied.

4.35 Virtually all the respondents stated that seamless CPS transfer was essential. If this was not available, then SPs would incur significant additional costs. There would also be an increased risk of processing errors affecting end-users. SPs also noted that seamless transfer was required in order to minimise the impact on the CPS gateway of high volumes of CPS end-users transferring to WLR2 during a short period of time.

4.36 Some SPs also commented on the importance of a home-mover's process, which would allow WLR2 and CPS to be re-established after a change of customer address.

4.37 Some SPs commented on the need for a process to handle end-users of an SP that exits the market. SPs argued that such end-users should not automatically revert to BT. The process should also allow such end-users to transfer to another SP.

Oftel analysis and conclusions

4.38 Oftel welcomes the feedback received on the various scenarios for combined WLR2 + CPS orders. Oftel expects that further analysis of these scenarios will be required as part of the WLR2 implementation programme.

Order types

4.39 There is a clear consensus that the adoption of the four basic order types plus 'Cancel Own' is the way forward. Oftel also recommends that any additional order types currently used in CPS be considered for inclusion during the implementation phase of WLR2.

4.40 As suggested by some respondents, Oftel believes that the same policy in relation to 'Cancel Other' that emerges from the CPS-led discussion and 'own-initiative' investigation should be applied to WLR2.

4.41 On the subject of 'mixed' orders, having reviewed the issue, Oftel strongly believes that the way forward is to have efficient low cost basic transactions (effectively building blocks) from which it should be easy to compose more complex orders (which remain relatively low cost) as a sequence of basic transactions. Thus, it is better not to have too much complexity in the basic orders in order to keep the unit cost low. Some degree of 'mixing' might still remain in a basic order, for example by limiting its scope to a single line or CLI. This should be finalised at the time of more detailed specification.

4.42 There is a clear consensus about the need for the proposed new CPS order types. Oftel believes it should be possible to implement these without making any changes to existing order types, and therefore without having any impact on existing CPSOs.

Order synchronisation

4.43 Oftel understands SPs' concerns about BT's inability perfectly to synchronise the provision of WLR2 and CPS. The lack of visibility as to the underlying reasons for this is however based on genuine issues of commercial confidentiality. Oftel understands that perfect synchronisation of WLR2 and CPS orders is likely to require the integration of WLR2 and CPS orders within a single gateway. As already noted, Oftel recognises that it is essential to continue to work towards such a solution in the longer term.

4.44 Oftel therefore remains of the view that WLR+1 represents a sensible compromise. This applies not just to cases of transfers, but also to cases where a new line is being provided, or where there is a change of address. Oftel does expect the smooth operation of this compromise process to form part of its fit-for-purpose assessment of WLR2.

Seamless transfer

4.45 Oftel welcomes BT's response that it hopes to be able to implement seamless CPS transfer, and looks forward to the results of the full feasibility study. Oftel expects the availability of seamless CPS transfer to form part of its fit-for-purpose assessment of WLR2.

Home-movers

4.46 Oftel notes the comments made by some SPs in relation to the importance of a home-movers process. Oftel agrees that SPs should have the same opportunity to retain customers who are moving home as is available to BT Retail. Oftel expects this to form part of its fit-for-purpose assessment of WLR2.

Market exit of WLR2 SPs

4.47 Oftel acknowledges the concern expressed by some SPs that end-users of an SP that exits the market should not automatically revert to BT. However, this is a complex issue, and Oftel notes that its priority when an SP exits the market is to ensure

continuity of service for the end-user. Oftel will review this issue further as part of the WLR2 implementation programme.

4.4 Efficient handling of WLR2 and CPS orders

Oftel's consultation document proposals

4.48 In addition to the general requirements set out above for different types of WLR2 orders, Oftel's WLR consultation document set out a number of requirements associated with the handling of orders. These are intended to enhance the efficiency with which orders are processed, and hence reduce transaction costs. The requirements covered four distinct areas:

- The need for a high degree of automation
- The appropriateness of a pre-qualification process
- The need for an efficient means of validating orders
- The need for an efficient means of handling rejected orders

Process automation

4.49 Oftel has consistently emphasised the importance of a high degree of automation in the handling of orders. Oftel proposed that to increase speed and efficiency and reduce operational costs, there should be minimal recourse to manual intervention in order processing. Process elements should be simple, and error or exception handling should be as automated as possible.

Pre-ordering process

4.50 Oftel discussed in the consultation document the appropriateness of some form of pre-ordering process for WLR2 and CPS orders. This could fulfil several requirements, for example:

- It would allow an SP to check whether a CPS order would be successful before submitting a WLR2 order for the same line. This would ensure that a successful WLR2 order was not immediately followed by a failed CPS order, due for example to an incompatibility or other error that applied only to the CPS gateway.
- It would allow an SP to identify the services currently on an end-user's line, and ensure that all these services were transferred. Where existing services would have to be stripped off, the SP could manage the expectations of the end-user, and perhaps find alternatives for the services that are being lost.

4.51 Oftel did not however conclude in the consultation document that these requirements necessarily led to a need for a pre-ordering process. SPs can avoid a CPS order failing after a successful WLR2 order by taking action to avoid common causes of error. SPs can ensure that all services on an existing line are transferred by

using a like-for-like transfer order. Oftel invited views as to whether, taking these factors into account, a pre-ordering process was necessary.

Order validation

4.52 Oftel identified a particular area of concern in relation to the need to efficiently and correctly identify the end-user whose service is about to be changed or transferred. Oftel believes that two data elements must be provided in order to confirm the end-user's identity, one of which is the CLI.

4.53 A number of other suggestions have been made for the other data element, including the BT account number, the BT billing code, and the installation postcode. Each of these has advantages and disadvantages, and Oftel invited views as to which option should be adopted. One compromise proposal put forward by Oftel was that BT should validate the postcode supplied in each order against either the billing or installation postcode.

Order rejects

4.54 Oftel noted the importance that, when a WLR2 order is rejected by BT, the rejection code is sufficiently explicit for the cause of the rejection to be easily identified. For example, if an order is rejected due to the presence of an incompatible service on the same line, it should be clear what the service is. Where appropriate, it should be straightforward for the order to be corrected and resubmitted.

BT response

4.55 BT states that it is aware of Oftel's requirement that costs be minimised, and therefore BT will consider the appropriate level of automation as part of the detailed design solution with this in mind. BT will only automate the process when it is cost effective to do so.

4.56 On pre-ordering, BT questioned how this functionality would be provided: what platform would it operate on and what interfaces would it have with which other systems? There would also be data protection issues to resolve. BT believes that the like for like transfer functionality solves most problems, and agreed with Oftel's suggestion that a pre-ordering process is not required.

4.57 BT did not support Oftel's proposals in relation to the use of postcodes for order validation. It noted that postcodes are readily available in the public domain, and so do not provide adequate protection against slamming. A unique end-user data item, such as the BT account number, would provide better protection, though BT acknowledged that this would not be effective for SP-to-SP transfers. If postcodes were to be used for order validation, then only one should be used, as otherwise significant expenditure will be required to upgrade the WLR and CPS SPGs.

4.58 BT stated that it did believe it was taking reasonable steps to keep its postcode data up-to-date. It uses the Royal Mail PAF files to update the data held on its systems on a quarterly basis. Both the installation and billing address postcodes are updated.

4.59 BT notes that order rejection codes are currently quite specific for both the SPG and CPS gateways. Where further rejection codes are required these can be added. BT would expect that this set of additional rejection codes would need to be agreed with industry to ensure that the set of rejection codes is appropriate and fit for purpose.

SP responses

4.60 Several SPs requested clarification on the proposal that BT may retain manual processes. They acknowledge that it is useful to retain the option of manual intervention, to manage the rejection of complex orders for example. But the general aim should be to automate as much of the ordering process as is practical.

4.61 The majority of respondents welcomed the introduction of a like-for-like facility, and several acknowledged that it reduced the need for a pre-ordering process. A number of SPs did however still feel that a pre-ordering process is required:

- The availability of a like-for-like facility does not remove the need for SPs to discuss with end-users what services they have, and which they want to transfer. The end-users may not always be fully aware of which services they have, particularly given the different ways in which such services are bundled by different SPs.
- If services are to be stripped from a line as a result of a transfer, the SP must be made aware of this early in the process, so that they can adequately manage the end-user.
- Several CPSOs noted that they already take measures to avoid errors in CPS orders, as suggested by Oftel, but are still experiencing significant problems. A proper pre-ordering process is therefore required in order to avoid CPS orders failing after successful WLR order activation.

4.62 Three respondents linked the like for like facility with the bulk load facility as being vital tools to properly address the high volumes of the mass market. They had real concerns that the current capabilities (as understood) are not fit-for-purpose, as the bulk load facility may not have an adequate batch process, it only allows Transfer orders, and the like-for-like facility has limitations.

4.63 Many SPs have experienced significant operational problems and incurred costs in connection with the use of postcode validation for CPS or C&A orders. SPs are anxious to resolve existing problems and to avoid them recurring in WLR2. Virtually all SPs responded strongly on this issue. Points made included the following:

- All SPs must ensure that postcode data held on their systems is consistent with the Royal Mail PAF files.

- BT must do whatever is needed very quickly to bring its current databases up to this same standard and subsequently to maintain them to that standard. SPs do not believe that this is occurring.
- In the long-term, only the installation postcode can be used for any SP to SP (including to BT) transfer.
- It would be sensible to review the experience with DSL, where order rejection rates due to poor postcode matching have been reduced through the use of true PAF postcodes and smart address matching.

4.64 On rejection codes, all the respondents supported Oftel's proposals. Several SPs stated that the rejection codes and the handling of errors in CPS were a cause of significant problems and costs, that the codes needed to be more explicit, and that more clarity was required on what service causes a rejection.

Consumer groups and independent submissions

4.65 On the subject of postcode validation, one respondent with extensive CPS experience pointed out that a fraudster can obtain a postcode and so it is not the best anti slamming data item. The best approach would be third party verification.

Oftel analysis and conclusions

Process automation

4.66 Oftel remains of the view that a high degree of automation is essential, in order to minimise the additional transaction costs and process inefficiencies associated with the WLR2 and CPS SPGs. This is essential if SPs are to be able to compete effectively with BT Retail, given that BT Retail has direct access to the OSS systems that sit behind the SPGs.

4.67 Oftel does acknowledge BT's concern that it will not be cost-effective to automate every process. It is however important that any cost benefit analysis considers not just the local cost savings to BT associated with process automation, but also the cost savings to SPs, as well as the wider benefits of increased competition that will flow from reduced transaction charges.

4.68 Oftel does not propose to specify which specific classes of orders should be subject to automation. Oftel does however believe that a key test of whether WLR2 is fit-for-purpose is that most orders flow through the SPG with no manual intervention. It will therefore include a measure of this as part of its fit-for-purpose assessment.

4.69 The bulk load tool that currently provides the high volume XML based transaction interface is a key element in the drive towards greater process automation. This tool must be able to handle the same set of order types, line types and supplementary

services as the single transaction manual web interface. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

4.70 Oftel also believes that it is important to have an interface that allows the efficient creation of a more complex transaction using a sequence of basic transactions. For example, a like-for-like transfer might be followed by a change order, in order to transfer a line but make a minor change in the range of supplementary services. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

Pre-ordering process

4.71 Oftel welcomes the introduction of a like-for-like facility, and acknowledges that this reduces the need for a pre-ordering process in order to ensure that all services on a line are efficiently transferred. However, as the number of other process compromises has increased, Oftel believes that the case for a pre-ordering process has strengthened. Problems that remain include the following:

- It is currently envisaged that certain services supplied by BT Retail would be stripped on transfer of that line to an SP. SPs need to have advance notice of this, in order to establish with end-users whether they still wish to proceed, and properly manage their expectations if they do.
- If a WLR2 order is to be rejected, for whatever reason, then it is important for an SP to be made aware of this as early in the process as possible – preferably at the first customer contact. This minimises customer disappointment, as well as avoiding unnecessary expenditure by the SP and BT.
- If a CPS order associated with a WLR2 order is to be rejected, for whatever reason, it is particularly important that this happens before the WLR2 order completes. Otherwise there is likely to be an extended period during which a customer line has WLR2 enabled but no CPS.

4.72 Oftel acknowledges that the development of a pre-ordering process will result in some additional expenditure. However, the existence of a pre-ordering process is likely to result in cost savings elsewhere, by reducing the level of manual intervention required at a later stage of the ordering process, as well as reducing the overall complexity of the ordering process.

4.73 Oftel believes that a proper assessment is required of these tradeoffs. As part of the implementation programme, a feasibility study should be carried out to assess the cost of implementing a pre-ordering process, and a cost-benefit analysis should then be carried out to determine whether or not to proceed.

Order validation

4.74 Oftel acknowledges the concern expressed by those who state that using the postcode as a validation data item is not ideal as a protection against slamming. The postcode is used as a validation item for CPS ordering, where it is intended to prevent

typographic errors, rather than as a primary anti-slamming measure. Oftel does not believe there is evidence of widespread abuse of the postcode as part of CPS-related attempts to slam end-users.

4.75 In any case, Oftel does not believe there is a straightforward alternative to the use of postcodes. Oftel notes in particular that although the BT account number does have some advantages, it will not work for future SP-to-SP transfers. Likewise, third party verification has advantages, but would significantly increase process complexity and cost. Oftel therefore remains of the view that the postcode and CLI should be used to validate a WLR2 order.

4.76 The second issue is which postcode to validate against. Oftel agrees with those who say that in the long term only the installation postcode will serve for SP-to-SP transfers, and so the installation postcode must at least be one of those checked against the submitted postcode.

4.77 However, Oftel is also conscious that in the early days of WLR2 a large number of transfers will be from BT to a new SP and that it is worth trying to maximise the success rate of those transactions. Oftel agrees with those who suggest that the best chance of doing so is to use the billing postcode as it appears on the BT bill. This approach is also consistent with that taken for CPS.

4.78 Thus Oftel's original proposal is largely unchanged. Submitted WLR2 orders will contain one postcode, and this can be either the installation or the billing postcode. BT should check this postcode against their records of both the installation and billing postcodes, and if the submitted postcode matches one of those two (as well as the CLI matching) then the order is accepted.

4.79 Oftel notes that BT and SPs all acknowledge the importance of ensuring that all postcode data held on their systems is consistent with the current version of the Royal Mail PAF file. As part of its fit-for-purpose assessment, Oftel will be looking closely at the level of orders that are rejected due to failed postcode matches.

4.80 Oftel notes that additional postcode matching functionality will soon be introduced for CPS, to allow postcodes to be matched despite (amongst other things) transposed characters or digits and single character or digit confusions (e.g. '0' instead of 'O'). Oftel expects similar functionality to be available for WLR2 postcode matching.

4.81 Finally, Oftel notes that the option of using smart address matching, as currently used for DSL orders, should be considered if rejection rates due to the postcode remain high despite all other measures taken.

Order rejects

4.82 Where an error causes an order to be rejected, the rejection code must be sufficiently clear and explicit that the SP can identify the cause of the error, know what

action to take to rectify the error, and successfully re-submit the order, without needing to contact a help desk or have access to an end-user's account data. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

4.83 Oftel agrees that it may be necessary to add or change codes to cater for new services or in the light of operational experience, and that the implementation should be flexible enough to allow this to happen quickly and at low cost.

4.5 Faults and repairs

Oftel's consultation document proposals

4.84 Customers of BT Retail can in one phone call report a fault, and wait briefly for a real-time diagnostic test to be carried out. This will establish whether an appointment for a engineer's visit is required, and if it is, the customer can immediately book that appointment. Subsequently, one call provides an update on the fault status.

4.85 Oftel proposed that alternative suppliers must be able to address faults on WLR lines in as effective a manner as BT Retail. In order to be able to do this, they must be able to submit a fault report to BT, and track the status of that report. Both the initial submission and the subsequent tracking of a fault report must be carried out over an appropriate electronic interface.

4.86 Oftel proposed that alternative suppliers must be able to trigger a line test, and view the line test results essentially in real-time.

4.87 Oftel proposed that alternative suppliers must have a similar ability to book engineering visits to that available to BT Retail. This issue is discussed in more detail in section 4.6.

4.88 Oftel proposed that BT should have available at all times, including out of hours, sufficient support resource including engineers to cater for the repair care level requirements of an SP's end-users including those on TotalCare (24x7).

BT response

4.89 BT confirmed that its e.Co repair facility provides the proposed functionality. It clarified however that multiple faults had to be recorded singly, ie one fault per entry, and that a new entry can be made as soon as the previous entry has been confirmed. And it indicated that e.Co Repair is only currently available for single lines.

4.90 BT provides a 24 hour repair response facility. The level of response for WLR lines would be that corresponding to the repair care level that the SP has contracted with BT to provide.

SP responses

4.91 All respondents welcomed and supported the proposed e.Co repair facility, many adding that access to information and services such as this was essential to provide a user experience comparable to BT Retail's and to provide equivalence with BT Retail.

4.92 A small number of SPs emphasised the importance of web-based access, and one SP raised the question of SLAs and compensation in case of breach.

Consumer groups and independent submissions

4.93 The single respondent commented that since BT owns the network it made sense that its engineers should repair it, but that no anti-competitive behaviour should be permitted. BT should offer to SPs the same high standard repair service as its own end-users get, and on the same rates and terms as BT Retail.

Oftel analysis and conclusions

4.94 On the proposed fault and repair management functionality, Oftel believes that the e.Co repair facility must be included in WLR2. It should be available for all line types, including multiple lines. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

4.95 Oftel acknowledges that the level of response to be provided by BT for WLR2 lines will be that corresponding to the repair care level that the SP has contracted with BT to provide. Oftel emphasises however that SPs must be able to contract for the full range of SLAs that are available to BT Retail (currently Standard Care, Total Care, Prompt Care, Priority Service), and do so on terms that are cost-oriented and non-discriminatory.

4.6 Engineer visits

Oftel's consultation document proposals

4.96 It may be necessary for BT engineers to visit end-users to repair or maintain a line, or to provide a new connection. This raises two issues: booking appointments, and engineers' activities at the end-user's premises.

4.97 Regarding the booking of appointments, a customer of BT Retail is currently able in real time in the same phone call to give a preferred date and time, be offered the choice between a number of free appointment slots which are closest to that preferred date and time, select one of those free slots, and have the appointment formally booked and confirmed.

4.98 BT is currently developing functionality for wholesale appointment booking as part of its web based e.Co Broadband interface (used for ADSL). This is planned for launch

in early 2003 and allows an SP to offer its end-user effectively the same experience as a BT Retail end-user. An SP will be able to use a web-based form to submit a request for a given appointment time and date, and will receive in real time (10 seconds) a choice of three available appointment slots nearest that time. Oftel proposed that the same functionality should be made available to WLR SPs.

4.99 Regarding the activities of BT Retail engineers at the end-user's premises, Oftel proposed the following principles and requirements:

- The BT engineer acts as an agent for the end-user's SP.
- He acts to fulfil the purpose of the visit and ensure the end-user is satisfied with the work done, but should not undertake work beyond the original purpose without the SP's authorisation.
- He should not engage in any marketing or promotional activity on behalf of BT Retail or any other SP, or make any anti-competitive comments about the end-user's SP or any other SP.

BT response

4.100 BT did not comment specifically on the proposed functionality for booking appointments. It clarified that BT's proposal is to add its existing functionality (part of e.Co Broadband) to e.Co Repair. Since e.Co Repair is only used for repair, the appointment booking would only be available for repair and not for new provisioning. In addition, e.Co Repair is only currently available for single lines.

4.101 On the subject of BT Retail engineers, BT pointed out that the use of the word 'agent' is misleading. A BT Retail engineer is not authorised to act on behalf of and under the control of a SP, he is an employee of BT Retail who is a sub-contractor performing certain tasks under contract to the SP.

SP responses

4.102 On the proposed appointment booking functionality, all respondents welcomed and supported the proposals, many adding that this functionality was essential to provide a proper end to end-user experience and was a 'must have' to provide equivalence with BT Retail. The lack of this functionality (or of key elements that BT Retail has) would be a barrier to entry and would significantly disadvantage SPs.

4.103 A small number of SPs pointed out that the functionality should be web-based, and that it needed to be tested before it could be confirmed as meeting requirements.

4.104 On the subject of BT engineers, a number of respondents broadly agreed with the proposed guidelines. A number of other comments were made, including the need to monitor end-user experience, the difficulty in monitoring adherence to the guidelines, compensation in case of breach, SLAs, and the question of neutral branding (direct end-user contact in a wholesale context has caused confusion in other products).

Oftel analysis and conclusions

4.105 On the proposed appointment booking functionality, Oftel believes that the facility must be included in WLR2. To provide a comparable end-user experience with BT Retail, it should be available for both new provisions and repair, and also for all line types (e.g. multiple lines).

4.106 Oftel acknowledges the comments of BT in relation to the legal status of BT Retail engineers. However, Oftel believes that the principles set out by Oftel in the consultation document remain important, namely:

- The BT Retail engineer acts to fulfil the purpose of the visit and ensure the end-user is satisfied with the work done, but should not undertake work beyond the original purpose without the SP's authorisation;
- The BT Retail engineer should not engage in any marketing or promotional activity on behalf of BT Retail or any other SP, or make any anti-competitive comments about the end-user's SP or any other SP.

4.107 Oftel expects that more detailed guidelines for the management of visits by BT Retail engineers will be agreed as part of the WLR2 implementation programme.

4.7 Billing and Debt management

Oftel's consultation document proposals

4.108 The requirements for information exchange on billing between BT and WLR SPs follow from the SPs' requirements in producing retail and wholesale bills for its end-users and wholesale partners. The components of a bill are line rental, calls, additional services, and a number of irregular or one-off events such as the provisioning of a new line, changes to the service, site visits, etc. These latter events may attract transaction charges (to order the activity) as well as charges for the execution of the activity.

4.109 The main requirement in producing a bill is that it should include all billable events occurring in the period of the bill and up to the date of the bill. In view of the strict billable quality data requirements (BABT or other certification of billing systems) and the technology limitations of some network equipment in delivering data on frequent billable events (principally calls), it is accepted that a small time gap can exist between the last billable event included in a bill and the date of the bill. However, this gap should be no more than a small number of days and be equivalent to that provided to BT Retail by BT Wholesale.

4.110 Different SPs will produce bills at different intervals (e.g. monthly, quarterly) and will spread the actual production of the bills over its end-user base and its chosen billing interval. In addition, end-users can request one-off bills at any time. To ensure the

content of any bill is adequately up to date, the provision of information on billable events must therefore be sufficiently frequent:

- for line rental, additional services, and irregular or one-off events, the frequency should be no less than monthly and possibly greater;
- for calls, the provision of billable quality CDRs must be continuous (i.e. daily) (but incorporating the small time gap described above).

4.111 For wholesale bills, there should also be a calls (CDRs) bill produced on a less frequent basis (e.g. monthly) from which it must be possible to reconcile the daily CDRs. Other billable events must also be reconcilable with data from other operational systems (gateways, faults and repairs, etc).

4.112 For debt management, the priority requirement for a SP is to be able to act quickly with respect to an end-user who is continuing to incur call charges while having not paid overdue bills. A set of escalating restrictions must be able to be applied to the end-user's line by submitting WLR2 'Change' orders on the SPG. Oftel proposed the following specific set of escalating restrictions:

- (a) admin barring of certain types of outgoing call;
- (b) barring of all outgoing calls, including CPS, except essential services (ie 999 and 100, but not allowing operator established or reverse charge calls);
- (c) same as (b), but attempted calls are routed to the SP's credit control function;
- (d) ultimately, terminating the service via a WLR2 'Cease' order on the SPG.

4.113 The orders for all these restrictions must have highest priority on the SPG and be activated within a very small number of hours of being submitted. Likewise, orders to lift the restrictions when appropriate must also be executed with the same speed and priority.

BT response

4.114 BT did not comment specifically on the proposed billing functionality. It indicated that the retail billing system currently used in WLR1 will be replaced by a new wholesale billing system called Genius due for post-testing delivery in October 2003.

4.115 On debt management, BT noted that the onus is on SPs to get CPSOs to bar calls over their own network. Also the speed with which orders can be processed for applying and lifting restrictions relating to debt management will need to be considered in the light of operational experience.

SP responses

4.116 All respondents welcomed and supported the proposals on billing and debt management. One SP pointed out that CPSOs also needed to provide billing and debt management capabilities.

4.117 On billing, a number of SPs emphasised the importance of receiving daily CDRs in order to handle end-user enquiries and for the SP's own operational requirements. Two respondents with WLR1 experience were particularly concerned that the existing BT billing system did not have the capacity and functionality required to handle WLR2 volumes and requirements. They also added their call to that of other SPs for more work on the detail of the billing requirements and capabilities. One SP proposed a KPI for CDRs and pointed out the need for a provision for errored CDRs.

4.118 On debt management, one SP added that Temporary Out of Service (TOS) should be another available level of service restriction.

Consumer groups and independent submissions

4.119 One respondent said that SPs must be able to offer the same standard of service as BT Retail, so must receive regular transfers of data for regular accurate billing.

4.120 Another respondent said that it is reasonable to restrict telephone use if there are unpaid bills and to give priority to the restriction orders, but end-users must be made aware that restrictions will apply if bills are not paid in reasonable time.

Oftel analysis and conclusions

4.121 On billing, there is a consensus on the top-level requirement for daily CDRs (separated by a small time gap from the date of the actual calls) and monthly provision of other billing data. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

4.122 Oftel notes that the retail billing system currently used in WLR1 will be replaced by a new wholesale billing system called Genius due for post-testing delivery in October 2003. Oftel believes that a substantial amount of work will be necessary to understand the capabilities of Genius, and match these to the industry's detailed requirements. Oftel expects this work to form an important part of the WLR2 implementation programme.

4.123 On debt management, there is a top-level consensus about having the ability to escalate the level of service restriction, for example from barring some call types, to barring most call types (except essential numbers), to TOS, to complete service Cease. But at the detailed level, not all SPs may adopt the proposed new Route to Credit Control feature, and BT's OCB does not bar CPS calls (which is the duty of the CPSO). Oftel believes that more detailed specification work is required in this area, as part of the WLR2 implementation programme.

4.124 Concerning the orders on the SPG for applying and lifting the various levels of service restriction (OCB, Cease, etc), it has been agreed as part of the proposals for daily SPG queue management that all these orders should have Priority 1.

4.8 Fraud and security

Of tel's consultation document proposals

4.125 A potential fraud situation exists when an individual or group of individuals uses or attempts to use a service with the intention of not paying for it. The individual(s) may or may not be the end-user. The most obvious evidence of fraud is making unusually frequent, long, expensive calls, and such call patterns can be monitored and detected.

4.126 It is the responsibility of the network carrying the calls to apply monitoring. Where WLR SPs offer CPS this should be done by the CPSOs, but where certain types of calls are carried over the BT network, or all calls are carried over the BT network for limited periods (e.g. between WLR and CPS activation), then the monitoring is the responsibility of BT.

4.127 For these situations, BT should be able to offer two options to SPs:

- provide the raw CDR data so that a SP can carry out its own fraud analysis; the CDRs do not need to be of billable standard but must be completely up to date (including calls in progress), and must be supplied in a format and frequency to be agreed but no less than every 4 hours (subject to technology limitations); and
- carry out call monitoring and fraud analysis on behalf of the SP: unusual call patterns, known fraud risk numbers and countries, etc.

4.128 The required response to suspected fraud is to be able to apply and escalate the debt management measures described in the previous section, with the same high speed and priority. Prompt investigation of physical security of systems may also be required.

4.129 Security refers to establishing and maintaining the state of the physical network, line, and terminations such that (amongst other things) the risk of external fraud and abuse is minimised. It is reasonable to expect that, on transfer to an SP, the line should be in an acceptable state of security.

4.130 Where a situation of fraud or abuse actually occurs, the issue of responsibility and any compensation should be considered on a case by case basis. Circumstances will vary according to where the fraud or abuse occurred (e.g. within the end-user premises, in the access network, etc), whether procedures have been followed (e.g. accessible cabinets left unlocked), etc.

BT response

4.131 BT responded that for call fraud, it currently offers (and will continue to offer) raw CDR data every 4 hours to a SP for it to carry out its own fraud analysis. BT does not currently offer any wholesale service to analyse the raw CDRs on behalf of the SP for

call monitoring or fraud detection purposes, but it will work with industry groups and consider the viability of offering such a service if there is any demand for it.

4.132 BT also commented at some length on matters concerning physical security. Physical security investigations are expensive and not undertaken lightly by BT, and any wholesale service would require careful consideration. Given the extensive and variable environment of its access network, BT cannot give any assurances about the physical security of a line at the point of transfer to a SP. For actual physical fraud or abuse, it is difficult to talk meaningfully about responsibility as circumstances will vary on a case by case basis. BT expects SPs to operate fraud monitoring and business protection procedures and to act promptly (including requesting and responding to assistance from BT where appropriate) to limit damages once fraud is suspected.

SP responses

4.133 The majority of respondents agreed with the broad thrust of the proposals and guidelines, but also made a number of additional observations. There was a general concern that fraud and security are generally sensitive issues that require prompt and special attention. BT should provide the same support and services to SPs as it provides to BT Retail.

4.134 Some SPs noted that there are call fraud opportunities in the gap between WLR2 and CPS activation, which might become known and be exploited. SPs need terms for fraud support from BT during this gap.

4.135 Some SPs noted that it is generally not clear where responsibility lies on fraud and security matters. Formal processes are required for breaches, investigations, liability and compensation.

Consumer groups and independent submissions

4.136 The single respondent said BT must be required to cooperate with SPs to ensure end-users are protected from fraud.

Oftel analysis and conclusions

4.137 On the matter of calls fraud, there is a consensus for the basic requirement to provide raw CDRs every 4 hours. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

4.138 Some SPs will do their own call monitoring and fraud detection, but there may be some demand for a wholesale service from BT. Oftel would expect such a service to be provided on a commercial basis, and it would not form part of Oftel's fit-for-purpose assessment of WLR2.

4.139 Oftel believes that the basic response to call fraud is to quickly apply the appropriate service restrictions as with debt management. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

4.140 On more general fraud and security matters, Oftel believes that the industry as a whole needs to understand better what the issues and risks are, and where boundaries of responsibility can be drawn. Oftel expects more detailed guidelines and processes to be agreed as part of the WLR2 implementation programme. Oftel emphasises however that BT cannot abrogate its responsibility for ensuring the physical security of its own network as a result of a transfer of an exchange line to a WLR SP.

4.9 Malicious calls

Oftel's consultation document proposals

4.141 Oftel proposed that an SP should be able to ask for and obtain support from BT in dealing with end-users who are subject to nuisance or malicious calls. This could range from tracing the origination of the calls, monitoring incoming calls, to using specialist equipment to identify the responsible party. It should be possible to change an affected end-user's telephone number(s) by submitting the relevant Change and Renumber orders on the SPG and CPS Gateways and for this to be executed as quickly and seamlessly as possible.

BT response

4.142 BT responded that its Malicious Calls service is integral to BT Retail's overall customer service offering, and it is expected that SPs will provide their own equivalent service. No wholesale product exists, any development would need thorough scoping, and BT has no estimate of costs and timescales.

SP responses

4.143 The majority of respondents agreed generally with Oftel's proposals. Some also noted that because of their rarity and the impact on the end-user, malicious call situations must be handled well and very sensitively, acting rapidly where possible to resolve the situation or protect the end-user (e.g. by changing the number).

4.144 In view of this, and since BT's experience as the basic PSTN provider makes it best placed to provide the necessary assistance, SPs need to be able to get prompt and full support from BT as and when required.

Consumer groups and independent submissions

4.145 One respondent said BT must be required to cooperate with SPs to ensure end-users are protected from malicious calls, everything reasonable to help should be done.

4.146 Another said the wording of the proposal is too tentative: BT must give the same support to SPs as it does to BT Retail in the case of nuisance or malicious calls.

Oftel analysis and conclusions

4.147 Oftel agrees with the importance of handling malicious calls situations rapidly, well and with sensitivity. Because of its access to appropriate equipment, expertise, and to network facilities and locations to deploy them, BT is without doubt best placed to provide the assistance required. Oftel also believes that it is more efficient to retain BT as the single point of contact with the police services, should this be necessary as part of any investigation, rather than requiring contact with the police services to be routed via multiple SPs.

4.148 Oftel therefore believes that BT should offer to SPs the same full support for handling malicious calls as it offers BT Retail. Oftel expects this requirement to form part of its fit-for-purpose assessment of WLR2.

Chapter 5

Capacity of BT's electronic gateway and forecasting

5.1 Background

5.1 Service Providers (SPs) will submit orders for WLR2 via an electronic Service Provider Gateway (SPG). The cost of implementing the SPG and associated systems will be a major element in the total set-up costs for the WLR2. Similarly, the operational costs for WLR2 are likely to be driven by the level of staffing required to maintain and operate the SPG. The size of these costs will be related to the volume of transactions.

5.2 Oftel therefore needs to specify what transaction volume the gateway must be designed to handle. This specification represents a trade-off between the cost of providing too much capacity, and the operational risk of providing too little. In this chapter we therefore need to address two issues:

- What is the optimum system capacity, taking into account this trade-off ?
- On those occasions when the system capacity is exceeded, how is it rationed between different SPs ?

5.2 System capacity and operational planning

Oftel's consultation document proposals

5.3 The primary driver for the system capacity is the number of orders expected to be submitted. The approach that has been taken in the past to estimating order volume is a 'bottom-up' approach: asking SPs to submit forecasts for the volume of orders that they expect to submit. BT then adds these together in order to produce a forecast for the total order volume.

5.4 However, this approach is flawed. Many SPs are targeting the same market, but there is a tendency for each individual SP to overestimate its market share. Adding together the individual SP forecasts in order to produce a total forecast tends to result in a significant level of double-counting. This results in BT over-dimensioning its systems and the associated staff-effort. This in turn results in BT incurring substantial additional cost, over and above that required by the actual demand.

5.5 Oftel therefore proposed to set the total system capacity based on a 'top-down' approach. This would involve estimating the total addressable market for WLR2 and likely rate of take-up, and using this to predict total order volumes. This should result in a more realistic (and conservative) estimate of system capacity, since although the top-down forecast will be subject to all the normal uncertainties associated with market forecasts, it is at least not susceptible to the severe systematic errors associated with double counting.

5.6 Oftel commissioned Schema, a well-established consultancy with a strong track record in telecommunications market analysis, to carry out the necessary study. Schema were asked to produce a monthly forecast for WLR2 order volumes covering the first two years after product launch. The detailed methodology underlying this forecast is set out in a report which has been published by Oftel (http://www.oftel.gov.uk/ind_groups/line_rental/wlrog.htm). In what follows we summarise the key conclusions.

5.7 Schema produced a number of forecasts for the take-up of WLR2. The mid-range forecast, which is the one Oftel proposed to adopt, predicts that the total number of WLR2 orders in the first two years after launch will be 2.871 million. This can be split as follows:

- WLR2 orders for the residential market are expected to make up 2.328 million of this total, whilst WLR2 orders for the business market are expected to make up the remaining 0.543 million.
- New orders for WLR2 plus CPS are expected to make up 2.350 million of the total, whilst transfers of existing CPS subscribers to WLR2 plus CPS are expected to make up the remaining 0.521 million.

5.8 There is always a great deal of uncertainty associated with the forecast for any new product. In addition to the mid-range forecast described above, Schema produced an 'upside' forecast of 4.965 million WLR2 orders after 2 years, and a 'downside' forecast of 1.548 million orders. The upside forecast assumes that the propensity of consumers to switch is higher than derived from the primary market research, and tends towards the levels seen in the energy market. The downside forecast assumes that the propensity to switch is significantly lower than that seen in the primary market research.

5.9 All these forecasts were based on the assumption that the WLR2 product is fit for purpose. The three top-level requirements identified by Schema are that the Product Specification must allow SPs to offer an equivalent product to that offered by BT Retail, that the pricing must provide SPs with sufficient margin to cover their own costs, and that the processes associated with ordering in-life service management for WLR2 do not introduce a significant overhead. If these requirements are not met, then order volumes could be much lower than the current forecast. It is particularly important to note that the forecasts for the business market were highly dependent on the inclusion within WLR2 of a fit-for-purpose ISDN product.

5.10 In order to predict the monthly volume of orders, Schema applied different S shaped take-up curves to different market segments. WLR2 for business customers is expected to peak after 18 months, whilst WLR2 for residential customers is expected to peak after 24 months. Existing CPS customers are expected to be transferred to WLR2 plus CPS over the first 12 months. The order volumes are expected to peak approximately one year after launch, at which point an order volume of 209,000 per month was expected.

5.11 There is not a one-to-one relationship between the order volume estimated above and the transaction volume. Although we expect orders for the provision and transfer of lines to dominate the total, there are a variety of other order types, used to change or cease existing lines. These are not counted in the total order volume derived by Schema, but will contribute to the total transaction volume. BT told Oftel that the percentage of change and cease orders is typically 20%, increasing the peak projected order volume from 209,000 to 251,000.

5.12 Oftel understood from BT that the SPG is capable of handling 500,000 orders per month. Oftel therefore concluded that there is roughly a factor of 2 headroom between the projected peak order volume and the capacity of the existing electronic gateway. Oftel suggested that this was likely to be sufficient, and that it was not appropriate to invest in increased gateway capacity.

5.13 Oftel also considered whether the main bottleneck is likely to be the number of transactions that can be handled by the SPG, as discussed above, or whether further constraints may exist associated with BT's underlying OSS systems. BT told Oftel that the main bottleneck is expected to be the SPG, and that BT's underlying OSS systems are unlikely to have further capacity constraints over and above those already discussed.

5.14 The Schema forecast provides an initial picture of the market size and take-up rate for the WLR2 product. Oftel proposed that this forecast be reviewed on a regular basis, in the light of practical experience, in order to ensure that BT can continue to use it as the basis for the operational management of its staff. Oftel proposed that such reviews take place at three-monthly intervals, with the first review taking place three months after the product launch.

BT response

5.15 BT had no comment on the reasonableness of Schema's forecasts.

5.16 Based on Schema's forecast numbers, BT stated that there was no need to increase the SPG capacity. However, it noted that the additional allowance for Change and Cease orders should be 30% (and not 20%).

5.17 BT stated that it will use individual SP forecasts, and not just the Schema top down forecasts, for resource planning. BT noted that the individual SP forecasts provide a better profile of order types than the top down forecasts.

5.18 BT believed that it would be sufficient to review the top-down forecast every 6 months, rather than every 3 months as proposed by Oftel.

SP responses

5.19 With a few exceptions, the majority of respondents expressed varying levels of concern not just about the capacity of the SPG but also of the CPS gateway and BT's other back office systems, notably the CSS.

5.20 Six respondents agreed with Oftel's analysis and the conclusion that there is no need to increase SPG capacity. One said further that the Schema forecasts could in fact be optimistic.

5.21 However, eight respondents commented that although the current capacity of 500,000 transactions per month would be sufficient to start with, they had strong concerns that this would not remain so subsequently. They commented, for example, that the Schema forecasts did not count transfers from Indirect Access. Some respondents believed that consumers' propensity to switch supplier might be greater than that assumed by Schema. Others commented that the number of CPS subscribers is now growing rapidly, and that the total number of CPS end-users wishing to switch to WLR2 when it is launched will be greater than forecast by Schema.

5.22 Five respondents expressed similar concern about the capacity of the CPS gateway and the fact that this had not been considered in Oftel's analysis. One argument was that the combination of WLR2's initial requirements and those of on-going independent CPSOs could exceed the current capacity, especially if CPS transfer could not be seamless and required two transactions per transfer.

5.23 Six respondents expressed similar concern about the capacity of BT's back office CSS system and the fact that this had not been considered in Oftel's analysis. The CSS is required by both SPG and CPS gateways. One SP quoted a figure obtained through FSPA that BT's 29 CSS regional sub-systems have a daily limit of 7000 transactions per business line, and was concerned that this could be insufficient for a particular regional focus by a number of SPs.

5.24 Because SPs believe it is vital to avoid rationing through lack of capacity, the general response was that it is essential to have regular and frequent reviews of the top down forecasts. Most agreed that every 3 months should be enough to maintain sufficient headroom, some thought reviews might need to be more frequent.

Consumer groups and independent submissions

5.25 One respondent with pointed out that there is no equivalent in WLR1 to the Status Update order used elsewhere. Additional capacity may be required if SPs using WLR2 are able to poll the SPG for a status update.

Oftel analysis and conclusions

SPG capacity

5.26 Oftel acknowledges that there is a substantial degree of uncertainty associated with the market forecast for any new service. However, Oftel believes that the forecast produced by Schema takes a balanced approach to these uncertainties, and does provide a reasonable basis on which to plan the SPG capacity.

5.27 Oftel does acknowledge that the migration from CPS to CPS plus WLR2 could result in a surge of orders when WLR2 is first introduced. This will however be a temporary effect, and one that can be managed, since the rate of migration is to a certain extent under the control of SPs.

5.28 Oftel notes BTs comment that Change and Cease orders increase the total transaction volume by 30%, rather than the originally assumed 20%. Since the SPG can support a total of 500,000 transactions per month, this means that the SPG should be able to support a total of 384,000 orders for the new provision or transfer of lines. This still leaves substantial headroom compared to the peak projected demand of 209,000. Oftel therefore remains of the view that there is currently no justification for investing in increased SPG capacity.

5.29 Oftel does not exclude the possibility of an SPG upgrade at some point in the future. As discussed in more detail below, Oftel will continue to maintain its top-down forecast for projected order volumes. This will provide a 2-year forward view of the required SPG capacity. If this forward view suggests that order volumes are likely at some point in the future to exceed SPG capacity for three consecutive months, then Oftel will review with BT possible options for upgrading the SPG capacity.

Operational planning

5.30 Oftel remains of the view that the top-down forecast should be adequate for BT as the primary basis for its operational planning. SPs should not be required to submit bottom-up forecasts to BT for this purpose.

5.31 Oftel acknowledges that the current top-down forecast does not provide the same breakdown by order type as the bottom-up forecast currently submitted by SPs. However, this is easily remedied, and should result in a top-down operational forecast that is more accurate than a bottom-up forecast, for reasons that have already been discussed.

4.32 Oftel proposes to review with BT the information that it requires for its operational planning. Oftel notes that the current bottom-up forecast submitted by SPs summarises on a monthly basis the number of New connection, Transfer, Change and Cease orders expected to be submitted for each line type during the forecast period. This information can straightforwardly be provided by a top-down forecast, as discussed below.

- It will first be necessary to split the projected order volumes according to whether they are for business or residential lines. This can be straightforwardly done from the top-level market analysis. It will also be necessary to split the forecast for business

lines between single and multi-line auxiliary lines, and this is probably best done on the basis of historical data.

- It will then be necessary to split the projected order volumes according to whether they are Transfers or New connections. This split again follows straightforwardly from the top-level market analysis, and depends on what percentage of sales activity is related to churn between SPs, as opposed to sales of new services to new end-users (e.g. cable customers).
- Finally, it is necessary to predict the volume of Change and Cease orders. This is probably best done on the basis of historical data, by for example looking at the percentage of lines in service that are typically subject to Change orders in any given month.

5.33 Oftel believes that the top-down forecast will need to be reviewed on a regular basis if it is to be used as the basis for BT's operational planning. Oftel remains of the view that a review every three months is appropriate, but is happy to carry out such reviews with whatever frequency is required by BT.

5.3 Forecasting and rationing

Oftel's consultation document proposals

5.34 Whatever the gateway capacity, there is always a risk that it will be exceeded on a day-to-day basis. A process needs to be designed which rations the available capacity in a transparent and efficient manner.

5.35 Oftel proposed two operational processes for rationing gateway capacity. The first process is designed to handle daily variations in order volume. The primary aim of this process is to prioritise orders, with high-priority orders being handled immediately, and low-priority orders being held until the following day where no capacity exists. This is likely to be an efficient means of handling short-term capacity problems. If however there is a longer period during which the order volume exceeds the gateway capacity, then it will be necessary to find some means of scaling back the order volume. This is the aim of the second process described below.

5.36 Both processes take as a primary input a three-month rolling forecast submitted by each service provider. Oftel stated in the consultation document that the only purpose for which this forecast is provided is as an input to the rationing process. BT's operational planning should be based on the top-down forecast discussed above.

5.37 Oftel proposed that BT will review the forecasts provided by the SPs each month, in order to establish whether the total volume of orders is expected to exceed capacity during the forecast period. If it does not, then no further action is necessary. However, if there is any month for which the forecast exceeds capacity, then it becomes necessary to scale back the individual forecasts. An important strength of this approach is that it

provides advance warning of capacity constraints, allowing operators to adjust their marketing activity.

5.38 The simplest way to scale back the forecasts would be to scale them all back by the same percentage. This would however result in a strong incentive to over-forecast in order to book capacity. Oftel therefore proposed that the capacity allocated to each operator should be proportional to a figure of merit, whose value reflects the historical accuracy of each operator's forecast. The equation to be used by the rationing process is:

$$C_i = A_i \times F_i \times C / \sum_i A_i \times F_i$$

Where

F = The total volume of orders forecast by all operators in any given month

F_i = The volume of orders forecast by operator i in any given month

C = The total order-handling capacity of the gateway

C_i = The capacity assigned to each operator after the rationing process

A_i = The figure of merit for operator i.

5.39 Note that in the particular case where each operator has the same figure of merit, this equation reduces to C_i=F_i×C/F. In this case each operator is allocated capacity pro rata to their forecast, as would be expected.

5.40 It is necessary to establish the precise relationship between the figure of merit and the accuracy of each operator's forecast. In doing this, Oftel proposed the following underlying principles:

- No penalty should be applied to operators whose forecasts are accurate within ±10%.
- No penalty should be applied to operators who under-forecast (ie they submit more orders than they have forecast). These operators are already being penalised because of the fact that their excess orders will receive low priority (see below).
- A penalty should be applied to operators who consistently over-forecast. This is essential in order to remove the incentive to over-forecast in order to book capacity. The size of this penalty must be high enough to deter over-forecasting, but not punitive. For example, if an operator consistently over-forecasts by a factor of 2, then the figure of merit must be less than 1/2, in order to ensure that the capacity allocated to that operator is less than if they had produced accurate forecasts. Oftel proposes to adopt a negative exponential with λ set to 1.

5.41 Based on these principles, Oftel proposed the following relationship between the forecast error (E) in any month and the figure of merit (A) used by the rationing process:

For E < 1.1, A = 1

For E ≥ 1.1, A = e^{-(E-1)}

5.42 The rationing process described above ensures that within any given month the capacity assigned to each SP can be delivered by the gateway. It does not however protect against short-term problems caused by daily variations in order volume.

5.43 Oftel proposed that for WLR2 on a daily basis, orders received by BT are allocated to one of three queues:

- Priority 1: These are order types which required urgent action (e.g. Cease, Outgoing Call Barring). These are processed ahead of any other orders, irrespective of the capacity allocated to each operator. BT will need to reserve an appropriate level of gateway capacity in order to handle such orders.
- Priority 2: These are orders submitted by each service provider which are within the capacity which has been allocated to that service provider for that day. It should be possible to process all Priority 2 orders on the day that they are received, unless the volume of Priority 1 orders is unexpectedly high, or there is a systems failure. Any Priority 2 orders which fail to be processed on the same day will appear at the head of the Priority 2 queue the following day.
- Priority 3: These are orders submitted by each service provider which are additional to the capacity which has been allocated for that day. These will be processed on a best efforts basis. Any Priority 3 orders which fail to be processed on the same day will be treated as the first orders received on the following day. They will be allocated to the Priority 2 queue as long as the capacity allocated to each service provider is not exceeded. If the capacity allocated is exceeded, then any excess orders will be submitted to the Priority 3 queue.

BT response

5.44 BT responded that it welcomed any move to promote accurate forecasting, and supports the proposal to ration according to the figure of merit.

5.45 BT noted however that it will use individual SP forecasts, and not just the top-down forecasts, for resource planning. For this reason, BT disagrees with Oftel's detailed proposal for deriving a figure of merit. BT believes that consistent under forecasting should also reduce an SP's figure of merit.

SP responses

5.46 The vast majority of respondents welcomed the forecasting proposals. SPs noted that the current proposals essentially extend the system already in use for Calls and Access. This system is based on the use of operational penalties for over-forecasting, and this is preferable to the financial penalties used in the context of CPS.

5.47 SPs agreed that the general approach of scaling back forecasts that are consistently wrong is appropriate. It might however be necessary to tweak the figure of merit equation based on initial experience.

5.48 Some SPs expressed concern that the proposals might not be flexible enough. At any given time, many SPs can be competing for big bids, engaged in marketing campaigns, or considering a merger, all of which can unpredictably result in big step changes (up and down) in forecasts. To reduce the potential problems, there should be no restrictions on monthly changes in forecast, and the process should include an exceptional forecast facility and capacity trading.

5.49 Several SPs suggested that a similar forecasting regime to that proposed for WLR2 should also be adopted by CPS, even if this means revisiting the issue of CPS cost recovery.

Consumer groups and independent submissions

5.50 The single respondent agreed with the need for some mechanism for rationing and for penalising in some way SPs who consistently over forecast, and said the proposals seem fair.

Oftel analysis and conclusions

5.51 Oftel takes note of the responses received, and believes there is a substantial degree of consensus that its proposals provide a transparent and efficient means of rationing available capacity. These proposals will therefore be incorporated into the Product Specification for WLR2, and the implementation of these proposals will form part of the fit-for-purpose assessment of WLR2.

5.52 Oftel acknowledges that there may be a need to make minor modifications to these proposals in light of experience. In particular, it may be necessary to adjust the equation used to derive the SP figure of merit, in order to ensure that this provides the right incentive properties. Oftel will undertake to review this as and when requested by BT.

5.53 Oftel notes BT's desire to use the SP forecasts for other purposes than as an input to the rationing process. Oftel is aware of two specific requirements:

- BT has stated that it wishes to use the SP forecasts for operational planning. Oftel does not however believe that this is necessary. As already discussed, Oftel believes that an expanded and regularly reviewed top-down forecast is likely to be adequate as the basis for BT's operational planning.
- BT has also stated that it wishes to use the SP forecasts as an input to its credit vetting process. Oftel acknowledges the need for BT to adopt an appropriate credit vetting process, and has no objection to BT using the SP forecasts as one input to this. This should not however result in any attempt by BT to apply more stringent operational or financial penalties to those forecasts than those proposed here.

Chapter 6

WLR2 consumer issues

6.1 Introduction

6.1 In Oftel's consultation document, Oftel argued that a fit-for-purpose WLR2 product would encourage competition, and was likely to bring significant changes in the way that services were marketed and delivered to consumers. Oftel reflected on related experiences in the energy sector and from other telephony services, notably CPS, and detailed a number of additional consumer protection measures to be introduced alongside WLR2.

6.2 In considering the establishment of additional consumer safeguards, the consultation document recognised that the development of consumer protection rules needed to ensure that the transfer process balanced the interests of consumers with the need to ensure that the competitive process was not inappropriately constrained.

6.3 Four main areas were identified where policy and processes needed to be developed as part of the WLR2 transfer process:

- minimising the risk of customers having their service transferred without authorisation.
- encouraging fair and appropriate marketing activity.
- ensuring that customers are adequately informed about the competitive services.
- preventing inappropriate 'save' activity by the losing operator.

6.2 'Notification of transfer' letters

Oftel's consultation document proposals

6.4 In its consultation document, Oftel took the view that in order to prevent 'slamming' (i.e. transfer of service from one provider to another without the consumer's permission) and misselling with WLR2, it is essential that customers are made aware that the transfer is taking place. Additionally, it was argued that consumers should have adequate opportunity to stop the process in the case of unauthorised transfers or where they wish to change their mind.

6.5 Oftel proposed that consumers wishing to transfer between telephone companies should receive a mandatory letter from both the gaining and losing telephone companies. This approach, which is similar to that adopted in mid-2002 for CPS, was seen as a significant consumer protection safeguard from the risks of 'slamming' and/or misselling.

6.6 Oftel invited comments on three specific questions:

- Should mandatory letters informing customers of the details of the transfer be required of both the losing and gaining provider?
- Should letters always follow a standard format?
- Are there any circumstances under which departures from standard text may be justified?

Summary of responses

Should mandatory letters informing customers of the details of the transfer be required of both the losing and gaining provider?

6.7 There was general agreement that both the gaining and losing providers should send mandatory letters. The only issue arising was whether notification by e-mail, mobile text and web-based systems should be allowed as an alternative to letters. Consumer groups have expressed concern that the use of mobile text responses would currently be inadequate; concerns included a lack of acknowledgement of receipt and the inability to obtain hard-copies of such a notification.

Should letters always follow a standard format?

6.8 While there was strong agreement that letters should be restricted to neutral/factual information, and largely follow a standard format, with no 'save' and marketing content, a number of respondents argued that the annexed letters were overly prescriptive. Those respondents argued that there should be clear rules rather than prescriptive text and layout so that providers have the flexibility to tailor their own letters in order to reflect brand and corporate identity.

Are there any circumstances under which departures from standard text may be justified?

6.9 As indicated above, there was broad agreement that there should be flexibility in order for letters to be tailored (e.g. details of services not affected/introductory material). The key issues arising, though, were the extent to which any variations from standard text should be monitored, and whether there should be prior approval by Oftel/Ofcom of all deviating letters.

Oftel analysis and conclusions

Should mandatory letters informing customers of the details of the transfer be required of both the losing and gaining provider?

6.10 In the light of comments received, Oftel confirms that there should be a mandatory requirement upon the losing and gaining providers to inform customers of the details of the transfer by letter. On the issue of whether alternative methods of communication are

acceptable, Oftel accepts that notification by e-mail should be permitted so long as an opt-in approach is adopted, with customers being required to explicitly request receipt of information electronically. However, Oftel does not consider that notification by mobile text is appropriate at this time; the issue should be kept under review to take account of developments in technology and changes in consumer attitudes.

Should letters always follow a standard format?

6.11 On balance, Oftel has been persuaded that there should be an element of flexibility within the letters in order to accommodate individual circumstances. As a consequence, Oftel considers that an approach where standard information rather than standard text is required would be preferable (which is also the approach taken for CPS). Oftel would wish to develop and refine its approach in this area over the coming months in discussions with representatives from industry and consumers.

6.12 A significant issue that emerged from the consultation was that of whether letters should contain the names of both the losing and gaining providers, so that consumers can be fully informed about which providers are claiming to have won their business. The same issue is currently being actively considered in the context of CPS, as there is evidence from CPS that consumers, in cases of apparent slamming, are experiencing difficulties in determining which service provider is responsible.

6.13 In November 2002, Oftel issued a position paper entitled “CPS ‘save’ and ‘cancel other’ activity”. In that paper, Oftel set out its policy proposal that consumers should be able to find out the name and contact telephone number of the gaining provider by means of a ‘hotline’ service provided by BT Wholesale. This would remove the need for the losing service provider (in most, but not all, cases BT Retail) to have information about the gaining service provider which gaining service providers fear could be misused.

6.14 BT did not accept Oftel’s proposal as set out in the November 2002 paper for a BT Wholesale ‘hotline’ (and did not accept Oftel’s position in relation to CPS ‘save’ and ‘cancel other’ activity more generally). Therefore Oftel has opened an ‘own initiative’ investigation into CPS ‘save’ and ‘cancel other’ activity which is considering (amongst other things) how information about the gaining service provider can best be made available to consumers. Oftel expects that the decision taken on this issue in the context of CPS will drive the policy to be implemented for WLR2. Oftel does not wish to pre-empt the outcome of the CPS investigation by ruling on this particular issue in this Statement.

Are there any circumstances under which departures from standard text may be justified?

6.15 In considering the responses received, Oftel has taken the view that its role should be restricted to ensuring that there are clear rules and guidance as to information (mandatory/prohibited) and style (clear/factual/neutral). Furthermore, Oftel has decided

that it should, at least initially, have sight of all BT letters in order to reassure industry, but would adopt an ad hoc approach to monitoring in the long-term, reacting to complaints as they arose. Oftel would wish to develop and refine its approach in this area over the coming months in discussions with representatives from industry and consumers.

6.3 WLR2 switchover period

Oftel's consultation document proposals

6.16 Oftel proposed that the WLR2 process should provide for a standard switchover period which is applicable irrespective of the method of sales or marketing approach. In particular, Oftel argued that the switchover period should ensure that there is a sufficient period of time between the order being made and WLR2 being implemented for the transfer letter to be received, considered and acted upon by the consumer. On balance, Oftel was persuaded that the switchover period for WLR2 should be analogous to that of CPS (i.e. 10 working days, excluding Saturdays).

6.17 Additionally, Oftel noted that the proposed switchover period would not accommodate all possible variants of the statutory cooling-off periods, depending on the particular sales or marketing approach used. As a result Oftel proposed that providers should be required to ensure that orders do not mature until the statutory cooling-off period has been met, except in cases where consumers have chosen to waive their rights.

6.18 Oftel invited comments on two specific questions:

- Should the switchover period be analogous to that of CPS (i.e. currently 10 working days, excluding Saturdays)?
- Should providers ensure that orders do not mature until the statutory cooling-off period has been met?

Summary of responses

Should the switchover period be analogous to that of CPS (i.e. currently 10 working days, excluding Saturdays)?

6.19 In considering the responses received, Oftel notes that there was broad agreement that the switchover period should be the same for CPS and WLR2, and that 10 days was appropriate as it encompassed the majority of statutory cooling-off periods.

6.20 However, some respondents argued that 10 days was too long, and that efforts should be taken to reduce this period.

Should providers ensure that orders do not mature until the statutory cooling-off period has been met?

6.21 There was broad agreement that this was a sensible proposition, although further clarification was sought, particularly in respect of consumers who change their mind during the switchover period but after the statutory cooling-off period. While it was noted that consumers will be able to change their mind during the statutory cooling-off period, and be assured of free, immediate action, without financial penalty, it was not clear whether this is/should be the case after the statutory cooling-off period but before the end of the switchover period.

Oftel's analysis and conclusions

Should the switchover period be analogous to that of CPS (i.e. currently 10 working days, excluding Saturdays)?

6.22 Oftel notes the broad agreement that the switchover period should be the same for CPS and WLR2. Given this, and in the light of comments received, Oftel remains of the view that 10 working days is an appropriate period, particularly given that it encompasses the majority of statutory cooling-off periods. Oftel therefore confirms its approach.

6.23 However, Oftel also notes that some respondents argued that 10 working days was too long, and that efforts should be taken to reduce this period. As indicated in its consultation document, Oftel supports this objective, and proposes that the switchover period be kept under review by the CPS Group, and reconsidered in the light of appropriate evidence; in particular, how quickly the anti-slamming letters are received by customers, the timing of customer requests to cancel switchover, and how quickly transfers are cancelled during the switchover period following requests from customers.

Should providers ensure that orders do not mature until the statutory cooling-off period has been met?

6.24 Having considered the responses and discussed further with representatives from industry and consumers, Oftel confirms that:

- In the case of slamming, consumers will have the right to remain with their current provider, and not be subject to any form of financial penalty, where this has been detected after the statutory cooling-off period but before the switchover period is completed.
- Consumers will have the right to change their mind after the statutory cooling-off period but before the switchover period is completed, and remain with their current provider, and not be subject to any form of financial penalty.

6.25 Following the consultation, some consumer representatives suggested that there should be a fast-track reversion for customers who had been subject to slamming /

misselling, and where this has not been detected until after the switchover period. Such a reversion process would be significantly shorter than 10 days as it would not be dependent on the despatch of the mandatory letters from gaining and losing providers. BT and SPs indicated some support for this idea in principle; SPs' support was provisional on the fast-track reversion being initiated by the service provider to which the customer had been switched.

6.26 Oftel believes this could potentially be a useful process for WLR2, providing benefits to all parties. Such a process would need to be focussed on customers where it was agreed by **all** parties that they had been transferred without their authority. Without this agreement, the absence of mandatory letters creates the risk of repeated slamming and disputes. Although not part of the Product Specification, Oftel encourages the industry and consumer stakeholders to develop the proposal further.

6.27 A similar suggestion for a fast-track reversion process has recently been made by CPSOs as part of their case for a reduction in the 10-day switchover period. Oftel considers that the existence of a fast-track reversion process would not in itself be sufficient to justify a reduction of the switchover period, and that further evidence about the consumer experience during the switchover period (as outlined above) would also have to be considered.

6.3 Protection of customers using social telephony products

Oftel's consultation document proposals

6.28 As discussed in more detail in Section 2.9, BT provides some retail packages which are designed to meet social objectives in relation to vulnerable parts of the community. Examples include the Light User Scheme, In Contact, the Chronically Sick and Disabled Scheme, and the Schools' Internet Caller service.

6.29 Oftel believed it may be inappropriate for these lines to be transferred from BT to a WLR SP without a positive confirmation from the end-user that they wish to cease the social telephony product. One method of ensuring this would be to specify that a WLR order submitted by the SP for a line on which these services are provided be rejected, but with a reject code which specifies precisely what service is causing the rejection. The WLR SP would then be able to go back to the end-user, and ask it to cease the service with BT, in order to allow the transfer to go ahead. Oftel proposed that this approach be adopted initially but be subject to review in the light of experience.

6.30 Oftel invited views as to whether customers using BT social telephony products should have an increased form of protection during transfer and, if so, on the form that this protection should take.

Summary of responses

6.31 Views from consumer groups on additional protection for users of social telephony products were mixed. Some consumer organisations, including the Public Utilities Access Forum, DIEL and Age Concern, expressed concern that additional protection could deter users of 'low user' and pre-pay schemes from switching even where the alternative commercial offer suited their needs. They also pointed out that, as a result of Oftel's 2002 Retail Market Review, the BT's Light User Scheme was likely to be extended to higher spending customers, who would be more likely to be targeted by WLR SPs. Other organisations, such as the Welsh and Northern Ireland Advisory Committees on Telecoms, felt that the maximum protection should be afforded to vulnerable customers.

Oftel's analysis and conclusions

6.32 Oftel has noted the split views on this issue, but remains of the view that enhanced consumer protection measures are required to protect vulnerable customers who are users of social telephony services. Oftel has therefore concluded that when an SP submits an order for WLR on exchange lines over which such services are provided the order should be rejected by BT. The SP will have to ask the end-user to cease LUS if they wish to transfer their line to that SP.

6.33 Oftel will however keep this issue under review, based on early experience with the standard consumer protection measures for the WLR and CPS services. Oftel will also continue to consider, in discussion with stakeholders, whether the enhanced consumer protection that it believes to be required can be provided by some other means than is proposed here. To prevent the measure creating an unreasonable barrier to switching, Oftel proposes to review the guidelines for exiting special schemes.

6.4 Ensuring fair and appropriate sales and marketing activity

Oftel's consultation document proposals

6.34 In its consultation document, Oftel argued that the example of the energy market following the introduction of competition showed that it is highly likely that full and effective use will be made of direct selling as a channel to market (on the doorstep, by telephone and in public places such as supermarkets). While such activity had significantly contributed to the establishment of effective competition in the energy sector, there had been instances of irresponsible sales and marketing activity, undermining consumer confidence in the transfer and switching process and causing consequential damage to the industry as a whole.

6.35 Accordingly, Oftel proposed that all WLR SPs should develop their own codes of practice, incorporating provisions which promote good practice and responsible sales and marketing for WLR2, and facilitate consumer understanding about the service and behaviour of WLR SPs. The development of such codes, it was argued, would contribute to the objective of securing adequate consumer protection, ensuring certain safeguards from unethical, unfair or irresponsible sales and marketing activity.

6.36 Under the Communications Bill and the new authorisations regime, all providers would be required to have Codes of Practice which Oftel/Ofcom would approve.

6.37 Oftel annexed draft guidance in respect of the content of sales and marketing codes of practice, reflecting ongoing work from both CPS and the energy industry, and invited comments on the draft guidance.

Summary of responses

6.38 In considering comments received, Oftel notes that comments were broadly supportive. There were a few minor suggested modifications which Oftel will take into account in deciding whether changes are necessary to the current guidance.

Oftel's analysis and conclusions

6.39 It is proposed that Oftel refine guidance on codes of practice over the coming months in discussions with representatives from industry and consumers. Oftel will publish final guidance in spring 2003.

6.5 Ensuring that customers are adequately informed about competitive services

Oftel's consultation document proposals

6.40 In its consultation document, Oftel argued that experience of other telecoms products and from other sectors highlighted that independent consumer guidance would provide an important aid to decision-making and consumer protection. Oftel therefore developed a Consumer Guide, describing the WLR product and identifying issues which consumers may wish to take into account when considering changing supplier.

6.41 Oftel published a Consumer Guide in October 2002 for the purposes of WLR1 in consultation with representatives from consumer groups and industry. This was annexed to Oftel's consultation document, and views were invited as to what further changes were necessary to reflect future enhancements under WLR2.

6.42 Oftel also sought comments in relation to determining an appropriate publications strategy to ensure that there is good consumer awareness of the Guide and codes. Oftel highlighted a number of available options, including publishing on the Oftel website, ensuring wide circulation via independent sources and/or telephone companies, an extensive advertising campaign, targeting both local and national media and the potential of joint initiatives among WLR SPs.

Summary of responses

6.43 Comments were broadly supportive, and only a few minor modifications were suggested to the consumer guide.

6.44 There was broad consensus that publicity was important, and that consideration should be given to the widest possible circulation of the consumer guide and codes. The issue of joint promotional material and activity was also touched upon, although it was argued that this should be voluntary.

Oftel's analysis and conclusions

6.45 In the light of comments received, Oftel proposes to revise the Consumer Guide in consultation with the representatives from industry and consumers ahead of WLR2 launch. Additionally, Oftel intends to develop an appropriate publicity/distribution strategy with representatives from industry and consumers ahead of WLR2 launch.

6.6 Preventing inappropriate 'save' activity by the losing operator

Oftel's consultation document proposals

6.46 In its consultation document, Oftel explained that it had so far taken the view in relation to both Calls & Access and CPS that 'save' should be permitted on the basis that such activity helps inform consumers of the options available to them, and that well informed consumers were important for effective competition.

6.47 Oftel also noted that following informal consultation on 'save' and 'cancel other' in relation to CPS, it had issued a position paper in November 2002 entitled "*CPS 'save' and 'cancel other' activity*". In this paper, Oftel had set out its policy in this area. Specifically, Oftel recommended that 'save' activity should not be banned, but that all losing service providers should be able to make 'save' calls during the CPS transfer process. Furthermore, Oftel set out a number of rules applicable to 'save' activity to minimise misuse, including that BT should not use the 'cancel other' facility in connection with 'save' activity, where the customer has simply changed his or her mind. To reduce the potential for consumer confusion, Oftel also proposed in this paper that the name and contact telephone number of the service provider contracting with the customer should pass in the electronic CPS set-up order from the CPS operator to BT Wholesale. (This latter proposal is discussed earlier in this Chapter).

6.48 Oftel further proposed that the measures set out in Oftel's paper should be reviewed six months after implementation in order to assess their effectiveness.

6.49 In its WLR consultation document, Oftel argued that it was desirable to have a common set of rules that are applicable to both WLR2 and CPS, unless differences are justified, and expected that the same principles outlined in Oftel's position paper "*CPS 'save' and 'cancel other' activity*" should apply in connection with WLR2.

6.50 Additionally, Oftel also sought views about 'save' activity in relation to the migration of existing CPS customers to WLR2. This is an issue that does not arise with CPS and is specific to WLR2. Oftel argued that such transfers are likely to form a significant

proportion of all orders in the initial stages of take-up of WLR2, and that it may be inappropriate for BT to engage in 'save' activity for the calls part of the telephone service during this migration. Oftel therefore proposed that in order to prevent BT being entitled to a second opportunity to engage in 'save' activity during this particular switchover period for the calls element of the service, there may be merit in restricting any 'save' activity to the line rental element of the service only.

Summary of responses

6.51 While there were differing views on the merits of 'save' activity, it was agreed that a common set of rules was desirable.

6.52 There was little consensus as to whether BT 'save' activity should be restricted to the access element of the customers' service in the case of the transfer of existing CPS customers to WLR2. A number of respondents agreed that it would be sensible to restrict BT's 'save' activity in such cases, whereas other respondents were not supportive, and contended such activity had the potential to confuse consumers. There were also concerns about how such a policy would be effectively monitored and enforced.

Oftel's analysis and conclusions

6.53 As explained earlier in this Chapter, due to lack of voluntary agreement to Oftel's CPS proposals at the end of 2002, Oftel has opened an 'own initiative' investigation into CPS 'save' and 'cancel other' activity. Oftel expects that the decision taken on these issues in the context of CPS will be carried across as appropriate into WLR2. In the WLR2 consultation document, Oftel made clear that it did not intend to further revisit its policy on 'save' and 'cancel other', which was being progressed in the context of CPS. This continues to be Oftel's position.

6.54 Oftel notes that BT has indicated that it will adopt a voluntary limit of one 'save' decision-maker contact per customer. Oftel welcomes this and encourages other 'losing' providers to adopt similar approaches.

6.55 On 'save' activity in relation to the migration of existing CPS customers to WLR2, Oftel believes there should not be a second opportunity for BT to 'save' customers who have already chosen to route their calls by alternative providers. However, Oftel accepts that it would be impractical for BT to limit 'save' calls to the access element only, particularly with the increased use of bundled packages of calls and access. Oftel also recognises that where the customers have chosen to route some of their calls via BT, BT should be able to make a 'save' attempt.

6.56 Oftel therefore concludes that BT should not make 'save' calls in respect of 'all calls' CPS customers transferring to WLR SPs, but that 'save' calls can be made for transferring customers with Indirect Access and the 'national calls only' and/or 'international calls only' variants of CPS.

6.7 Enforcing the measures

Oftel's consultation document proposals

6.57 In its consultation document Oftel outlined that it was committed to securing appropriate regulatory and enforcement powers in order to ensure that there are incentives upon providers to act responsibly, and follow best practice in their sales and marketing for WLR2.

6.58 Oftel also argued that while the ability to have recourse to effective sanctions is necessary, there are also clear incentives upon all service providers not to engage in irresponsible sales and marketing activity and to adopt high standards in terms of service and behaviour. Service providers who do otherwise risk damaging their reputation, resulting in significant deterioration in the value of their relationships with customers (existing and potential).

6.59 Additionally, the consultation document explained that under the new authorisations regime, Oftel will require providers to have approved codes of practice, incorporating a section on sales and marketing based on guidance published by Oftel/Ofcom. Consumers would be able to complain to telephone companies under the terms of each company's code and ultimately seek redress through the Ombudsman or other approved schemes. Serious breaches of codes by companies could be treated as breaches of the authorisation regime and be subject to the enforcement regime set out in the Communications Bill.

6.60 Oftel argued that it would also have recourse to Competition Act powers in those instances where it was considered that BT was discriminating in favour of its own business, as well as Stop Now Order powers through which it would be able to enforce a wide range of consumer protection legislation in respect of companies engaged in slamming and/or misselling.

Summary of responses

6.61 Respondents welcomed Oftel's commitment to securing appropriate regulatory and enforcement powers and, in particular, that all WLR SPs would be required to have codes of practice in place incorporating sales and marketing under the authorisations regime.

6.62 A number of respondents did not agree with Oftel's view that there were sufficient incentives upon providers not to engage in irresponsible sales and marketing activity, and argued that the energy experience highlighted the importance of monitoring and enforcing codes of practice.

Oftel's analysis and conclusions

6.63 In the light of comments received Oftel confirms its commitment to securing appropriate regulatory and enforcement powers in order to ensure that there are incentives upon providers to act responsibly, and follow best practice in their sales and marketing for WLR2. Oftel intends to develop a clear and unambiguous policy in this area, both in terms of expected standards of behaviour from providers and what action will be taken against unacceptable and illegal sales and marketing practices. It is proposed that Oftel refine its approach in this area over the coming months in discussions with representatives from industry and consumers.

6.7 Consumer protection for residential and business users

Oftel's consultation document proposals

6.64 In its consultation document, Oftel proposed that the WLR2 consumer protection proposals should apply equally to residential consumers and business users. Oftel argued that while current statutory rights do not provide the same level of protection for businesses as residential customers, the interests and needs of the two sectors are similar, and warrant uniform protection. Additionally, Oftel proposed that the need for consistency between these two areas be reviewed subsequently in the light of practical experience of the CPS and WLR2 transfer processes.

Summary of responses

6.65 There appeared to be broad agreement that WLR2 consumer protection measures offered the opportunity for uniformity of processes and rights, and should be applied equally to small businesses and residential customers. The approach in relation to larger businesses was less clear cut.

Oftel's analysis and conclusions

6.66 In the light of comments received, Oftel confirms that the WLR2 consumer protection proposals outlined in this statement will apply equally to residential consumers and business users (i.e. SMEs). However, on balance, Oftel does not consider that the same level of protection is necessarily appropriate for larger businesses. In particular, Oftel considers that business customers will be subject to different sales and marketing practices given what will typically be very complex telecoms requirements, and are therefore unlikely to be at risk of slamming in the same way that residential customers are.

6.67 As indicated, Oftel intends to revisit this approach as part of a subsequent review in the light of practical experience of the CPS and WLR2 transfer processes.

Chapter 7

WLR2 cost recovery

7.1 Introduction

7.1 In setting the starting charges for WLR2, in its June 2002 statement, Oftel allowed for the reasonable costs of developing the SPG, to the extent that these were known at the time the charges were determined. Oftel took the view that the bulk of these costs should be recovered through the line rental rather than the transfer charge as BT proposed, as even a relatively low transfer charge could deter switching. Oftel did however assume that all the allowed costs would be borne by WLR SPs.

7.2 Since the starting charges were set, it has become apparent that the actual costs of the SPG may differ from the amount allowed for in the line rental and may be significantly greater. In addition, service providers have requested additional services and functionalities not taken into account in the original June 2002 statement. Oftel therefore considered in its November 2002 consultation document whether the approach to cost recovery assumed in the June 2002 statement remained appropriate.

7.2 Oftel's consultation document proposals

7.3 Oftel's consultation document considered how the costs of the WLR SPG and ancillary services should be recovered in the light of its six principles of cost recovery. The six principles of cost recovery are:

- **cost causation** – costs should be recovered from those whose actions cause the costs to be incurred at the margin;
- **cost minimisation** – the mechanism for cost recovery should ensure that there are strong incentives to minimise costs;
- **distribution of benefits** – costs should be recovered from the beneficiaries especially where there are externalities;
- **effective competition** – the mechanism for cost recovery should not undermine or weaken the pressures for effective competition;
- **reciprocity** – where services are provided reciprocally, charges should also be reciprocal; and
- **practicability** – the mechanism for cost recovery needs to be practicable and relatively easy to implement.

7.4 Oftel's normal approach is to follow cost causation on efficiency grounds unless the other criteria point strongly to a different conclusion.

7.5 Oftel's consultation document proposals were based on the assumption that all costs fall into one of four categories (SPG system setup costs, other system setup

costs, per operator costs and per line costs). Oftel then applied the six principles set out above in order to determine how each of these four categories of cost should be recovered. Oftel's proposals are summarised below.

7.6 Oftel proposed that the most appropriate way of recovering SPG system setup costs was through the existing WLR2 line rental charges. This would be consistent with one interpretation of cost causation. It would be the most practical approach, since it would avoid the need to reopen the charges set in the retail price control review in June 2002. It would give good incentives for cost minimisation, since the total level of cost recovery would be fixed in accordance with the charges that had already been set.

7.7 Oftel proposed that the most appropriate way of recovering other system set-up costs was from all BT retail customers and WLR service providers. This was consistent with one interpretation of cost causation and with the principles of effective competition, distribution of benefits, cost minimisation and practicality.

7.8 Oftel proposed that per operator and per line costs should be recovered from WLR service providers.

7.3 BT response

7.9 BT argued in its response that the approximately £14.2m allowed for by Oftel for development of the SPG in the WLR2 charge was insufficient and that the actual amount required would be close to double this. It argued that these additional costs should be recovered from WLR SPs and that to do otherwise would be inconsistent with the treatment of the costs already included in the WLR2 charges.

7.10 BT argued that the costs of ancillary services should be recovered from WLR SPs alone which it saw as consistent with the recovery of SPG costs in the line rental and a "fair" application of the six principles of cost allocation. It argued that operators would request unnecessary enhancements unless they were required to bear the costs. It also argued that BT's customers should not pay for IA barring as BT is not permitted to bar IA calls by its own customers. BT also argued that, where it had borne the costs of other measures, it had been required to implement these as a result of EU directives. This was in contrast to IA barring and ancillary services which it was being required to provide as a result of service provider requests.

7.4 SP responses

7.11 SPs generally argued that BT should bear an equivalent share of the SPG costs and also asked for greater transparency about the features which would be delivered for the £14.2m. They asked for measures to be taken to ensure that BT does not over-recover and one suggested that costs be corroborated by independent auditors. Serious concern was expressed that BT Retail would not be required to pay the same £28.00 rental charge as other service providers and at least one went as far as to say

that this made the product unviable. They believed that the existing price control agreement should therefore be revisited.

7.12 SPs generally supported Oftel's proposal to recover the costs of ancillary services from all customers including those of BT although some felt that those service providers who chose not to bar IA calls, for example, should not have to pay for it. These services were considered to be necessary on competition grounds, although not all wanted IA barring. Some thought that the system set-up costs of ancillary services should be regarded as covered by the existing price control agreement (i.e. by the current line rental charge). They were concerned that there should be transparency of costs and in particular that costs which should be regarded as system set-up costs should not be loaded into per operator or per line costs which they accepted would be recovered from WLR SPs. In addition, they were concerned that only efficiently incurred costs should be recovered.

7.5 Oftel's analysis and conclusions

Application of Cost Recovery Principles

7.13 Oftel assumed in its consultation document that all costs would fall into one of four categories (SPG system setup costs, other system setup costs, per operator costs and per line costs). Oftel then proposed different cost recovery mechanisms for the two categories of system setup cost. However, it does not now appear that this approach is viable, for the following reasons.

7.14 Firstly, there appears to be some ambiguity as to precisely what developments should be included in the SPG system setup costs, and what developments should be included in the category of "other" system setup costs. This ambiguity arises from the fact that the starting charges for WLR2, which were intended to include all SPG development costs, were set at a point in time when the SPG development work was not yet specified in detail. In view of the ambiguity as to what is included in these two categories of costs, it would be inappropriate to have a different cost recovery mechanism for them.

7.15 Secondly, Oftel's specific conclusions in relation to the mechanism for recovery of SPG system setup costs were based on assumptions that are not accepted by BT or by SPs. This materially affects Oftel's analysis in relation to the principles of **cost minimisation** and **practicality**, and this in turn affects Oftel's overall conclusions:

- In relation to **practicality**, Oftel argued that the most straightforward approach was not to reopen the charges set in the retail price control review in June 2002, and therefore set out as its preferred option that the existing charge be retained. This option does not however appear to be acceptable to either BT or SPs.
- In relation to **cost minimisation**, Oftel argued that including a fixed allowance for recovery of SPG system set-up costs in the WLR line rental transfers the risk associated with cost increases to BT, and therefore provides BT with a strong

incentive to minimise costs. BT does not however accept that the level of cost recovery associated with SPG system setup is fixed, and this argument therefore no longer applies.

7.16 Oftel has therefore repeated the analysis carried out in its consultation document, but has merged the two categories of system setup cost previously analysed. Three categories of cost can now be defined: all system setup costs, per operator costs and per line costs. It is possible that it might be necessary to create additional categories of expenditure at a later stage, in which case this analysis will have to be repeated for the new categories.

7.17 Based on this analysis, Oftel concludes that there are strong arguments, based on the principles of **cost minimisation**, **distribution of benefits**, **effective competition** and **practicality**, for all system set up costs to be recovered from all BT retail customers and WLR service providers. The principle of **cost causation** does not point strongly either to recovery of system set-up costs from service providers alone or to recovery from BT Retail customers as well. Oftel therefore concludes that system set up costs should be recovered from all BT retail customers and WLR SPs.

7.18 Oftel also concludes that there are strong arguments, based on the principle of **cost causation** and **distribution of benefits**, for per operator and per line costs to be recovered from service providers alone. The principles of **cost minimisation** and **practicality** point towards the recovery of per operator and per line costs over all BT retail customers and WLR service providers, whilst the principle of **effective competition** is broadly neutral. Oftel therefore concludes that per operator and per line costs should be recovered from WLR SPs only. Oftel's analysis is summarised in more detail below.

7.19 In relation to the principle of **Cost causation**, Oftel notes that:

- ◆ On the one hand, it is arguable that BT incurs the costs arising from system set-up only if WLR SPs demand the product and hence, under the cost causation principle, it is these operators who should bear the system set-up costs.
- ◆ On the other hand, it could be argued that the system set-up costs of WLR2 are caused by a regulatory obligation flowing from BT's market power. On this interpretation, the principle of cost causation could be taken to imply that BT should bear a share of the costs.
- ◆ On balance, the cost causation principle does not point strongly either to recovery of system set-up costs from service providers alone or to recovery from BT Retail customers as well.
- ◆ Per operator and per line costs arise from the decision of an individual SP to enter the market, and these costs should therefore be recovered from WLR SPs.

7.20 In relation to the principle of **Cost minimisation**, Oftel notes that:

- ◆ It is BT that is primarily in a position to determine the costs of system setup, as well as per operator and per line costs. Recovery of at least some of these costs from BT is required if BT is to have an incentive to minimise these costs.
- ◆ this could be achieved by spreading system set-up costs, per operator and per line costs over all BT retail customers and WLR SPs.

7.21 In relation to the principle of ***Distribution of benefits***, Oftel notes that:

- ◆ the provision of WLR2 will increase competition and this should result in benefits to those customers who remain with BT.
- ◆ there is therefore a case on distribution of benefits grounds for recovering the system set-up costs from all WLR SPs and BT retail customers.
- ◆ The benefits to customers generally of an individual service provider or customer taking the WLR2 service are unlikely to be significant. Hence per operator and per line costs should be recovered from WLR SPs.

7.22 In relation to the principle of ***Effective competition***, Oftel notes that:

- ◆ the method of recovery of WLR2 costs should be competitively neutral between BT and WLR SPs. System set-up costs should therefore be recovered from BT retail customers and WLR SPs.
- ◆ per operator and per line costs should be recovered from BT retail customers and WLR SPs, unless BT already has to bear equivalent costs, in which case per operator and per line costs should be recovered from WLR SPs.

7.23 In relation to the principle of ***Reciprocity***, Oftel notes that:

- ◆ this is not a relevant principle in relation to WLR2, since this service is not provided reciprocally.

7.24 In relation to the principle of ***Practicality***, Oftel notes that:

- ◆ the easiest system to implement is one where all BT and WLR SPs bear all costs, as this reduces the sensitivity of charges to forecasts of WLR2 take-up.
- ◆ this principle therefore favours recovery of system set-up costs, per operator and per line costs over all BT retail customers and WLR SPs.

Current starting charges

7.25 Oftel continues to believe that the reasons for not revisiting the basic WLR2 line rental, set out in its consultation document, remain valid. The £28.00 quarterly line rental that was established in the retail price control review in June 2002 was a key element in the package that was agreed by BT, and it would not be appropriate to attempt to renegotiate this now.

7.26 It is therefore necessary to reconcile this line rental charge with the application of cost recovery principles set out above. Oftel proposes to do this as follows:

- The £28.00 quarterly line rental should be thought of as containing an allowance of £0.39 which was forecast to recover approximately £14.2m of system setup costs

from WLR SPs. For consistency with the original price control "deal", Oftel intends to deem that the £0.39 does recover £14.2m of system setup costs from SPs over the duration of the control period.

- If the total level of those costs that are to be recovered from WLR SPs only (i.e. per operator and per line costs) is less than £14.2m, then the difference will be used to reduce the total level of those costs that are to be recovered from all BT retail customers and WLR SPs (i.e. system setup costs). The remaining system setup costs will be recovered from a surcharge on all lines.
- If the total level of those costs that are to be recovered from WLR SPs only (i.e. per operator and per line costs) is greater than £14.2m, then the additional costs will be recovered from an increase in the WLR2 line rental. Those costs that are to be recovered from all BT retail customers and WLR SPs (i.e. system setup costs) will be recovered via a further surcharge applied to all lines.

Transparency and proportionality

7.27 Oftel has set out above the top-level principles for cost recovery. A detailed process is also required which considers firstly whether a particular item of expenditure is within the scope of WLR2, and if so, determines which category of expenditure it should be included in (system setup, per operator, per line). There is a possibility that it will not be appropriate to assign a particular item of expenditure to an existing category, in which case it will be necessary to create a new category of expenditure, and consider how the six cost recovery principles apply to this new category.

7.28 Oftel acknowledges that this detailed process must take into account two key concerns expressed by BT and SPs in relation to the total cost of WLR2, and the cost recovery mechanism:

- BT has emphasised the importance of proportionality in relation to what is included in WLR2.
- SPs have emphasised the importance of transparency in relation to the cost of those items included in WLR2, and the associated cost recovery mechanism.

7.29 Moving forward, we need a process that satisfies both of these concerns. Oftel expects to adopt the process described below.

7.30 It will first be necessary to estimate the cost associated with each element of the WLR2 programme. This is clearly BT's responsibility. Oftel expects BT to provide as much transparency of its analysis to SPs as is consistent with BT's legitimate requirements for commercial confidentiality. Where SPs have concerns in relation to the level of cost claimed by BT, and commercial confidentiality prevents these concerns being addressed, then Oftel will review the level of cost with BT.

7.31 Where an element of the WLR2 programme is not explicitly required by the WLR2 Product Specification, because it represents a level of detail beyond that contained in

the Product Specification, then it will be necessary to consider whether it should be included in the WLR2 programme.

7.32 Oftel believes that it is likely to be in the best interests of the Industry (including BT) to reach a consensus without Oftel intervention as often as possible, since formal intervention by Oftel in every element of the WLR2 programme is likely to be costly, time consuming and disruptive. However, where agreement cannot be reached between BT and WLR service providers, then the proposal will be subject to a cost-benefit analysis (CBA). BT will then be required to implement within the WLR2 programme any functionality which the CBA shows to generate a positive net benefit in totality (including the implications for WLR service providers, consumers and BT).

7.33 Finally, it will be necessary to determine the appropriate cost recovery mechanism for each item of expenditure. Oftel expects to do this by considering whether a particular item of expenditure is most appropriately regarded as system setup, per operator or per line expenditure. Oftel will then apply the cost recovery mechanism appropriate for that category of expenditure as set out above. Oftel will provide as much transparency of its analysis as is reasonably practical.

Chapter 8

WLR2 Assessment criteria

8.1 Introduction

8.1 The regulatory basis on which BT is implementing WLR2 is novel, in that BT has been offered an incentive to deliver this, in the form of the relaxation of retail price controls. Before implementing this incentive, Oftel will need to make a formal assessment of whether the WLR2 product as delivered by BT is fit for purpose. This chapter describes the approach proposed by Oftel to this assessment. The assessment criteria set out in this chapter are summarised at Annex B.

8.2 General principles

Oftel's consultation document proposals

8.2 The simplest means of carrying out an assessment of WLR2 would be to determine whether the product as implemented complies with an agreed specification. However, Oftel believed that this test would be too narrow in scope, and that a broader assessment of whether the WLR2 product is fit for purpose is required.

8.3 The ultimate test of the WLR2 product is whether it has the desired impact on the relevant retail markets, resulting in sustainable competition to BT from SPs. It will however be difficult to apply such a test until some time after the product launch. Oftel's June 2002 Statement on the Retail Market Review indicated that Oftel did not anticipate carrying out an assessment of the functionality of WLR2 until it has been available for at least three months. Oftel recognised that it will be difficult at this point to reach definitive conclusions about the impact on the retail market of WLR2.

8.4 Oftel therefore expected that its assessment of WLR2 will combine a broad assessment of whether WLR2 as implemented is fit for purpose, with a preliminary assessment of the market impact. This amounts to the application of three tests:

- Is the functionality of WLR2 consistent with the Product Specification ?
- Has this functionality been implemented in such a manner as to minimise barriers to effective retail competition ?
- Is the market impact such as to suggest that the goal of effective retail competition is likely to be achieved ?

BT response

8.5 The main issue for BT is that the fit for purpose assessment criteria must be unambiguous and clear up front, and not modified as the implementation proceeds.

8.6 The assessment tests themselves should be confined to meeting an agreed objective WLR2 Product Specification, and should not include factors out of BT's control, such as the market impact of WLR2 and how well SP processes are implemented.

SP responses

8.7 SPs feel strongly that BT should not receive its incentive of price control relaxation until all the objectives of WLR2 have been delivered in a sustainable manner. The assessment tests must be robust enough to ensure this.

8.8 Virtually all respondents support the proposal to have WLR2 assessment tests in all three areas: delivery of Product Specification, effectiveness of implementation, market impact.

Consumer groups and independent submissions

8.9 The single respondent on this subject (NIACT) agreed generally with all the proposals but emphasised the need for WLR2 to be effective everywhere within the UK. This respondent argued that the incentive should not be delivered to BT until sustainable competition has developed in all four UK countries.

Oftel analysis and conclusions

8.10 Oftel expressed its position clearly in the consultation document and stands by its view that assessment tests are required and must be satisfied in all three areas of Product Specification, implementation, and market impact. Oftel remains of the view that a test that assessed only the Product Specification would be too narrow in scope.

8.11 Oftel acknowledges the concern that WLR2 should be effective in promoting competition across the UK. It will try to take this into account in its general assessment, and would certainly expect WLR2 to be available from BT on a national basis. Oftel does not however propose to set specific regional targets for take-up.

8.3 Product Specification

Oftel's consultation document proposals

8.12 The first fit-for-purpose test proposed by Oftel is whether the WLR2 Product Specification allows an independent SP to offer a similar range and quality of services to that offered by BT Retail in the relevant markets.

8.13 This test is relatively well defined. This statement includes at Annex A a Product Specification for WLR2, specifying the line types and supplementary services to be included in the WLR2 product. Oftel proposed that the fit-for-purpose assessment of the WLR2 product would need to consider the following questions:

- Have all the line types and supplementary services set out in the Product Specification been delivered?
- If any of these have not been delivered, is this shortfall likely to have a material impact on the success of WLR2 ?
- Where BT Retail has introduced new services after the publication of the Product Specification, have these been included in the WLR2 product and, if not, could this materially affect the achievement of effective competition?

BT response

8.14 As has already been noted, BT is concerned that the fit for purpose assessment criteria should not be modified as the implementation proceeds. In particular, BT noted that any new BT products introduced after the up front WLR2 specification has been agreed should not be added to that specification, rather they would become part of a subsequent WLR release.

8.15 BT said it accepted the objective tests of whether agreed line types and supplementary services can be ordered, provided and maintained in WLR2. It was not clear how the materiality of any item not delivered would be judged, but materiality is important when considering how to deliver the most effective overall product.

SP responses

8.16 Most respondents supported the Oftel proposals. All criteria must be clear and unambiguous, as a lack of clarity can provide BT with an opportunity to leave items out. Some SPs suggested that no shortfall or compromise should be allowed. BT cannot be allowed to defend a product deficiency on the basis that it is not material.

8.17 Several SPs noted that the Product Specification cannot be truly frozen, since if BT Retail introduces a new service during the implementation of WLR2, then a wholesale version of this must also be available.

8.18 Some SPs also commented that the pricing of products (whether cost-oriented or otherwise) must allow a sufficient margin for them to be useable by SPs. A service is not fit for purpose if it works well, but cannot be viably priced at a level that end-users will adopt it.

Oftel analysis and conclusions

8.19 Oftel acknowledges that the assessment criteria must be clear and unambiguous. However, Oftel remains of the view that it must have some flexibility to judge whether any difference between the Product Specification and the product as delivered is material.

8.20 Oftel acknowledges BT's concern that the fit for purpose assessment criteria should not be modified as the implementation proceeds. Oftel has therefore ensured that the Product Specification is as complete as is practicably possible, based on information available to Oftel at the date of publication of this statement. This information may not however include new services launched by BT after the publication of this statement. Such services could have a material impact on the viability of WLR2. Oftel therefore remains of the view that the tests that Oftel has used to determine whether a feature or line type should be included in WLR2 should also be applied to any new service launched by BT Retail. If those tests conclude that the new service should be included in WLR2 then BT must deliver it with WLR2. Similar principles apply to any new service introduced after WLR2 is implemented.

8.21 Oftel does not believe that this introduces too great a degree of uncertainty into BT's plans. BT should be aware of any new retail services it plans to launch, and will simply need to review with Oftel at the earliest possible stage whether a wholesale equivalent needs to be included within WLR2.

8.22 Oftel notes the concern expressed by several SPs in relation to the pricing of services. Oftel believes this is addressed by the charging principles set out in Section 2.2.

8.4 Product implementation

Oftel's consultation document proposals

8.23 The second fit-for-purpose test proposed by Oftel was whether BT's implementation of the WLR2 product is fully effective, so that implementation issues do not constrain the take-up of WLR.

8.24 This means for example that:

- The process for customer acquisition must allow end-users to switch seamlessly between BT Retail and independent SPs.
- The processes for in-life customer care must allow an SP to offer a similar quality of service to that offered by BT Retail
- These processes must be implemented in an efficient manner, minimising transaction costs between BT Wholesale and independent SPs.

8.25 It is much more complex to assess whether these business processes are fit-for purpose than to assess compliance with the Product Specification. This is because an objective assessment is required not just of whether each process exists, but how effectively it has been implemented.

8.26 Oftel proposed that in order to address this issue it would be necessary to agree a set of Key Performance Indicators (KPIs), which would be used to measure the

effectiveness of key business processes. Oftel invited comments on an appropriate set of KPIs, but noted that it would expect them to address issues such as:

- The volume of orders submitted, the percentage which flow through BT's systems without manual intervention, and the percentage which are rejected.
- The average time between submission of an order and acceptance by BT, and the average time between acceptance of an order and the commencement of service.
- The percentage of lines which are subject to faults within a specified period.
- The average time between submission of a fault report and BT running remote line diagnostics, the average time for BT to arrange a visit by an engineer, and the average time to clear a fault.
- The percentage of lines which are subject to repeat faults.
- The percentage of billable CDRs that are produced on-time, and the percentage which have to be repeated due to errors.

8.27 Oftel proposed that the basic test for each KPI would be to determine whether the performance of BT in relation to independent SPs is similar to its performance in relation to BT Retail. For example, Oftel proposed to test whether the response time to faults reported by BT Retail is the same as the response time to faults reported by an independent SP.

8.28 Oftel is expected to make its initial assessment of WLR2 at least three months after product launch. Oftel is however aware of some concerns that might exist over the quality of KPI data gathered during this period:

- The effectiveness of most processes will depend on the performance of the SP as well as that of BT. For example, a high level of order rejections could be due to errors in the orders submitted by SPs. This is likely to be a particularly severe problem during the initial phase of operation.
- Those processes that relate to in-life customer service (fault management, billing) are unlikely to be severely tested during the first few months, due to the small customer base.

8.29 In order to address these concerns, Oftel suggested that it may be worth supplementing the monitoring of KPIs with a more formal 'soak-test' of BT's systems. This would involve a dummy Service Provider being established by an independent third party, which would then submit statistically significant volumes of the full range of transaction requests. The aim would be to determine whether a reasonably efficient SP, submitting correctly formatted transactions, in high volume, is able to obtain a satisfactory level of service from BT.

8.30 This proposal was based on the approach taken in the US, as part of the Section 271 process, which required incumbent operators in the US to demonstrate the effective implementation of 'electronic bonding'. A key factor in the success of this work was the use of independent third parties to validate the performance of incumbents' systems.

BT response

8.31 BT commented on each of the proposed KPIs and said that they appeared reasonable. It was however concerned about those KPIs that were at least partially determined by SPs and therefore out of BT's control. BT's view was that items over which it has no control should be excluded.

8.32 BT also proposed 'the number of billing queries' as an additional or alternative billing KPI.

8.33 BT was very concerned at the proposal of a live soak test, arguing that there are significant difficulties and risks in using live systems and live data for the levels of volume testing that would be necessary to stress the SPG. BT carries out simulated soak testing on a test environment and can provide the figures to Oftel.

SP responses

8.34 All the respondents said that the measuring and monitoring of KPIs is essential. The majority of SPs agreed with those KPIs proposed by Oftel. A number of SPs proposed additional KPIs to those proposed by Oftel. Several SPs emphasised the importance of avoiding the high order rejection levels that have characterised other services, such as CPS.

8.35 Most of the respondents welcomed Oftel's proposal for some form of soak test, but some concerns were expressed, including the possible impact on live systems.

Oftel analysis and conclusions

Key Performance Indicators

8.36 There appears to be substantial consensus around the use of Key Performance Indicators (KPIs) to evaluate BT's implementation of WLR2. Oftel will therefore adopt this approach.

8.37 Based on the responses received, Oftel expects that the KPIs to be monitored should include (but not be restricted to):

- The volume of orders submitted
- The percentage of orders that are rejected
- The percentage of orders that flow through BT's systems without manual intervention
- The average time between submission of an order and acceptance by BT
- The average time between acceptance of an order and service activation
- The percentage of lines which are subject to faults within a specified period
- The average time between submission of a fault report and the fault being cleared
- The average time taken to complete a line diagnostic test
- The average time taken to arrange a visit by an engineer

- The percentage of times that an appointment for an engineering visit is missed
- The percentage of lines which are subject to repeat faults
- The percentage of billable CDRs which are produced on-time
- The percentage of billable CDRs which have to be repeated due to errors
- The number of billing queries

8.38 Substantial work will be required to determine the appropriate set of KPIs to monitor, and Oftel expects that this work will proceed in conjunction with the detailed design and implementation of WLR2 business processes.

8.39 Oftel's intention is wherever possible to avoid setting absolute standards for KPIs, but instead to use a parity test to determine whether SPs receive the same performance as BT Retail. Oftel will review with BT the appropriate process for gathering reference data for BT Retail.

Performance Targets

8.40 Although Oftel's intention is to avoid setting absolute targets for KPIs, there will be some cases where it is necessary to do so, since BT Retail does not use the same process as SPs. In such circumstances it will be necessary to set a specific performance target for the KPI.

8.41 An importance example of this is the order entry process. BT Retail enters its orders directly onto the CSS, rather than using the SPG. It will therefore be necessary to set explicit targets for the performance of the SPG and associated order-handling systems. It will be necessary to set targets relating to both the timeliness and efficiency of order handling. Oftel expects that this work will proceed in conjunction with the detailed design and implementation of WLR2 business processes.

8.42 Based on experience with previous wholesale services, Oftel notes that there are likely to be two key performance issues associated with the SPG. One is the percentage of orders that are rejected by the SPG, and the other is the percentage of orders that flow through the SPG and associated systems without manual intervention.

8.43 Oftel recognises that setting performance targets in relation to order handling is complex, since the effectiveness of any ordering process will be dependent on the efficiency of the operational processes of SPs as well as BT. Furthermore, it is not easy to draw a line between the responsibilities of BT and those of SPs, because there are a number of tradeoffs between the complexity of BT's processes and the complexity of SP processes. Improvements to BT's order validation process, for example, can reduce the sensitivity of the process to data input errors by SPs, whilst the existence of a pre-qualification process can reduce the level of order rejections.

8.44 It is therefore likely that the performance targets in relation to order handling will include two key measures. The first is likely to be a broad target for the total percentage of orders that are rejected by the SPG, for any reason. Further analysis will be required

before a specific target is set, but Oftel expects however that the total level of order rejections for WLR2 should be no worse than for other comparable wholesale services, such as DSL. Oftel notes that the total level of order rejections being experienced for BT's wholesale DSL service has now been reduced to around 10%.

8.45 The second is likely to be a narrower target for the percentage of correctly formatted and valid orders that flow through BT's systems without manual intervention. The aim is to measure the efficiency of BT's automated systems, but to do so in a way that removes any dependency on SP systems. Further analysis will be required before a specific target is set, but Oftel expects that where a decision has been made to automate the order-handling of a particular order type, then essentially all correctly formatted and valid orders should flow through BT's systems without manual intervention.

8.46 Oftel acknowledges that two practical issues need to be addressed when measuring the percentage of correctly formatted and valid orders that flow through BT's systems without manual intervention:

- There may be some order types where a decision is taken, based on a cost-benefit analysis, not to use automation. These order types will be excluded from the statistics when calculating this KPI.
- This KPI is intended to measure the performance of BT's systems in relation only to correctly formatted and valid orders. Invalid orders therefore need to be excluded. Oftel remains of the view that the most effective means of doing this is by using an independent third party to validate the performance of BT's systems, perhaps including some form of soak test. Oftel acknowledges BT's concerns in relation to carrying out such tests on its live systems, but supports BT's suggestions in relation to the use of a test environment. Oftel proposes to discuss this issue further with BT as WLR2 implementation progresses.

8.5 Development of a WLR SP business model

Oftel's consultation document proposals

8.47 A particular concern is that the manner in which the WLR2 product is implemented might result in high transaction costs to SPs, and that these will leave insufficient margin for SPs to offer sustainable competition to BT Retail.

8.48 In order to assess which transaction costs are important, and understand at what level they have to be in order not to have a material impact on competition, Oftel proposed to construct a top-down business model for a WLR SP. This will take as its inputs reasonable estimates for the costs likely to be incurred by an efficient SP. The model will be used to determine whether the cost base faced by a reasonably efficient SP provides sufficient operating margin to allow a reasonable return on capital employed.

BT response

8.49 BT said that the use of a business model is likely to be difficult and contentious, and the attempt to model competition could be a backward step in leading to a regulatory policy of 'managed competition'.

8.50 At the detailed level, there are difficulties surrounding the definition of 'reasonably efficient' and for the model having to cope with a wide range of SP parameters including size and stage in its development cycle.

SP responses

8.51 All the respondents agreed generally with Oftel's proposal and said the business model would be a very useful tool which should be able to:

- take account of the varying size of SPs and their different markets;
- show whether a reasonably efficient SP can compete with BT Retail;
- assess margins and their impact on viability;
- assess the costs of process compromises;
- expose BT Retail's cost advantage in local calls;
- identify areas of accounting favouring BT Retail.

Oftel analysis and conclusions

8.52 Oftel remains of the view that it will be necessary for it to analyse the business model of a WLR SP, in order to assess whether WLR2 as implemented is fit for purpose. Without such a model Oftel would be unable to assess whether any problems with WLR2 are likely to have a material impact. More specifically:

- Oftel may need to be able to assess whether any variation from the WLR2 Product Specification is material.
- Oftel may need to be able to assess whether any additional cost associated with process inefficiency is material.

8.53 Oftel therefore proposes to place a consultancy contract for the preparation of a WLR SP business model.

8.6 Market impact

Oftel's consultation document proposals

8.54 As already noted, Oftel believes that it is essential to include within the assessment of WLR2 an assessment of the impact of the product on the relevant retail markets.

8.55 It will however be difficult to draw any strong conclusions from the total market share gained by WLR SPs only 3 months after the product launch. The mid-range forecast produced by Schema (see chapter 5 for more details) suggests that the total

number of WLR2 orders submitted at this point will be 109,000. There is substantial uncertainty around this figure, with a downside estimate of only 47,000 orders, and an upside estimate of 177,000. In any case, none of these figures represents a significant impact on the total retail market.

8.56 It may be appropriate to look at the rate of growth of the WLR2 market, as illustrated by the number of orders being submitted per month. The Schema study suggests that by the third month after product launch the order volume should have grown to around 25,000 orders per month for new end-users of WLR2 plus CPS, plus a further 25,000 transfers per month from CPS only to WLR2 plus CPS. Oftel proposed to use these thresholds as indicators of whether the product is on track to have the desired impact.

8.57 Oftel would expect to see within these overall totals a significant level of orders associated with both the residential and business markets. If this were not the case, it would suggest that the product was not fit for purpose in both target markets. Oftel proposed to consider this issue as part of its assessment.

8.58 In addition Oftel proposed to monitor the level of consumer awareness of the packages which are available. Oftel proposed to commission market research on a monthly basis during the period immediately before and after the product launch, in order to investigate whether there is a significant change in consumer awareness.

BT response

8.59 BT said that any market impact criteria must be unambiguous and clear. Oftel should avoid an over-specified wish list which attempts to capture all variables.

8.60 BT warned that its incentive to deliver WLR2 quickly and efficiently would be severely diluted if the standard of the required market impact is raised too high.

SP responses

8.61 All the respondents supported the Oftel approach and proposals. There were few additional comments, one SP specifically endorsed Oftel's proposed rate of growth criteria, another said it was very important to monitor the impact of WLR2 and to share the information with the whole market.

Consumer groups and independent submissions

8.62 The single respondent supported the regular review of market impact as the SPs' market share grows, but said the review should be done regionally as the national picture may not be representative.

Oftel analysis and conclusions

8.63 Oftel has already acknowledged the difficulty of assessing the market impact of WLR2 three months after launch, and agrees with BT that it would be inappropriate to over specify the requirements at this point. Equally, Oftel remains of the view that a top-down assessment of market impact is essential in order to complement its bottom-up analysis of the Product Specification and process KPIs.

8.64 The one objective measure of impact that will be available to Oftel is the volume of WLR2 orders. As noted in the consultation document, Oftel expects to see around 25,000 orders for new end-users of WLR plus CPS, plus a further 25,000 transfers from CPS only to WLR plus CPS. Oftel also expects to see within these overall totals a significant level of orders associated with both the residential and business markets. If the actual level of activity is below these levels, Oftel will take this as evidence that WLR2 as implemented is not fit for purpose. Oftel does not believe that this represents a particularly demanding target for BT - the current level of orders for CPS is currently running at almost 200,000 per month.

8.65 Oftel does not, however, consider that order volumes at this level are an adequate indicator that the product will have a competitive impact sufficient to justify relaxation of the price control. These order volumes should therefore be regarded as thresholds that need to be passed before any assessment is possible. To take a view on the likely market impact of the product, Oftel will have regard to a range of evidence at the point of assessment, including:

- Is the product being actively used and marketed by competitors to BT in a way that is likely to bring material competitive pressures ?
- Is consumer awareness of WLR SPs and their products on a rising trend ?

8.66 As proposed in its consultation document, Oftel will also commission market research on a monthly basis during the period immediately before and after the product launch, in order to investigate whether there is a significant change in consumer awareness of WLR SPs and products. This will provide useful supplementary evidence as to the likely market impact of WLR2.

8.67 Oftel acknowledges the concern expressed by consumer groups that WLR2 should be effective in promoting competition across the UK. Oftel does not however believe that it is practicable to carry out its review of market impact on a regional basis, since it will not be practical to set specific regional targets for take-up. The national targets described above are already subject to a substantial degree of uncertainty, and attempting to disaggregate these targets by UK region would result in a set of targets that was essentially meaningless.

8.7 Timing of the assessment

Oftel's consultation document proposals

8.68 Oftel expects to carry out its assessment of WLR2 at least three months after full product launch. It will however be necessary to define more precisely how this assessment is triggered, since there is clearly a possibility that the published programme will slip. It is also possible that there will be a phased delivery of different elements of the WLR2 package, making it difficult to identify one specific launch date.

8.69 Oftel therefore proposed that BT formally trigger the initial assessment, by informing Oftel when it believes it has met all the requirements for a fit-for-purpose WLR2 product. Oftel would start its assessment three months after this date.

8.70 The assessment will require Oftel to carry out a significant level of data analysis. Oftel would expect to carry out this analysis and publish its conclusions within two months of starting its assessment. A further one month consultation period would be required before these could be further implemented.

8.71 Oftel suggested that its assessment might result in one of four possible outcomes:

- The WLR2 product as implemented is fully satisfactory, with no further work required. The retail price control can immediately be relaxed.
- The WLR2 product meets most of the requirements, but there are some areas where further work is required. The work is sufficiently minor that it is reasonable to relax the retail price control immediately, on the basis that BT guarantees to carry out the outstanding work.
- The WLR2 product meets most of the requirements, but there are some areas where further work is required. The work is major enough that the retail price control should not be relaxed until it has been completed. On completion of this work, Oftel will assess whether this has been done to a satisfactory standard, but will not carry out a full reassessment of the WLR2 product.
- The WLR2 product does not meet the requirements. A large amount of additional work is required, and a full reassessment of the WLR2 product will be required once this has been carried out.

8.72 Oftel noted that there needs to be an incentive for BT not to trigger the assessment early, in the hope that it might just pass the assessment criteria, and thereby obtain early relaxation of the retail price cap. Oftel is also concerned about the resource implications of frequent reassessments. Oftel therefore proposes that BT should not be able to trigger a new assessment within three months of a previous assessment failing.

8.73 If no review has been triggered, or all assessments have failed, by the time Oftel begins the 2004 Market Review, Oftel suggested that the review would then have to consider whether the incentive regulation being applied by Oftel still seemed likely to be successful or whether alternative remedies to BT's dominance of the relevant retail markets should be considered.

BT response

8.74 BT noted that the timing of the assessment process is linked to the Product Specification in that any change in the specification will put at risk the assessment timetable.

SP responses

8.75 SPs were concerned about the timing of any assessment, noting that there may not be sufficient information to make an objective assessment of WLR2 three months after product launch. A number of operational problems are likely to be experienced shortly after the product launch. An assessment 6 months or 1 year after launch would be better.

8.76 However, given the need to conduct an assessment shortly after launch, most respondents supported the Oftel approach and proposals.

8.77 One SP stated that the assessment (and hence the potential award of the incentive) should not begin until elements currently viewed as part of the full B2B solution (WLR3) are actually delivered, otherwise BT would have little incentive to develop the product further.

8.78 Another SP said that if WLR2 is not fit for purpose and BT does not trigger an assessment then Oftel should act before the 2004 market review.

Consumer groups and independent submissions

8.79 The single respondent agreed generally with the proposals but suggested that the assessment waits until WLR2 is implemented UK-wide and there has been a reasonable uptake, otherwise it might be a waste of time and resources.

Oftel analysis and conclusions

8.80 Oftel remains of the view that its proposals are an appropriate compromise between BT's requirement for an early assessment, in order that it has the opportunity to receive its incentive, and SP's concerns that the assessment not be carried out until sufficient information is available. Oftel's proposals are designed to allow BT to trigger an assessment when it believes WLR2 is fit for purpose, but also provide an incentive for BT not to trigger an assessment too early.

8.81 Oftel acknowledges the concern expressed by some SPs in relation to the longer-term programme of work on the B2B integrated gateway (WLR3). Oftel does not however believe that it would be reasonable to delay its assessment of WLR2 until the B2B gateway has been provided. Oftel does expect to review progress on the B2B integrated gateway in the context of the 2004 market review.

8.82 Oftel also acknowledges that it must be able to take early action if BT does not deliver a fit-for-purpose WLR2, but also does not trigger an assessment. Oftel proposes to identify a set of key milestones in the WLR2 implementation programme, and will use these to monitor progress.

8.83 Oftel reserves the right at any time to carry out a more formal project review, in order to determine whether the incentive regulation being applied by Oftel still seems likely to be successful, or whether alternative remedies to BT's dominance of the relevant retail markets should be considered.

8.8 Accounting information

Oftel's consultation document proposals

8.84 Oftel proposed that the principle of equivalence of opportunity between BT Retail and WLR SPs and the non-discrimination requirement should apply to the charges that SPs pay BT Wholesale for key WLR products and functions. BT will need to demonstrate in its Financial Statements for the Businesses and Activities that, for example, BT's Retail Systems Business pays BT's Network Business the same as the Network Business charges SPs in respect of an agreed list of Standard Services.

8.85 In discussions in the industry working group since June, Service Providers have identified an initial list of services where equivalence and non-discrimination tests are appropriate:

- line rental (residential quality of service)
- line rental (business quality of service)
- customer moves and changes to line features
- termination and service restriction of customer lines

8.86 BT has indicated that, for these services, costs will be reflected in the future regulatory accounts for the WLR2 product. Oftel proposed to discuss with BT how such information will be provided. Oftel expects that other items may need to be added to this list in particular to ensure that appropriate non-discrimination requirements apply to those other services that will be provided by BT Wholesale as set out in Chapters 2 and 4.

BT response

8.87 BT said that it demonstrates compliance on undue discrimination in its Financial Statements for the Businesses and Activities, and will ensure the appropriate disclosure of network services that make up WLR services.

8.88 BT had specific comments on Oftel's request that BT demonstrate that BT Retail's Systems Business pays BT's Network Business the same as the Network Business charges SPs for an agreed list of Standard Services. It said that it was inappropriate to

classify WLR as a Standard Service under Interconnect arrangements, rather WLR is an SP product proper to BT Retail Systems Business.

SP responses

8.89 All respondents shared a common view that accounting information is essential to show that:

- the transfer charge applied to BT Retail for all services and features is the same as the charge made to SPs;
- WLR2 charges are set on a cost-oriented basis.

8.90 One SP proposed adding 'the provision of new lines' and 'the transfer back to BT Retail' as two extra items on Oftel's initial list of services where equivalence and non discrimination tests are appropriate.

Oftel analysis and conclusions

8.91 Oftel remains of the view that it is essential that BT be able to demonstrate that its charges are, where appropriate, non-discriminatory and cost-oriented. The appropriate approach to doing this under the regulatory regime established by the new EU directives is set out in the relevant market review (*Review of the fixed narrowband wholesale exchange line, call origination, conveyance and transit markets*, to be published in March 2003), and can be summarised as follows:

- Where an obligation is imposed on BT to set a charge that is non-discriminatory, there will normally be an associated obligation for accounting separation.
- Where a requirement is imposed on BT to set a charge that is cost-oriented, there will normally be an associated obligation for cost accounting.

8.92 Oftel is of the view that the accounting information provided by BT for WLR2 must be consistent with these obligations. Oftel intends to review the detailed requirements for accounting separation and cost accounting as part of the WLR2 implementation programme.

Chapter 9

WLR2 Implementation

9.1 Introduction

9.1 Oftel expected to include in this Statement an outline programme for the implementation of WLR2, including indicative timescales. Oftel noted that in producing this programme it will be necessary to consider the implementation issues faced by both BT and by WLR SPs.

9.2 Top-level programme

Oftel's consultation document proposals

9.2 Oftel understood from BT that the BT implementation process typically comprises the following top-level phases:

- Statement of requirements
- Product market analysis
- Feasibility study
- Solution design
- Development
- Price approval and product launch

9.3 Oftel assumed that the Statement of Requirements will be based on the contents of this Statement and that BT will have carried out its Product Market Analysis by the time it responds to the consultation document, since this will have been a necessary input into BT's decision whether or not to proceed. Oftel understood that the detailed feasibility study for a new wholesale product might typically take between 5-10 weeks to carry out. The design, development and system integration might take a significant time, depending on the complexity of the product. The industry will not have a comprehensive view of this until BT has reported on its feasibility study.

9.4 There might be a variety of external constraints on the implementation timescales. For example, it was understood that the timing of software builds on BT's switch systems means that switch-based capabilities associated with WLR2 (IA Call Barring, Route to Credit Control, Route 15x to Service Provider) are unlikely to be implemented before October 2003.

9.5 Oftel also noted that several outputs from BT's implementation process are effectively inputs to the implementation process of SPs. This inter-dependence clearly requires careful management. Examples include:

- SPs may require at least indicative product pricing before they are able to approve any development work of their own. This indicative product pricing may be required substantially before BT's formal price approval.

- It will be necessary to agree detailed models for WLR business processes. This needs to be done early enough for all parties to make any necessary modifications to their internal systems and processes before product launch.
- It will be necessary to establish a detailed interface specification for the electronic gateway between SPs and BT. This needs to be done early enough for all parties to be able to design and implement any changes to their OSS systems before product launch.

9.6 Oftel envisaged that BT and SPs will report on their project plans and implementation progress to the WLR2 industry groups.

BT response

9.7 BT said that it intends that WLR2 be in place by October 2003. It acknowledged the need to keep its customers informed of progress, but stated that it is responsible for planning and implementation and cost minimisation, the specifications and processes and systems are commercial intellectual property, and BT can only deliver on its programme if it is in full control of scope and timescales.

9.8 BT noted that Oftel's proposed development stages aligns with normal practice, but stated that it does not recognise the complexity of this type of programme including the iterations. Further specific comments included:

- There are significant risks in the proposed deviation from normal practice to deliver an early interface specification for the SPs' developments;
- The Oftel Statement will not be enough immediately to derive a Product Definition suitable for use in a feasibility study;
- BT believes that not all the WLR2 enhancements will be delivered in a single large development, there will be a need to prioritise and deliver more significant features first, BT believes SPs will prefer such a phased delivery but the details will require consultation with SPs;
- In addition to the timing constraints of network switch builds, there are constraints on the scale of changes that can be made to operational support systems;
- An early product and process design freeze is essential.

9.9 Notwithstanding these issues, BT is prepared within the bounds of commercial confidentiality to report regularly on top-level progress to the industry. In view of the uncertainties at this stage, BT said that it was inappropriate to commit to any WLR programme milestones beyond the following top level early ones:

- Oftel statement at end of January 2003;
- BT top level Product Definition in March 2003;
- BT draft Implementation Plan in April 2003.

SP responses

9.10 SPs generally commented that the WLR2 implementation programme required a high level industry plan, with clear milestones for BT and other parties, and regular (monthly) progress reports to the Operations group. Full transparency was required of the implementation programme, with no claims by BT of commercial confidentiality. Close Oftel oversight would be required in order to ensure the earliest practicable delivery of WLR2.

9.11 Several more specific practical suggestions were made, relating to the need for rigorous change management, and the need for early sight of specifications for business processes, systems interfaces, and product pricing. One SP suggested an independent programme manager be appointed for WLR2.

9.12 Between them, the respondents proposed the following (undated) milestones:

- detailed Product Specification
- implementation plan
- assessment of SPG enhancements
- assessment of e.Co repair and other related facilities
- business processes specification (early)
- system interface specification (early)
- indicative pricing for all products (early)
- commercial terms
- SLAs
- define parameters of trials
- start trials
- launch of WLR2
- assessment for relaxation of price control
- delivery of the integrated B2B gateway

Oftel analysis and conclusions

9.13 Oftel notes that this is a complex area, with some fundamental differences of view between BT and SPs. In order to decide a way forward, Oftel believes that it is useful to distinguish between two distinct sets of requirements in relation to WLR2 programme management:

- Management of programme dependencies. The implementation of WLR2 will not only require work to be carried out by BT. SPs will also have their own implementation programmes, but these programmes will be heavily dependent on certain deliverables being provided by BT (e.g. the detailed specification for the ordering gateway). It will be necessary to manage these dependencies, in order to ensure that SPs are ready to launch at the same time as BT.
- The need for programme visibility. SPs require sufficient visibility of BT's own programme in order to retain confidence that WLR2 will be delivered. If they do not

have this confidence, then they are likely at the very least to delay their market entry, and this will significantly reduce the likelihood of WLR2 passing its fit-for-purpose assessment.

Programme dependencies

9.14 Oftel identified in its consultation document a number of dependencies between BT's implementation programme and the implementation programmes of SPs. These include, for example, the need for an early interface specification for the electronic gateway, as well as the need for an early specification of those business processes that involve SPs as well as BT.

9.15 Oftel notes BT's concern about the additional risks to its programme associated with the production of an early interface specification. However, Oftel sees no sensible alternative. Automation of the ordering process, for example, will require significant development work by SPs as well as by BT. This is likely to take at least 6 months, and cannot proceed without a detailed specification of the ordering interface. Similar comments apply to other interfaces between SPs and BT, such as those provided for fault management and billing.

Programme visibility

9.16 The need for programme visibility makes it necessary to identify some key programme milestones, and for BT to report on its progress in relation to these milestones. Oftel acknowledges BT's legitimate requirement for commercial confidentiality, but does not believe that this is threatened by the definition of these milestones.

9.17 Oftel is willing to be flexible in regard to the specific milestones that are monitored. The specific proposals set out in its consultation document were based on information supplied by BT. If BT now believes that those milestones are inappropriate, then Oftel is willing to enter into discussions with BT about alternatives.

9.18 In the meantime, Oftel intends to adopt the first two milestones suggested by BT in its response, but shift the dates of these milestones to take account of the delay in the publication of this statement. The revised initial milestones are:

- BT top level Product Definition in April 2003;
- BT draft Implementation Plan in May 2003.

9.19 Oftel expects the draft Implementation Plan to provide a more detailed set of milestones for the subsequent programme.

9.3 SLAs

Oftel's consultation document proposals

9.20 Oftel noted that industry will need to develop SLAs to help measure and manage the performance of BT and the WLR SPs. SLAs demonstrate the industry commitment to service quality and will set recognised performance levels for all parties to aim for and to measure achievement against. They will set a consistent expected level of performance that providers can reasonably expect from each other. Once established, SLAs will help identify industry process problems and highlight areas for improvement.

9.21 Oftel proposed that an initial set of SLAs should be completed before implementation of WLR2 and be subject to refinement after launch.

BT response

9.22 BT agreed with the need for SLAs, but pointed out that its costs for implementing, measuring and reporting on SLAs would be recovered in product charges. It suggested that the focus should be on key provisioning and fault delivery measures and not on process mid-points. BT disagreed that SLAs should be in place at the launch of WLR2, and proposed that only KPIs should be tracked to start with, thus allowing processes to bed in before firm SLAs are adopted.

SP responses

9.23 Several SPs emphasised the need to have binding commercial SLAs on BT with compensation due when SLAs are not met. SLAs should be in use from launch of WLR2. One SP pointed to the relative weakness of CPS as it still lacks formal SLAs. There was a call for Oftel to lead work on SLAs as soon as possible.

Oftel analysis and conclusions

9.24 Oftel acknowledges the need to review SLAs in light of early operational experience. It does however believe that an effective set of SLAs must be in place at the point when it carries out its fit-for-purpose assessment of WLR2.

9.25 Oftel expects that the process of defining SLAs should form part of the normal commercial negotiations between BT and SPs. It is however prepared to intervene if these negotiations do not result in an agreement.

Annex A

Wholesale Line Rental Product Specification

Issue No. 1

11th March 2003

Contents

- Purpose of this document
- Definitions
- Line types and supplementary services
- Ordering lines
- Design and operational management of the ordering system
- Service provider forecasts and rationing
- Consumer protection
- Maintenance and fault management
- End-user visits by BT engineers
- Billing, debt management, fraud and security
- Key performance indicators

Purpose of this document

- A.1 Wholesale Line Rental (WLR) is a facility offered to Service Providers (SPs) that allows them to rent an exchange line from BT on wholesale terms, and resell it to an end-user. The SP can also rent those Supplementary Services normally made available by BT over an exchange line. BT shall make available the specific exchange line types and Supplementary Services set out in this Product Specification.
- A.2 BT shall enable the SP to take over all aspects of the retail relationship with the end-user. BT shall provide the SP with the opportunity to offer an equivalent level of customer service to that offered by BT, in relation to business processes such as provisioning and fault management. In order for this to be possible, BT must

make certain support services available. Some of the specific Supplementary Services required for this purpose are set out in this Product Specification.

- A.3 In order for WLR to be effective in promoting competition, the operational and financial overheads associated with the use of WLR must be minimised. BT shall implement key operational processes (e.g. ordering, provisioning, fault management, billing) in an efficient manner, and shall also manage the interactions with other wholesale services (e.g. Carrier Pre-Selection) in an efficient manner. BT shall provide a high degree of process automation, in order to reduce the transaction costs associated with the provision and in-life management of WLR. Some specific requirements are set out in this Product Specification.
- A.4 The WLR Product Specification as at March 2003 shall be used as the basis of the fit-for-purpose assessment carried out by Oftel, in order to determine whether it is appropriate to relax the controls on BT's retail prices. Oftel may determine that changes are made to this Product Specification, after consultation, but these changes will not form part of the fit-for-purpose assessment.

Definitions

- A.5 The following words or expressions in this Wholesale Line Rental Product Specification shall have the meaning ascribed hereunder:

Call Data Records

A set of data that provides for each call all the information that is necessary to produce a bill for that call.

Gaining Provider

The Service Provider to whom an exchange line is to be transferred following the successful completion of an order for WLR.

Losing Provider

The Service Provider from whom an exchange line is to be transferred following the successful completion of an order for WLR.

Select Services

A specific group of Supplementary Services, that allow an end-user to manage its calls. Select Services allow an end-user to identify who is making a call, prevent unwanted calls, and ensure that calls that are wanted get through.

Supplementary Services

Those services that are supplied over an exchange line in addition to access and call conveyance, either to provide an enhanced retail service to the end-user, or to help the Service Provider manage its end-users.

Transfer Letter

A letter sent by the Gaining Provider or the Losing Provider to an end-user, following submission of a WLR order, to inform the end-user that their exchange line is being transferred.

Line types and supplementary services

- A.6 BT shall make the following types of analogue exchange line available within WLR:
- Residential single analogue exchange line.
 - Business single analogue exchange line.
 - Business multiple single analogue exchange lines. These are multiple individual lines with different directory numbers installed on the same site.
 - Business multiple auxiliary analogue exchange lines. These are multiple individual lines serving the same site, and configured so that they share the same directory number as the main line.
- A.7 BT shall provide a standard directory listing for each exchange line, and this shall be either a residential or business listing as appropriate.
- A.8 BT shall provide full support for number portability (both import and export), sufficient to allow an SP to discharge its legal obligations in relation to number portability.
- A.9 BT shall provide the same capability to allocate 'golden numbers' for an exchange line being rented by an SP as it would for a BT Retail exchange line.
- A.10 BT shall make available within WLR the complete set of Select Services that are available to BT Retail, except where otherwise agreed by Ofcom. The Select Services that BT shall make available on an analogue exchange line include:
- call-sign (single line only)
 - caller display
 - withhold number per line
 - bar use of withhold number

- anonymous call rejection
- 'Choose to refuse'
- call barring
- call barring + bypass number
- call waiting (single line only)
- call diversion
- call diversion + bypass number
- 'Smart divert' (single line only)
- 'Smart divert' PIN number change (single line only)
- 'Smart divert' + bypass number (single line only)
- caller redirect / CNI (single line only)
- wholesale messaging
- 'BT Call Minder' (single line only)
- 'BT Call Minder' extensions (single line only)
- remote call forwarding (subject to confirmation by Oftel)
- ring back (single line only)
- ring back inhibit (single line only)
- call return (1471) (single line only)
- call return extra (single line only)
- call return erasure (1475) (single line only)
- bar use of call return (single line only)
- three way calling (single line only)
- reminder call (single line only)
- reminder call pay per use (single line only)

- A.11 BT shall make Direct Dialling In (DDI), a service which allows individual extensions on a PBX to be directly contacted via their own number, available on business exchange lines.
- A.12 BT shall make the following network services available within WLR, in order to allow SPs to manage their customers:
- Indirect access call barring, that is to say a service that will allow SPs to prevent end-users making indirect access calls.
 - Route 15x to Service Provider, that is to say a service that diverts customer service calls to the relevant department of the SP.
 - Route to credit control, that is to say a service that allows SPs to manage end-users who have not paid their bills.
 - Outgoing call barring, that is to say a service that prevents outgoing calls being made from a specified line.
 - Call mapping, that is to say a service that allows SPs to offer a voice messaging service to their customers.
- A.13 BT shall make the following special categories of analogue exchange line available within WLR:
- Private payphone exchange lines, with use where appropriate of the meter pulse facility.
 - Out-of-area exchange lines.
- A.14 There are a number of services which will not be included within WLR, but which are provided over the same exchange line or using the same directory number. BT shall not reject an order due to the presence of such services on a line unless there is no practicable alternative. BT shall continue to offer these services, and if necessary, transfer them to a new account. Examples of such services include:
- BT rented customer premises equipment.
 - Services provided over the same copper loop used by analogue telephony, but in a different frequency band. These include 'BT Broadband' and the 'Redcare' alarm monitoring service.
 - Services that allow customers to make calls from other telephones, and charge them to the customer's own directory number. These include 'BT Chargecard' and 'BT Ring Me Free'.
- A.15 There may be some services provided by BT over an exchange line that are incompatible with WLR. Oftel shall decide for each such service whether WLR or

the other service takes precedence. BT shall then respond as follows to a WLR order to transfer an exchange line over which that other service is being provided:

- If WLR takes precedence, then BT shall cease the other service and transfer the exchange line.
- If the other service takes precedence, then BT shall reject the WLR transfer order.
- If neither WLR nor the other service takes precedence, then BT shall reject the WLR transfer order.

Ordering lines

- A.16 BT shall ensure that the processes established for ordering, provisioning and transferring lines provide an SP with the opportunity to offer an equal level of customer service to that offered by BT Retail.
- A.17 BT shall ensure that there is no material difference between the timescales for ordering, provisioning and transferring lines for SPs and the corresponding timescales for BT Retail.
- A.18 BT shall provide an electronic gateway via which SPs will be able to submit WLR orders. BT shall provide two types of interface to this gateway, a manual web-based interface for low order volumes, and an automated XML-based machine-machine interface for high order volumes. BT shall ensure that both interfaces support the full range of order types, line types and supplementary services. BT shall ensure that it is possible to create a complex transaction in an efficient manner using a sequence of basic transactions.
- A.19 BT shall design its ordering process so as to ensure that all correctly-formatted valid orders that are submitted to the electronic gateway flow through the ordering process with no need for manual intervention by the SP or by BT. The only exceptions to this shall be where Ofcom has agreed that a particular order type or a particular task should be handled manually.
- A.20 BT shall support order types that allow an SP to provision a new line, transfer an existing line, cancel an order, change the status of an existing line, or cease a line.
- A.21 When BT rejects an order for WLR, BT shall provide sufficient information to enable the SP to establish the precise cause of the rejection. When BT rejects an order for WLR due to the presence of an incompatible service on the exchange line, BT shall ensure that the SP is able to determine the specific service that is the cause of the rejection.

- A.22 When BT ceases an existing service on an exchange line due to a WLR order to transfer that exchange line, BT shall inform the end-user of this using the mandatory Transfer Letter. BT shall also inform the SP, and shall do so before notifying the end-user.
- A.23 BT shall ensure that an SP is able to submit orders for WLR and for CPS on the same exchange line. BT shall manage these orders in such a manner as to ensure that any process differences between WLR and CPS have no impact on the quality of service received by the end-user. BT shall ensure that there is a gap of no more than one day between WLR and CPS service activation: this requirement is commonly referred to as 'WLR+1'.
- A.24 Where a WLR transfer involves retaining the same CPS configuration on the line(s) after the transfer as existed before, BT shall ensure that there is no interruption to or change of the existing CPS service: this requirement is commonly referred to as 'seamless CPS transfer'.
- A.25 BT shall develop a process that provides SPs with the same opportunity to retain customers who are moving home as is available to BT Retail: this is commonly referred to as a 'home-movers process'.

Design and operational management of the ordering system

- A.26 Oftel intends to produce on a regular basis a forecast of WLR order volumes. The forecast will provide an estimate for each month, and for each line type, of the number of new provides, line transfers, change orders and cease orders. The forecast will cover a period of two years. Oftel intends to review its forecast quarterly, or on request by BT. In advance of each review, BT shall provide Oftel with a breakdown of the actual orders submitted to date at the same level of detail as is required for the forecast.
- A.27 BT shall use the forecast of WLR order volumes prepared by Oftel to determine whether it has sufficient system capacity to handle these orders. BT shall initially dimension its ordering gateways and associated back-office systems so as to be able to support a transaction volume of 500,000 transactions per month with no degradation of performance. If at any point in the future the two-year forecast provided by Oftel predicts that the transaction volume will exceed this level for three consecutive months, then BT shall agree with Oftel measures to increase system capacity.
- A.28 Insofar as BT has a requirement for an externally provided forecast in order to plan its operational staffing, BT shall use the forecast provided by Oftel for this purpose.

Service provider forecasts and rationing

- A.29 BT shall require SPs to submit each month a rolling forecast of order volumes. Each forecast shall cover a period of three months, and provide a breakdown of total projected order volumes by order type and line type.
- A.30 BT shall each month review the forecasts provided by the SPs, in order to establish whether the total volume of orders is expected to exceed BT's system capacity during the forecast period. If the total volume of orders is expected to exceed system capacity, then BT shall ration the available capacity by requiring SPs to scale back their forecasts using the following formula:

$$C_i = A_i \times F_i \times C / \sum_i A_i \times F_i$$

Where:

F = The total volume of orders forecast by all SPs in a given month

F_i = The volume of orders forecast by SP i in a given month

C = The total ordering-handling capacity of BT

C_i = The capacity assigned to each operator after the rationing process

A_i = A figure of merit for operator i.

- A.31 BT shall calculate the figure of merit (A) for each SP from the forecasting error (E) of that SP for the previous 3-month period. E is equal to the number of orders forecast divided by the number of orders actually submitted. E is therefore less than 1 for an SP that under-forecasts, and E is greater than 1 for an SP that over-forecasts. Unless otherwise agreed by Oftel, BT shall use the following equations to calculate the value of A:

For $E < 1.1$, $A = 1$

For $E \geq 1.1$, $A = e^{-(E-1)}$

- A.32 On a daily basis, BT shall allocate orders to one of three queues, depending on the priority of the order:
- Priority 1: Order types that require urgent action (e.g. Cease, OCB). BT shall process these orders ahead of any other orders.
 - Priority 2: Orders submitted by an SP that are within the capacity allocated to that SP by the rationing process described above. BT shall process these orders on the day that they are submitted.

- Priority 3: Orders submitted by an SP that are additional to the capacity allocated to that SP by the rationing process. BT shall process these orders on a best efforts basis, with any outstanding orders carried forward to the next day.

Consumer protection

- A.33 When an exchange line is being transferred from a Losing Provider to a Gaining Provider, both providers shall send the end-user a Transfer Letter. BT shall ensure that its Transfer Letters are restricted to factual information only, and contain no marketing or save content. BT shall ensure that the content of its Transfer Letters complies with any guidelines issued by Of tel, and shall provide Of tel with copies of all letters on request.
- A.34 BT shall ensure that there is a standard switchover period for WLR, irrespective of the method of sale. The switchover period shall be set at 10 working days (excluding Saturdays), in order to ensure that the end-user receives the Transfer Letters, and has sufficient time to consider and act upon them.
- A.35 Several retail services exist that are targeted at particularly vulnerable groups of society (e.g. Light-Users Scheme). If an SP submits a WLR transfer order for a line over which such services are being provided, then BT shall reject the order. It will then be necessary for the SP to ask the end-user to cease those services if it wishes to transfer its line to that SP. Of tel reserves the right to relax this consumer protection policy if it deems this to be appropriate in the future.
- A.36 BT shall provide the same support to an SP for the handling of malicious calls as it provides to BT Retail. BT shall take responsibility for tracing the origination of calls, monitoring incoming calls, and using specialist equipment to identify the responsible party. BT shall also be responsible for any contact with the police that is necessary. BT shall enable SPs to change an affected end-user's telephone number by submitting the relevant change order to the electronic ordering gateway, and BT shall execute this change order as quickly as is practicable.

Maintenance and fault management

- A.37 BT shall provide the same quality of service for an exchange line leased to a SP as for an exchange line with the same SLA operated by BT Retail. BT shall enable SPs to contract for the same range of SLAs that are available to BT Retail (currently Standard Care, Total Care, Prompt Care, Priority Service).
- A.38 BT shall provide SPs with the same capability to submit a fault report for an exchange line, and track the status of that report, as is available to BT Retail. BT shall provide an appropriate electronic interface for both the initial submission and the subsequent tracking of fault reports.

- A.39 BT shall provide to SPs the same line diagnostic tests that are available to BT Retail. BT shall provide these via an appropriate electronic interface, and with a response time similar to that available to BT Retail. BT shall ensure that an SP is able to carry out a line test as part of the initial fault report, and provide immediate feedback to the end-user.

End-user visits by BT engineers

- A.40 Where a BT engineer visits an end-user of an SP, either to install a new line or investigate a fault, BT shall ensure that the engineer complies with guidelines provided by Ofitel for the management of such visits.
- A.41 BT shall provide SPs with the same ability to book appointments for visits by engineers as that available to BT Retail. BT shall ensure that SPs are able to submit a request for a specific appointment time via an electronic gateway, and immediately receive a response listing the available appointments closest in time to that requested, from which the SP can select the preferred appointment.

Billing, debt management, fraud and security

- A.42 BT shall provide SPs with billable quality Call Data Records (CDRs) on a daily basis, but separated by a small time gap from the date of the actual calls. BT shall provide CDRs in an appropriate electronic format. BT shall bill on a monthly basis for line rental, additional services and transaction charges.
- A.43 BT shall ensure that SPs have the ability to manage end-user bad debt by applying a series of escalating service restrictions to an exchange line, using a series of 'change' orders on the electronic ordering gateway.
- A.44 For calls that are carried over the BT network, BT shall provide SPs with raw CDRs every 4 hours, in order to allow the identification of fraud. These CDRs need not be of billable quality, but BT shall ensure that they are completely up to date (including calls in progress).
- A.45 BT shall take the same responsibility for the physical security of its network in relation to an exchange line being rented by an SP as it would for a BT Retail exchange line.

Key Performance Indicators

- A.46 BT shall provide transparency of its operational performance in relation to key business processes by publishing such Key Performance Indicators as are defined by Ofitel. BT shall publish data on its performance in relation to BT Retail as well as in relation to SPs, in sufficient detail to show whether SPs are receiving an equivalent quality of service to that provided to BT Retail.

Annex B

Wholesale Line Rental Assessment Criteria and Process

General principles

B.1 Oftel's initial assessment of WLR2 will combine a broad assessment of whether WLR2 as implemented is fit for purpose, with a preliminary assessment of the market impact. This amounts to the application of three tests:

- Is the functionality of WLR2 consistent with the Product Specification ?
- Has this functionality been implemented in such a manner as to minimise barriers to effective retail competition ?
- Is the market impact such as to suggest that the goal of effective retail competition is likely to be achieved ?

Product Specification

B.2 The first fit-for-purpose test is to consider whether the WLR2 Product Specification allows an independent SP to offer a similar range and quality of services to that offered by BT Retail in the relevant markets.

B.3 The Product Specification for WLR2, which appears at Annex A of this Statement, specifies the line types and supplementary services to be included in the WLR2 product. The fit-for-purpose assessment of the WLR2 product shall consider the following questions:

- Have all the line types and supplementary services set out in the Product Specification been delivered?
- If any of these have not been delivered, is this shortfall likely to have a material impact on the success of WLR2 ?
- Where BT Retail has introduced new services after the publication of the Product Specification, have these been included in the WLR2 product and, if not, could this materially affect the achievement of effective competition?

B.4 Oftel may also propose changes to the Product Specification of WLR2 at any time following market reviews, resolution of a dispute or complaint, or other exercise of its powers. Changes to the Product Specification made for any of these reasons after the Version 1.0 of the Product Specification, published in this Statement, shall not however form part of the fit-for-purpose assessment of WLR2.

Product implementation

B.5 The second fit-for-purpose test is to consider whether BT's implementation of the WLR2 product is fully effective, so that implementation issues do not constrain the take-up of WLR.

B.6 This test shall be based on a set of Key Performance Indicators (KPIs), which shall be used to measure the effectiveness of key business processes. It will not be possible to define the complete set of KPIs to be monitored until the business processes for WLR2 have been specified in more detail. Oftel expects the detailed specification of KPIs to form part of the WLR implementation programme.

B.7 Oftel's current expectation is that the KPIs to be monitored shall include:

- The volume of orders submitted
- The percentage of orders that are rejected
- The percentage of orders that flow through BT's systems without manual intervention
- The average time between submission of an order and acceptance by BT
- The average time between acceptance of an order and service activation
- The percentage of lines which are subject to faults within a specified period
- The average time between submission of a fault report and the fault being cleared
- The average time taken to complete a line diagnostic test
- The average time taken to arrange a visit by an engineer
- The percentage of times that an appointment for an engineering visit is missed
- The percentage of lines which are subject to repeat faults
- The percentage of billable CDRs which are produced on-time
- The percentage of billable CDRs which have to be repeated due to errors
- The number of billing queries

B.8 The basic fit-for-purpose test applied to each KPI shall be to determine whether the performance of BT in relation to independent SPs is similar to its performance in relation to BT Retail. For example, Oftel shall determine whether the response time to faults reported by BT Retail is the same as the response time to faults reported by an independent SP.

B.9 Although Oftel's intention is to avoid setting absolute targets for KPIs, there will be some cases where it is necessary to do so, since BT Retail does not use the same process as SPs. For example, it shall be necessary to set absolute targets for the percentage of orders rejected by the electronic gateway, and the percentage of orders that flow through the ordering process without manual intervention. These targets shall be set as part of the WLR2 implementation programme.

B.10 Oftel is expected to make its initial assessment of WLR2 three months after product launch. Oftel has however noted some concerns that might exist over the quality of KPI data gathered during this period:

- The effectiveness of most processes will depend on the performance of the SP as well as that of BT. For example, a high level of order rejections could be due to

errors in the orders submitted by SPs. This is likely to be a particularly severe problem during the initial phase of operation.

- Those processes that relate to in-life customer service (fault management, billing) are unlikely to be severely tested during the first few months, due to the small customer base.

B.11 The most effective means of addressing these concerns is by using an independent third party to validate the performance of BT's systems, perhaps including some form of soak test. There are however legitimate concerns about the consequences of carrying out such tests on BT's live systems. Oftel expects to determine the tests that can reasonably be performed following further discussions with BT. The performance of BT's systems under these tests will then form part of the fit-for-purpose assessment. Performance should meet or exceed reasonable industry standards.

Market impact

B.12 The third fit-for-purpose test will be an assessment of the impact of WLR2 on the relevant retail markets.

B.13 As already noted, Oftel expects to make its initial assessment of WLR2 no earlier than three months after product launch. The one objective measure of market impact that will be available to Oftel at this point in time is the volume of WLR2 orders. Oftel expects to see 25,000 orders per month for new end-users of WLR2 plus CPS, plus a further 25,000 transfers per month from CPS only to WLR2 plus CPS. Oftel also expects to see within these overall totals a significant level of orders associated with both the residential and business markets. If the actual level of activity is below these levels, Oftel will take this as evidence that WLR2 as implemented is not fit for purpose.

B.14 Oftel does not, however, consider that order volumes at this level are an adequate indicator that the product will have a competitive impact sufficient to justify relaxation of the price control. These order volumes should therefore be regarded as thresholds that need to be passed before any assessment is possible. To take a view on the likely market impact of the product, Oftel will have regard to a range of evidence at the point of assessment, including:

- Is the product being actively used and marketed by competitors to BT in a way that is likely to bring material competitive pressures ?
- Is consumer awareness of WLR SPs and their products on a rising trend ?

B.15 Oftel shall commission market research on a monthly basis during the period immediately before and after the product launch, in order to investigate whether there is a significant change in consumer awareness of WLR SPs and products. This will provide useful supplementary evidence as to the likely market impact of WLR2.

Assessment process

B.16 BT shall formally trigger the initial assessment, by informing Oftel when it believes it has met all the core requirements for the WLR2 product. Oftel shall start its assessment three months after this date.

B.17 The assessment will require Oftel to carry out a significant level of data analysis. Oftel expects to carry out this analysis and publish its conclusions within two months of starting its assessment. A further one-month consultation period is likely to be required before these can be implemented.

B.18 The assessment shall result in one of four possible outcomes:

- The WLR2 product as implemented is fully satisfactory, with no further work required. The retail price control can immediately be relaxed.
- The WLR2 product meets most of the core requirements, but there are some areas where further work is required. The work is sufficiently minor that it is reasonable to relax the retail price control immediately, on the basis that BT guarantees to carry out the outstanding work.
- The WLR2 product meets most of the core requirements, but there are some areas where further work is required. The work is major enough that the retail price control should not be relaxed until it has been completed. On completion of this work, Oftel will assess whether this has been done to a satisfactory standard, but will not carry out a full reassessment of the WLR2 product.
- The WLR2 product does not meet the core requirements. A large amount of additional work is required, and a full reassessment of the WLR2 product will be required once this has been carried out.

B.19 BT shall not be able to trigger a full reassessment of WLR2 within three months of a previous assessment failing

B.20 Oftel reserves the right at any time to carry out a more formal project review, in order to determine whether the incentive regulation being applied by Oftel still seems likely to be successful, or whether alternative remedies to BT's dominance of the relevant retail markets should be considered.