



5th July, 2004

**BT's Response to Ofcom's Consultation on
"Addressing The Local Call Disadvantage: A CPS Local Calls
Option"**

Issued 4th June 2004

BT welcomes comments on this document, which can also be found at www.btplc.com/responses/.

Comments should be addressed to Colin Annette, BT Wholesale Regulatory Affairs Department, pp 502.3, Mondial House, 90-94 Upper Thames Street, London EC4R 3UB, or by e-mail to colin.annette@bt.com.

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2 EXECUTIVE SUMMARY

In May 2004, BT announced its intention to develop the existing Carrier PreSelection (CPS) product in order to address certain aspects of the CPS interconnect regime. This response document provides both comment on Ofcom's consultation as to how this CPS product development should be implemented and further detail as to BT's current intentions in this regard.

- BT agrees with Ofcom's assessment that its third proposed option, that of a CPS Local Calls product, is an appropriate response to the identified CPS interconnection issues. BT therefore intends to enhance the CPS product in order to retain CPS calls on its own network, where those calls remain on a single Digital Local Exchange¹ (DLE), or pass between adjacent, connected DLEs. BT remains in negotiation with its suppliers on the cost and timescales for delivery of this product. There is substantial complexity involved in achieving Ofcom's current proposals and whilst BT is seeking rapid delivery, it is looking increasingly challenging to meet Ofcom's aspirational end-of-year timeframe;
- Ofcom has proposed two additional CPS Subscriber Options, to ensure certain functionality in the new BT CPS product. However, BT does not believe that network traffic routing is a subscriber issue. Consequently, BT has identified an alternative approach, using routing options within CPS Subscriber Option 3 (all-calls), that would achieve the same objectives, but with reduced development cost. BT proposes using this alternative approach, which would also not require the associated changes to the CPS Functional Specification;
- BT agrees with Ofcom's proposal that the new CPS product should be directly available, at a specific DLE, only to those CPSOs that have a direct interconnect route at that DLE. The direct interconnect route must be configured to carry CPS traffic. BT will also enable the resale of the new CPS product at a given DLE by CPS Operators (CPSOs) with connections to that DLE;
- BT is currently enhancing its Network Information Publication Principles (NIPP) and Element Based Charging (EBC) data files to include connections between DLEs, which have not previously been relevant to network interconnection. BT is aiming to make this data available prior to the launch of the new CPS product;
- BT will provide billing Call Detail Records (CDRs) to relevant CPSOs, using the same format and timescales as are already used for the Wholesale Access product;
- BT currently intends, subject to this consultation and the Product Management, Policy and Planning (PPP) consultation, to price the new CPS product as follows:
$$\text{Own-DLE Calls} = (1 \times \text{PPP}^2) + (1 \times \text{LECO}^3) + (1 \times \text{LECT stick}^4)$$

¹ A local telephone exchange to which customers are connected for voice telephone services

² BT's overhead cost-recovery charge for interconnect Product Management, Policy and Planning

³ BT's network conveyance charge for Local Exchange Call Origination

$$\text{DLE-DLE Calls} = (1 \times \text{PPP}) + (1 \times \text{LECO}) + (1 \times \text{LECT}^5) + (1 \times \text{LLC stick}^6)$$

- The timeline for implementation of the new CPS product is not yet clear. However, BT has committed to offering an adjustment to CPS charges that will place CPSOs on an equivalent cost base to BT's own operations. This interim charging adjustment will apply from 1st July 2004 and will cover the difference between what BT invoices CPSOs currently and what they would be invoiced if the new CPS product were in place. This charging adjustment will also include the costs incurred by CPSOs within their own networks, using BT's published network costs as a proxy. The interim charging adjustment will cease at a given DLE, once the new CPS product is enabled at that DLE. Subject to the outcome of this consultation and the PPP consultation, BT currently intends to price the interim charging adjustment as follows:

$$\text{Own-DLE Calls} = (1 \times \text{PPP}) + (1 \times \text{DLE processor}) + (1 \times \text{LTC}^7) + (1 \times \text{LTC stick}^8)$$

$$\text{DLE-DLE Calls} = (1 \times \text{PPP}) + (1 \times \text{LTC}) + (1 \times \text{LTC stick}) - (1 \times \text{LLC stick})$$

- BT does not believe that there is a feasible technical solution that would provide a similar 'local calls' product for IA calls. Instead, BT proposes that CPSOs migrate their existing IA customers to a CPS product, if they so wish. However, BT is deeply concerned at the levels of customer mis-selling that forced customer migrations have previously generated. CPSOs need no help from BT to undertake customer migrations from IA to CPS services and BT does not believe that it needs to implement any new processes to enable this. BT wishes, however, to see such migrations take place on an 'opt-in' basis, whereby customers are given a specific opportunity to make a choice as to their telecommunications supplier, particularly in a market where there can be multiple existing communications suppliers using a single customer line. BT is not willing to support processes that remove this customer choice, or undermine customers' existing multiple-supplier arrangements, but intends to work with CPSOs to explore suitable processes;
- BT has ongoing concerns about the scalability of its existing STP platform and is reticent about further signalling investments in a PSTN that is shortly to be shut down. However, BT will reopen discussions with those CPSOs that remain interested in further STP availability;

⁴ BT's network conveyance charge for Local Exchange Call Termination, having removed the costs associated with DLE switching

⁵ BT's network conveyance charge for Local Exchange Call Termination

⁶ BT's network conveyance charge for Local to Local Conveyance transmission

⁷ BT's network conveyance charge for Local to Tandem Conveyance

⁸ BT's network conveyance charge for Local to Tandem Conveyance, less the costs relevant to Tandem switching

- BT intends to treat traffic using the new CPS product as being DLE-terminated, for the purpose of the Reciprocity Agreement, which calculates other communications providers' geographic call termination charges. To do otherwise would increase these charges, which would run counter to Ofcom's intended impact on retail markets.

3 INTRODUCTION

BT welcomes this opportunity to comment on Ofcom's proposals to address interconnection issues in relation to certain types of CPS call. Specific answers to the consultation questions can be found at Annex 2. The remainder of this document addresses some of Ofcom's proposals in greater depth and also presents the current view of how BT intends to implement Ofcom's proposals, subject to any changes that result from the consultative process and from the parallel PPP consultation.

In May 2004, BT announced that it would be developing a new component for the CPS product that would enable CPSOs to purchase the necessary wholesale conveyance services from BT to overcome certain interconnection issues in relation to local calls. These issues are an inevitable result of network interconnection.

Since that time, BT has been working towards a rapid launch of this product, although BT has been unable to take explicit implementation action until the conclusions of the current consultation processes become clear. BT remains committed to resolving the CPS interconnection issues associated with the historic interconnection framework, to reflect the more dynamic and competitive telecommunications markets of today and the coming years.

3.1 *Inter-related Consultations*

Ofcom is currently running consultations in two related areas:

- Strategic Review of Telecommunications; and
- Review of BT's PPP Charge.

Ofcom's Strategic Review of Telecommunications will likely address the subject of the future of competitive network infrastructure investment. BT is supportive of Ofcom's current view that investment in efficient and viable network infrastructure (e.g. the requirement to have a physical connection to relevant DLEs) should not be undermined through unnecessary mandatory availability of price-regulated wholesale telecommunications products.

Ofcom's review of BT's PPP charge is also relevant to BT's new CPS product pricing. The proposals made in this response, where they relate to the pricing of BT's new product and to the calculation of the interim adjustment to charges, are therefore subject to the outcome of the PPP consultation. However, BT's charging proposals in this response appear to be consistent with Ofcom's PPP consultation document.

4 OPTIONS FOR ADDRESSING THE LOCAL CALLS COST DIFFERENTIAL

Ofcom's consultative document captures the issues relating to CPS interconnection between BT and CPSOs for two types of call:

- **Own-DLE Calls** – these are calls that originate and terminate on the same DLE (i.e. calls where the calling customer and the called customer are connected to the same local telephone exchange); and
- **DLE-DLE Calls** – these are calls that originate on one DLE and terminate on another DLE, where the two DLEs are directly connected to each other (i.e. the calls do not require routing via BT's tandem switching layer).

Ofcom has used the term 'local calls' in its consultation, as these two types of underlying traffic routing dominate the volume of retail local calls. However, BT welcomes Ofcom's clarification that it is the underlying wholesale call types that are the subject of the consultation. Retail call categories are unrelated to underlying network cost components and are a matter for the relevant retailer.

4.1 *The Local Calls Cost Differential Is a Function of Network Interconnection*

As Ofcom has noted, the interconnection differential between BT's retail local calls and those of CPSOs is an inevitable result of network interconnection and cannot be avoided through physical network interconnection alone. BT believes that, in addition to physical DLE connections, it will need to supply some further routing functionality to CPSOs in order to achieve similar cost bases.

4.2 *Selecting Option 3 – A New CPS Product*

4.2.1 *Doing Nothing is Not an Option*

BT agrees with Ofcom's assessment that doing nothing is not a sustainable approach. The retail market for voice services is highly competitive and increasingly dynamic. Changes to the underlying wholesale environment are therefore inevitable and welcome.

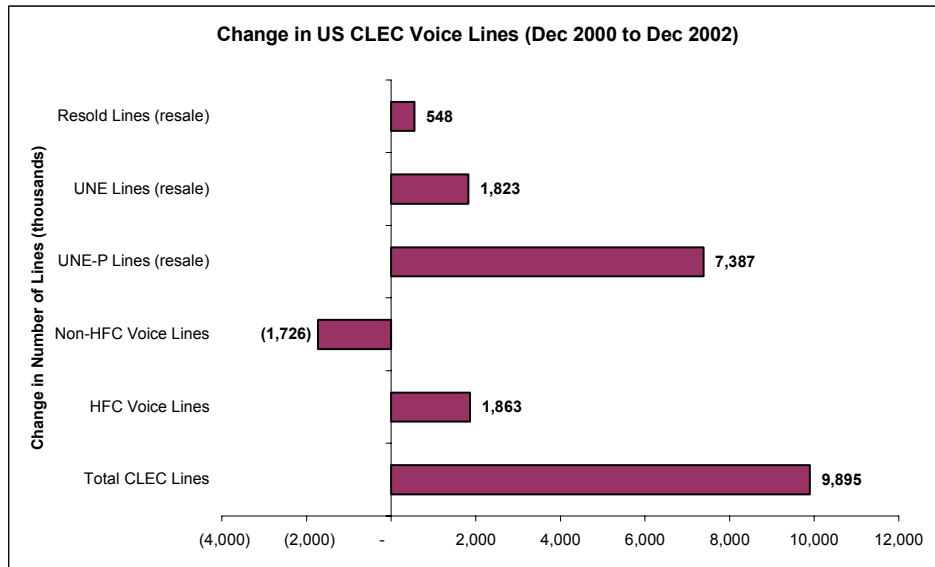
4.2.2 *Mandatory Cost-Oriented Switchless Resale Clearly Forecloses Investment*

BT also agrees with Ofcom's view that the mandatory provision of a cost-based switchless resale product would both be disproportionate to address the issue at hand and be harmful to the further development of efficient and extensive network interconnection. Widespread availability of a cost-based switchless resale product would undermine competitive network investment to the extent that no communications provider would continue to use its existing network for voice services.

In the US, this has been precisely the experience in relation to the introduction of the UNE-P product. The chart below illustrates changes in voice line provision following the December 2000 introduction of UNE-P⁹. It shows an almost universal preference for the

⁹ Unbundled Network Elements – Platform. This product provides a complete wholesale product to third parties for resale purposes, including both an access line and calls

use of UNE-P for provisioning, rather than CLECs'¹⁰ own networks, underlining the impact on investment and competition that such regulatory decisions can bring. The only exception is the cable companies' use of their own HFC¹¹ networks. Indeed, CLECs have actively chosen to *reduce* the number of lines on their own networks, in preference for growth using UNE-P. BT believes it is important to avoid excessive regulatory intervention generating such detrimental market outcomes.



Source: FCC Local Telephone Competition Bulletins

4.2.3 Option 3 Is the Optimal Choice

Competitive investment in network facilities is most certainly economically and technically viable. BT agrees with Ofcom's assessment that these rational economic incentives should not be undermined by disproportionate regulatory intervention. Ofcom's third option, therefore, is the most proportionate approach to addressing the identified issues. BT has already announced its intention to pursue the development of a variation to the CPS product that will provide CPSOs with equivalent traffic routing and cost components to those available for BT's own voice services.

Although the implementation costs are highest for this third option, it provides an optimal trade-off against delivering maximum competitive benefits without unintended disincentives for competitive investments.

BT has not yet assessed what, if any, impact its product design might have on the number of CPS codes required by CPSOs. Certain product specification options could require multiple codes per CPSO. BT will explore this further with Ofcom and the CPS industry for a, as product design details become clearer.

¹⁰ Competitive Local Exchange Carriers – the competitive new entrant telecommunications companies that have invested in their own access networks

¹¹ Hybrid Fibre/Coax

5 DEVELOPING A NEW PRODUCT FOR THE CPS PORTFOLIO

At this time, BT does not have a full product name for the enhancement to CPS. However, as a working title, the remainder of this document will refer to the WODCAD product (Wholesale Own-DLE and Connected Adjacent DLE calls).

5.1 Key Items of Functionality

BT perceives the following high-level functionality requirements from Ofcom's consultation document:

- Own-DLE and DLE-DLE calls should be kept within the BT network, where required by the relevant CPSO, and routed in the same manner as BT's own calls;
- Only CPSOs that are directly connected to a specific DLE, with suitable traffic routes configured to carry CPS traffic, will be able to order the WODCAD product at that DLE;
- Other CPSOs (i.e. those that do not have a direct connection to the specific DLE) should be able to purchase the WODCAD product through CPSOs that are eligible to purchase the WODCAD at that DLE, should they so wish;
- All CPSOs should be able to continue to take originated CPS traffic (including Own-DLE calls and DLE-DLE calls) via their existing DLE or tandem links, as they require; and
- All CPSOs should be able to request that their WODCAD traffic be handled by another CPSO (i.e. one with relevant DLE interconnection), while continuing to have their other traffic separately handed over at their existing tandem and DLE connections.

BT agrees with this set of product functionality requirements and its development planning and analysis has been progressing on this basis.

The WODCAD product is being designed to operate with, but independently of, other traffic routing products, such as CPS Third Party Handover.

5.2 Ofcom's Proposed Subscriber Options

In its consultation document, Ofcom proposes two additional Subscriber Options – Options 4 and 5. Ofcom suggests these on the basis that they are required in order to deliver the functionality outlined above.

However, BT believes that it can offer the same functionality and resellability without the need for additional Subscriber Options. BT sees the CPS Subscriber Options as being independent of the underlying network routing that is the subject of this consultation and the WODCAD product. It is certainly possible to implement multiple ways of routing CPS traffic, without changes to the CPS Subscriber Options. This is the basis on which the CPS third party handover product has been developed, enabling smaller CPSOs to benefit from the wider interconnectivity of larger CPSOs without the need for changes to the CPS Subscriber Options.

The provision of additional Subscriber Options would also involve costly developments on BT's CPS Order Gateway and associated systems and also on CPSOs' parallel order management systems.

As an alternative to Ofcom's initial suggestion, BT proposes to offer two flavours of CPS Option 3 (All Calls), each of which is simply a routing request at the network level, rather than being a CPS Subscriber Option. These two routing options, along with the billing arrangements for them would be as follows:

- Route WODCAD calls off the BT network in the same manner as all other CPS traffic (i.e. no change to current CPS traffic routing arrangements); or
- Route WODCAD calls on the BT network and continue to route the other traffic according to the CPSO code owner's routing plan. This second option can be requested by the CPSO code owner, either at DLEs where it has direct interconnection, or at DLEs where a third party CPSO had direct DLE interconnection and the CPSO code owner has a suitable contractual relationship with the third party CPSO.

In circumstances where a third party is involved (i.e. where the CPS code owner requests WODCAD at a DLE via a communications provider with appropriate interconnection at that DLE), BT proposes that traffic invoices would be sent to the CPS carrier code owner. In circumstances where a CPS code owner has chosen to host its CPS code on another communications provider's network, BT currently treats the hosting network operator as the CPS code owner, for all commercial and contractual issues.

The diagram at Annex 1 illustrates how a CPSO would order these routing options, within CPS Option 3. BT expects that the ordering of routing options will take place using the same processes as are used to define and update other routing plan and network planning requirements. It would not, then, be necessary for CPS order handling desks or systems, which are designed for the management of individual customer orders, to deal with this network-level functionality.

These options enable CPSOs that are not connected to a given DLE to benefit, via commercial agreement with an eligible CPSO, from the WODCAD product at that DLE. It does not require that smaller CPSO to route its non-WODCAD traffic in any particular manner. The smaller CPSO can continue to use its existing tandem interconnects for other traffic types, or can also choose to route this other traffic via yet another CPSO, using a CPS third party handover product.

Each of the routing options above would be available at the level of individual DLEs. BT is currently assessing the likely additional DMA activity associated with this level of network routing flexibility and will discuss any associated charging arrangements via the CPS Commercial Group.

5.3 Enhancements to NIPP and EBC Data

As DLE-DLE connections are not currently relevant to interconnection services, information on these connections is not presented in the NIPP or EBC data provided to communications providers. In order to enable CPSOs to develop systems both for interconnect planning and for billing reconciliation, BT will be enhancing its NIPP and

EBC data to include DLE-DLE connections. These additional files will be made available prior to the launch of the WODCAD product.

5.4 Billing Data Via a CDR Feed

Following the implementation of WODCAD, CPSOs will no longer produce their own CDRs for these calls, for billing, credit management, fraud, etc., purposes. BT will therefore make CDRs for WODCAD calls available to CPSOs. BT currently intends to provide this CDR data to the CPS code owner.

The billing data will be provided with the same format and frequency as that for the wholesale access product set. Many CPSOs have already developed systems that will manage this operational interface, minimising investment and implementation timescales on the part of CPSOs.

5.5 Current Implementation Timescale Expectations

At the time of writing, BT remains in negotiation with its suppliers regarding the implementation of WODCAD. BT is therefore not yet able to commit to a specific timescale for the availability of WODCAD. Indeed, BT will not be in a position to place firm orders with vendors until the close of this consultation, as only then will the specification be clear.

BT will be implementing this new product as quickly as possible and will communicate expected timescales through the CPS industry fora.

As noted later in this response, once WODCAD is implemented at a particular DLE, the interim charging adjustment will cease for relevant traffic at that DLE. There is, therefore, a significant commercial incentive on CPSOs to manage their own system developments and planning activities to the same timeline as BT. BT will, of course, work with CPSOs throughout this process, but will not be able either to delay the implementation programme for WODCAD, or to prolong the interim charging adjustment beyond the implementation of WODCAD on a given DLE.

5.6 Product Rollout on Certain DLEs

5.6.1 DLEs Already on BT's Published Closure Schedule

For some time, BT has had a published list of DLEs that are scheduled for closure, as part of its node consolidation programme. Customers connected to these closing DLEs will be consolidated onto other DLEs.

Implementing WODCAD on those switches would require a variety of memory and processor upgrades, in addition to the software upgrades and switch data that implement the product itself. BT would prefer not to undertake capital expenditure on upgrading network assets that it has already identified for closure, as this would be an inefficient approach to capital investment.

Instead, BT proposes to continue the interim charging adjustment, outlined later in this response, for those relevant DLEs until they are finally closed. The WODCAD product will, of course, be available on the DLEs to which the affected customers will be migrated. BT feels this approach to be proportionate, efficient and in step with Ofcom's requirements. Precise details would, of course, be discussed with the affected CPSOs.

5.6.2 Tail-End of the WODCAD Rollout

BT's ongoing network consolidation programme is complex, with multiple interdependencies, and may impact on the timescales for availability on a small number of DLEs. BT intends to continue to provide the interim charging adjustment for any such DLEs until the WODCAD product is available.

Relevant timescales will be discussed at the CPS industry fora.

5.7 Pricing of the WODCAD Product

BT's pricing work has not yet been completed and will not be completed until this consultation and the PPP consultation have reached their conclusions. However, pricing is expected to be set out and calculated according to the three categories below.

5.7.1 Conveyance Charges

BT intends to use the existing conveyance cost components, as defined and published within the Network Charge Control baskets. The components that will be used are as follows:

- Own-DLE Calls = (1xPPP¹²) + (1xLECO¹³) + (1xLECT stick¹⁴); and
- DLE-DLE Calls = (1xPPP) + (1xLECO) + (1xLECT¹⁵) + (1xLLC stick¹⁶).

As Ofcom has noted, the cost components used in its calculations in the consultation document are not those currently relevant under the network charge control. The current charges were published in December 2003, with an effective date of 1st April 2004. They can be found in BT's ACCNs 447 to 450, on the pricing section of www.btwholesale.com.

The table below shows, for clarity, the current values of these components¹⁷:

¹² charge for BT's overhead costs relating to Product Management, Policy and Planning

¹³ charge for Local Exchange Call Origination, including costs for Operator Assistance and Emergency Services

¹⁴ charge for Local Exchange Call Termination, excluding the costs of the DLE itself

¹⁵ charge for Local Exchange Call Termination

¹⁶ charge for Local to Local Conveyance, excluding any switching costs. Since this charge does not currently exist, BT's existing Local to Tandem Conveyance charge will be used, as a reasonable proxy

¹⁷ throughout this response, all references to PPP charges are subject to the outcome of the current PPP consultation

Summary of Key Components

	24-Hour Average Cost (ppm)
Local Exchange Call Origination	0.1957
Local Exchange Call Termination	0.1766
Local to Tandem Conveyance	0.0805
Local Exchange Call Termination Stick	0.1062
Local to Local Stick	0.0251
Local to Tandem Stick	0.0251
PPP	0.0438
DLE Processor	0.0704

5.7.2 Product Development Costs

The costs of developing this product will be recovered through the existing 'CPS Levy', across all relevant call types. At this time, BT does not have a complete picture of the costs of the development work, particularly as there may be a requirement for substantial work by BT's switch vendors.

As this picture becomes clearer, BT will propose appropriate revisions to the current level of the CPS Levy.

5.7.3 Ongoing Operational Costs

BT is currently analysing whether there will be significant ongoing operating costs associated with the WODCAD product, above and beyond the averaged costs of CPS calls. These costs might relate to the additional supply of billing data to CPSOs, or to the incremental DMA activity that will arise.

If there are additional and non-trivial costs, BT will explore potential charging mechanisms with the CPS Commercial Group, at the appropriate time.

5.8 WODCAD Charges and Number Portability

BT has identified a number of billing complexities in relation to WODCAD and ported telephone numbers. At this time, BT does not have solutions to these issues and will address them more fully during the product development process.

5.9 Network Capacity Planning and Traffic Routing

BT will retain control over the planning and deployment of capacity and links within its own network. BT will, of course, pay heed to CPSOs' WODCAD forecasts when making its network planning decisions and WODCAD traffic will continue to be treated in the same manner as BT's other network traffic.

However, BT does not intend to implement or remove DLE-DLE connections at the request of CPSOs and will make these decisions based on the entirety of network traffic and its own planning guidelines.

6 INTERIM ARRANGEMENTS, PENDING FULL PRODUCT AVAILABILITY

In May 2004, when it announced its intention to develop the product now called WODCAD, BT's aims were aspirational and there was no specific plan as to exactly how to achieve that goal. BT recognised that there would be significant technical issues to overcome and that there might therefore be some delay to the implementation of the product.

To address this, BT offered to make an interim adjustment to CPSOs' charges, to place them on the same cost footing that would prevail if the WODCAD product were available.

6.1 Effective Dates for the Interim Adjustment

BT will make adjustments to CPSOs' invoices, with effect from 1st July 2004. When the current consultative processes for the CPS Functional Specification and for PPP have been completed and charges become clear, BT will backdate the relevant charging adjustments to 1st July 2004.

BT will then continue to adjust CPSOs' invoices for relevant calls from a given DLE until the WODCAD product is enabled at that DLE. Thereafter, BT will not make both the interim charging adjustment and the WODCAD product available from a given DLE in parallel.

6.2 Qualification Criteria for the Interim Adjustment to Charges

As with the WODCAD product itself, a CPSO must have a direct interconnection to the relevant originating DLE in order to qualify for the interim charging adjustment. The direct DLE connection must be configured to carry CPS traffic.

6.3 Billing Arrangements for the Interim Adjustment

At the time of writing, BT is hopeful that an offline, but automated, billing system will be available to calculate the interim adjustments. If this is not possible, to an acceptably robust standard, a manual process will be applied instead. BT has already implemented plans to capture relevant CDRs from 1st July, to enable fully retrospective billing adjustments when the finalised pricing becomes clear.

BT works to an aggressive timeline for interconnect conveyance billing and the offline billing adjustment will not be able to meet that timeline. The adjustment will therefore be applied through a credit note, shortly after the invoice for the interconnected calls has been sent and before payment of that invoice is due. BT's intention is to send the credit notes within two weeks of the relevant invoices.

As with many of the proposals in this response, the precise billing arrangements are dependent on the conclusions of this consultation and of the PPP consultation.

6.4 Calculating the Value of the Interim Adjustment

BT proposes that the interim adjustment to charges covers two broad categories of cost:

- The difference between what BT invoices CPSOs today, where they are connected to the relevant DLEs for CPS traffic, and what BT will invoice CPSOs for the same calls when the WODCAD product is fully implemented; and
- The efficient incremental costs incurred within the CPSOs' networks that would not be incurred if the WODCAD product were immediately available. BT will use its own network costs as a proxy for CPSOs' costs in this calculation.

Subject to the outcome of the PPP consultation, BT plans to include the following cost components in the interim adjustment:

- Own-DLE Calls = (1xPPP) + (1xDLE processor) + (1xLTC¹⁸) + (1xLTC stick¹⁹)
- DLE-DLE Calls = (1xPPP) + (1xLTC) + (1xLTC stick) – (1xLLC stick)

There will be no need to adjust the CPS Levy retrospectively. Nor will any subsequent charging relating to ongoing operating cost recovery be relevant to the interim charging adjustment.

6.5 Working with the CPS Industry Fora

As BT's WODCAD product development process continues, it will discuss both product launch timescales and the financial and billing arrangements for the interim adjustment with the CPS Commercial Group, in order to refine its proposals and ensure that its wholesale customers are fully informed of pricing, processes and timescales.

¹⁸ BT's Local to Tandem Conveyance charge

¹⁹ BT's Local to Tandem Conveyance charge, excluding the costs for tandem switching

7 INDIRECT ACCESS AND THE WODCAD PRODUCT

Ofcom has asked whether the WODCAD product should be made available for IA traffic as well as for CPS traffic. BT does not believe that this is necessary, proportionate, or technically feasible.

7.1 IA Cannot Operate With WODCAD

IA operators validate their customers' calls as each call is made, whereas with CPS BT validates whether calls from a particular line are being made under a valid CPS agreement. BT is therefore unaware if an IA call is made under a valid contract with an IA operator.

The WODCAD product keeps calls within the BT network. IA operators are therefore no longer able to validate the calls, or to undertake credit and bad debt management. If BT were to implement WODCAD for IA calls, consumers could make calls that BT would charge to IA operators, but for which the consumer would not need either to have a contract with the IA operator, or to pay the IA operator.

In addition, several IA services operate on two-stage call setup. For such services, the customer's dialled digits are transmitted in-band, rather than via network signalling and BT's network cannot 'see' these dialled digits. Again, this would make an IA version of the WODCAD product infeasible to implement.

BT therefore does not currently have a technical solution that would provide an acceptable WODCAD variant for IA calls. BT believes that the development costs associated with this and with recreating all IA operators' customer information on a BT service validation platform would be prohibitively high. BT does not, therefore, believe that this would be a sensible requirement, or one for which there would be meaningful demand from IA operators.

7.2 Migration of IA Customers to CPS Products

BT agrees with Ofcom's view that the alternative approach of service providers migrating their customers from IA products to CPS products is an adequate way forward. BT is not aware of barriers to migrating IA customers to CPS products, other than customers' own choices not to migrate. CPSOs and their service providers are certainly able to sell a CPS-based product to the same customers to whom they sell IA services. Indeed, CPSOs have, in the past, targeted IA customers as likely early movers to a CPS service, which suggests that those who have not migrated have made a conscious choice.

BT is not involved in the process of migrating an IA customer to a CPS product, other than in the provision of the underlying CPS on the customer's line, at the CPSO's request. BT does not know when CPS provision is a part of migration from IA and is therefore not in a position to interfere with this process operationally.

Where customers are using auto-diallers (for example those customers that used interim CPS), CPSOs are able to implement migration by ordering CPS for the customer's line and asking the customer to unplug the auto-dialler. BT does not view this as an insurmountable issue for CPSOs to manage and is not aware of CPSOs having identified an inability in this respect. This migration path also eases concerns over consumer protection and slamming, as customers are directly involved in the process.

Where customers are dialling IA prefixes manually, BT does not believe that CPSOs should be able simply to force migrate the customers to CPS services for traffic that the customer had not previously chosen to purchase from the CPSO. BT firmly believes that consumers should not be migrated between telecommunications suppliers without their knowledge and consent. In particular, BT believes that IA customers that have chosen to not to take up the past offers of CPSOs should not now be force-migrated through an arbitrary migration process.

Many customers choose to use IA because of the ability it offers to select multiple suppliers of telecommunications services, or to have multiple accounts in multi-tenanted premises. BT is deeply concerned that Ofcom's migration proposals would trigger a race between CPSOs to be the first to force-migrate all of a customer's traffic, without the consent of that customer.

BT certainly has no objection to CPSOs giving customers the option to migrate voluntarily from an IA product to a CPS product. However, as Ofcom's own Customer Guide to Transferable Products makes clear, these two call products are not the same and customers will use them in different ways. Ofcom will have noted the waves of customer complaint when some CPSOs attempted transfers on an 'opt-out' basis in the past, particularly in situations where a customer has chosen to use several IA suppliers on a single exchange line.

BT continues to be alarmed at the level of retail customer 'slamming' that is taking place, although BT is aware of such activity only when customers complain directly. It does not seem an unreasonable proposal that consumers be given the explicit right to choose their telecommunications provider, on an 'opt-in' basis, rather than ask BT to remove this consumer right through a mandatory 'opt-out' migration process.

8 OTHER ASPECTS OF DLE INTERCONNECTION

Ofcom has suggested some additional areas where it feels BT's policies or processes retard the ability of CPSOs to undertake significant rollout of DLE connectivity. BT will certainly revisit the areas that Ofcom has identified. Where genuine issues can be discerned, BT will seek a way forward either through the relevant industry fora, or through bilateral discussions, where appropriate.

8.1 Availability of STP Inter-working

BT currently provides STP working for certain types of traffic. However, BT's STP platform has technical and capacity limitations that have led to a conservative approach to expanding approved STP applications.

BT has also seen fluctuating interest in STP working. At this time, only a very small number of communications providers continues to be interested in STP working. The remainder of the industry has undertaken the necessary investment to connect with point to point signalling links, underlining the technical and economic feasibility of this approach.

BT is, however, revisiting its discussions with other communications providers, in parallel with the consultation process. These discussions will increasingly be educated by experience with existing STP links. BT is not averse to STP working as such, but does not wish either to risk massive network outages, or to invest substantial capital in a dying network architecture for a short period of time.

8.2 Availability of DLE Overflow Facilities for CPS Calls

BT is unclear as to Ofcom's concern in relation to DLE overflow. For Own-DLE calls, there are no traffic routes to overflow. For DLE-DLE routes, no other communications provider's network is at either end of the route and the traffic route itself will be subject to BT's standard planning and traffic management rules, which affect BT's own traffic in the same way as they do WODCAD traffic. There does not appear to be an overflow issue, in relation to WODCAD traffic, as far as BT can see.

However, BT will certainly continue to discuss interconnect traffic overflow for traffic streams where it is relevant. At this time, traffic overflow does occur in situations where a communications provider's capacity planning does not match its capacity requirements. However, BT believes that a clear distinction should be drawn between what network operators *plan for* and the emergency assistance that is available in the event that the planning process breaks down. BT uses these same planning principles for its own DLE-to-Tandem traffic routes and proposes maintaining the current process whereby DLE traffic routes are *planned* on a fully-provided basis, but overflow *happens* at the margins.

8.3 Planning Rules and the ACO Process

Ofcom has suggested that current ACO (Advanced Capacity Order) and capacity planning processes act as a barrier to DLE rollout, creating a nine-month lead time prior to ordering new capacity. There appears to be some confusion here.

In reality, the ACO is agreed three weeks prior to the start of an ACO period, which covers a four-month window. A communications provider can order capacity from that ACO as soon as the ACO period commences, meaning that there is really only a minimum of three weeks' delay, or a maximum of four months and three weeks, between identifying a requirement and placing orders.

It is also possible for a communications provider to submit a revised ACO during a given ACO period, where unforeseen requirements arise.

At the implementation level, augmentation of existing traffic routes requires 25 working days (maximum) and brand new traffic routes require 65 working days (maximum). Entire new physical points of connection, which are not necessary in order to add new DLE interconnection routes, have a contractual maximum of six months, to allow for the worst case scenario of ordering and implementing new transmission equipment and associated power and environmental equipment.

BT does not believe that these lead times are particularly onerous, particularly as actual delivery times tend to be shorter than the contractual maxima. However, BT is certainly willing to examine situations in which communications providers' expansion aspirations have been constrained by capacity forecasting lead times.

9 PROPOSED TEXT FOR THE CPS FUNCTIONAL SPECIFICATION

Ofcom has suggested that its proposals be implemented via changes to the CPS Functional Specification and BT concurs with this approach. However, in line with the alternative approach to implementation suggested earlier in this response, BT believes that some of the proposed changes to the CPS Functional Specification are not, in fact, required.

9.1 Comments on the Draft Text for the Functional Specification

The comments below relate to proposals earlier in this document.

9.1.1 Additional Subscriber Options 4 and 5

As noted earlier in this response, BT views the CPS Subscriber Options as being entirely independent of underlying traffic routing at the network level. As a result, it is possible to make substantial changes to the way in which the network treats and routes traffic, without the need to make changes to Subscriber Options.

BT's CPS Gateway handles orders relating to CPS services. In parallel, CPSOs operate their own systems for order handling and tracking. Employees, both at BT and at the CPSOs, have been trained in the current three Subscriber Options. Overall, there is, therefore, a substantial infrastructure in place to handle the current three CPS Subscriber Options and changes to these Options would trigger investment for all parties concerned, including those that might derive little benefit from the introduction of WODCAD.

BT has therefore proposed an alternative approach to achieving the same set of policy and product objectives. BT has proposed offering traffic routing choices behind CPS Option 3. These routing choices, which would be ordered and implemented at the network level, rather than in relation to an individual line, would enable a CPSO to purchase its WODCAD traffic via another CPSO, whilst keeping its non-WODCAD traffic on its existing interconnect routes and traffic routing arrangements.

This approach achieves the same end result as having two additional Subscriber Options, but at a lower cost and without knock-on impacts to more relevant CPS Gateway development work. BT believes that the associated proposed changes to the CPS Functional Specification are not, therefore, required.

9.1.2 Changes to Traffic Routing Definitions

BT supports Ofcom's proposed text, in relation to changes to the routing requirements for CPS traffic. The WODCAD product is clearly a component of CPS, however it does not require physical interconnection of calls.

10 OTHER COMMUNICATIONS PROVIDERS' GEOGRAPHIC CALL TERMINATION CHARGES

The Reciprocity Agreement provides a self-regulatory solution to managing the geographic call termination charges of communications providers other than BT and Kingston Communications. These charges are subject to regulatory oversight on the basis that all communications providers have been found to have SMP in the termination of these calls.

The Reciprocity Agreement contains formulaic calculations of the relevant communications providers' geographic call termination charges. These formulae require interconnect traffic data as an input and some of this traffic will be affected by the WODCAD product.

BT does not believe that the implementation of traffic routing for WODCAD should have a relevant effect on the terms or the intent of the Reciprocity Agreement. BT therefore intends to treat WODCAD traffic, for the purposes of calculating other communications providers' geographic call termination charges, in the same manner as if the calls were physically (rather than simply logically) interconnected. This will involve treating the calls as DLE-terminated minutes, for the purposes of the calculations.

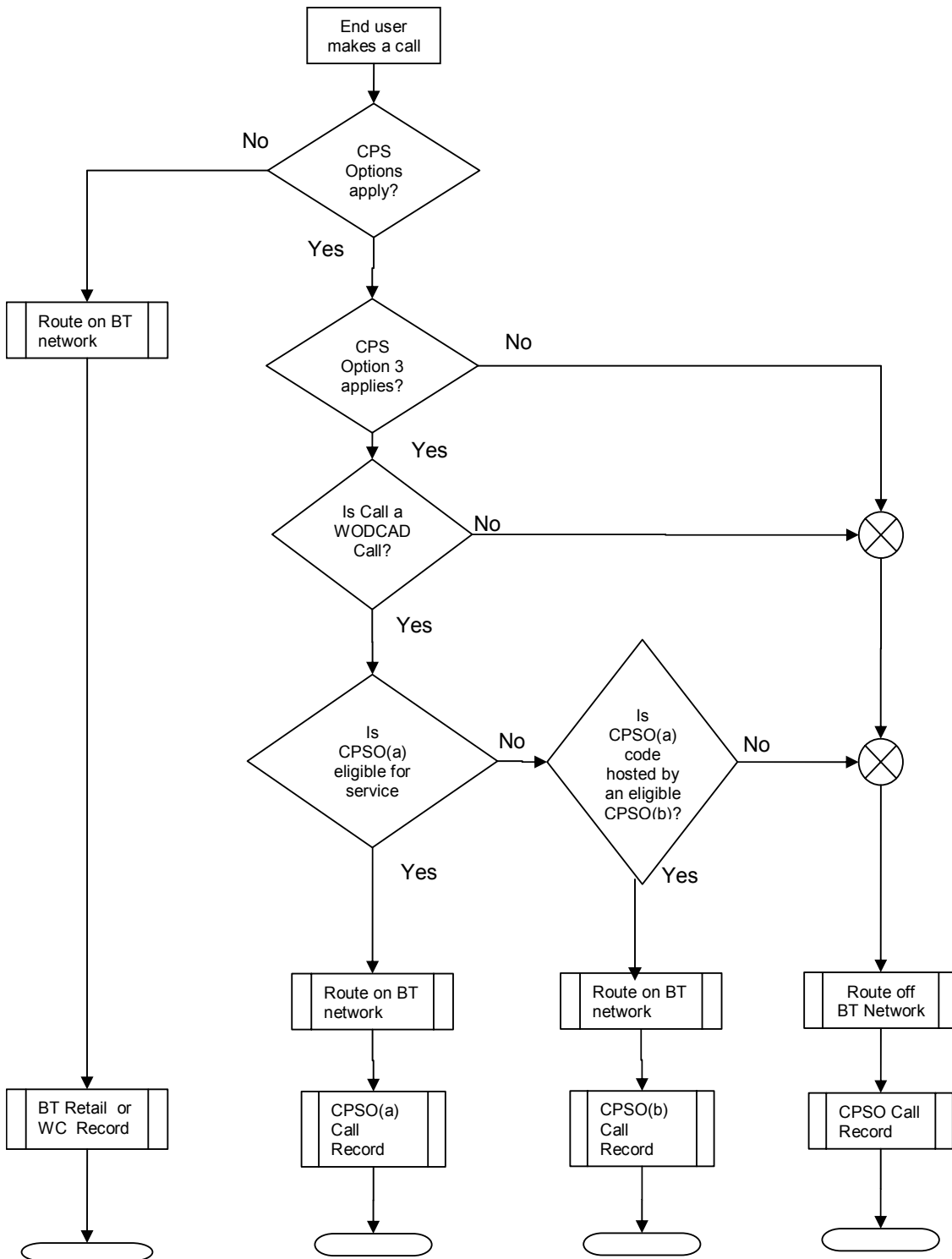
Were this not to happen, communications providers' geographic call termination charges would rise, in response to an unrelated new interconnect product. This would create precisely the opposite pressure on interconnect pricing that Ofcom is hoping to achieve through implementation of the WODCAD product.

11 THE FUTURE OF DLE INTERCONNECTION

BT has recently announced its outline plans in relation to the replacement of its existing network infrastructure, which includes plans for closure of all DLEs. Discussion is just commencing with BT's wholesale customers as to what future network services will be required and how/where networks will need to interconnect in order to access those services.

At the time of writing, it is not possible to forecast how these future network developments will affect network interconnection, or the commercial arrangements for interconnection. However, BT will continue to communicate its network development plans and DLE closures with substantial advance warning.

12 ANNEX 2 – WODCAD PRODUCT SELECTION FLOWCHART



13 ANNEX 3 – RESPONSES TO OFCOM’S SPECIFIC CONSULTATION QUESTIONS

- Q1 BT broadly agrees with Ofcom’s identification of the interconnection differential for ‘local calls’ that has been identified in the consultation document. BT also supports Ofcom’s intention to address the network interconnection issue, rather than the retail pricing issue that flows from this underlying network functionality.

BT agrees with Ofcom’s quantification methodology, although the component charges used are now a little out of date. The latest values can be found in BT’s ACCNs 447 to 450 and it is these current charges that will be used by BT’s pricing team. Relevant current component charge values are also provided in this document.

- Q2 BT supports Ofcom’s conclusion that Option 3 is the most appropriate and proportionate response to the identified issue. Option 1 is no longer tenable in the current market and Option 2 would have a dramatic negative impact on past and future investments in competing infrastructure. Option 2 would also prejudice the outcome of the Strategic Review of Telecommunications.

- Q3 BT certainly supports Ofcom’s end goals, however believes that a simpler implementation would achieve precisely the same outcome. Rather than implement two new Subscriber Options, requiring line by line orders for the new WODCAD product, BT proposes offering CPSOs several routing options within the CPS All Calls option.

These routing options would allow a smaller CPSO, without the necessary DLE connectivity to qualify for WODCAD, to request that the WODCAD calls be ‘routed’ to a third party CPSO that does have the relevant DLE connections.

BT’s proposal would allow smaller CPSOs to buy their WODCAD and non-WODCAD calls separately and via whichever operator they preferred (subject to WODCAD eligibility criteria and commercial agreements between the relevant CPSOs).

- Q4 As noted in the response to Q3 above, BT does not believe that the changes to add Subscriber Options 4 and 5 are either necessary or appropriate. BT does not, therefore, support this change. However BT supports the proposal to change routing requirements and the associated change to the CPS Functional Specification.

- Q5 There will undoubtedly be unintended consequence, as there are with every foray that regulators make into the market. The most obvious in this case relate to reduced network rollout incentives, as CPSOs choose to use third party CPSOs to collect and handle their traffic, and expectations relating to BT’s future DLE closure plans. However, BT believes that Ofcom’s proposals, with the small amendments BT has proposed, are appropriate and that the above issues are acceptable.

Q6 BT agrees with Ofcom's definition of DLE interconnection. Ofcom has outlined the broad categories of physical network interconnection that are valid in this context. BT agrees that this physical network connectivity is essential in order to ensure adequate network investment signals are sent to the market.

Q7 IA is not CPS and cannot, therefore, be dealt with through changes to the CPS Functional Specification. BT does not believe that IA requires a WODCAD equivalent. Nor does BT see how such a product could even sensibly be implemented, given the means by which IA operators undertake call by call customer validation.

BT is unaware of specific barriers to migration of customers from IA to CPS. As far as BT is aware, this migration takes place on a daily basis. However, BT remains deeply concerned at the extent to which customers are forcibly migrated from one retail service provider (frequently BT) to a CPSO's service provider, without the customer's permission. BT does not support this slamming activity.

Q8 BT agrees with the process views put forward by Ofcom and will be working with CPSOs, through existing CPS industry fora, to refine its development and implementation plans. BT does not yet have a clear view on implementation timescales, given the technical issues involved, but remains mindful of Ofcom's and CPSOs' expectations. BT feels that the interim charging adjustment will both compensate CPSOs for any delay and will provide BT with a strong incentive to implement in short timescales.

Equally, the ending of the interim charging adjustment will provide CPSOs with a strong incentive to implement their own systems and process developments in order to use the WODCAD product.

Q9 BT concurs with the charging approach that Ofcom has taken and will use off-the-shelf NCC charging components to construct its conveyance charges. Final pricing will only be available when the PPP and CPS consultations are complete. However, BT's current pricing proposals appear to be consistent with the draft proposals in both consultations.

BT is also reviewing whether or not there will be significant additional operating costs associated with WODCAD. If appropriate, BT will propose charging arrangements to recover these additional costs, following the completion of the consultation.

Q10 BT agrees both with the scope and with the calculation methodology. Again, BT intends to use the real-time NCC charging components that are used in other conveyance charges.

Q11 BT concurs with Ofcom's proposed use of the existing CPS cost recovery principles. In particular, BT agrees that development costs should be recovered through the CPS Levy. When the magnitude of these costs becomes clearer, BT will propose appropriate adjustments to the CPS Levy.

Q12 As noted in the main body of this document, BT does not believe that the issues raised by Ofcom are as significant as they might at first appear and BT has seen

no tangible evidence that DLE interconnection presents an impossible hurdle to CPSOs. However, BT remains open to reviewing processes that prove to be unnecessarily restrictive for CPSOs and will pursue discussion on these over the coming months.