Response to the JCRA and GCRA's consultation on Mobile Termination Rates in Jersey and Guernsey

23rd December 2016

This is a non-confidential response provided by JT (Jersey) Limited and JT (Guernsey) Limited referred to jointly as JT. The comments made in this response relate to both the Jersey and Guernsey market.

The JCRA and GCRA (jointly referred to as CICRA) have issued a consultation to seek the views of stakeholders on the following issues:-

a) Do the MNOs active in Jersey and Guernsey have SMP on the relevant market ?
b) If the MNOs have SMP, is a price control (ie, setting an MTR rate) the most appropriate remedy ?
c) If setting an MTR rate is the more appropriate remedy, what is the basis on which the MTR should be calculated ?

Assessment of the Retail Product Market

We agree with the assessment that a voice call initiated by the calling party to the called party's mobile for which a termination fee is applicable is the relevant market for MTR.

However we believe that the retail mobile voice communications market is changing and there are many methods of mobile communication that are direct substitutes to mobile voice calls to Jersey and Guernsey mobile numbers. We believe that callers would switch away to an alternative product if the price of voices calls to mobile numbers increase. This is based on the fact that we already see that consumer habits are changing with mobile minutes decreasing and users substituting away from mobile calls to other types of mobile calls (but not using a mobile number) using OTT services via apps.

We agree that calls to a fixed line, on-net mobile to mobile calls and call back arrangements would not be a substitute for calls to a mobile.

Pure OTT services, SMS, email, instant messaging and social networking sites.

We disagree with CICRA's analysis that these forms of non-voice communication are not substitutable for voice calls. It is our opinion that many users are moving away from voice calls and are communicating using a variety of non-voice communications such as Skype, Messenger, Whatsapp, Facetime, Email, Twitter, Facebook to name a few of the most popular methods.

Some analysis has been published by Dimension Data which shows that different age groups favour different communication methods. This research relates directly to contact centres and their customers, however it is equally relevant to the use of different communication media for consumers of services in the Channel Islands. For consumers under the age of 35, telephone is the last resort form of communication and they would prefer to use Internet / webchat or social media as their joint favourite and then email/SMS or smartphone application over a voice call.

The gaps are closing elsewhere too and Generation X isn't far behind. For them, electronic messaging is already on a par with the telephone as their preferred channel, and Internet/web chat are just a few points behind. If these patterns continue, we'd expect to see the telephone drop to third choice (or lower) for Generation X within the next 12 months. This research was for 2015 and we would expect that as time goes on these trends will increase.

Popularity of channels by age profile | 2015 Report sample question

Which channels are most popular with your age-profiled customers? Percentage of contact centres | n = 717

	Percentage of centres that track channel popularity by age profile					
% of n	**Internet/ web chat**	**Social media**	**Electronic messaging (e.g. email, SMS)**	**Smartphone application**	**Telephone**	**Don't know**
Generation Y (born 1981–1999)	23.9 (1st choice)	23.9 (1st choice)	20.9 (3rd choice)	19.1 (4th choice)	12.3 (5th choice)	43.5
Generation X (born 1961–1980)	20.6 (3rd choice)	11.6 (4th choice)	28.3 (2nd choice)	11.0 (5th choice)	28.5 (1st choice)	41.8
Baby boomers (born 1945–1960)	7.4 (3rd choice)	2.1 (5th choice)	24.4 (2nd choice)	2.6 (4th choice)	63.5 (1st choice)	41.8
Silent generation (born 1944)	1.8 (3rd choice)	1.0 (4th choice)	6.2 (2nd choice)	0.6 (5th choice)	90.4 (1st choice)	43.4

Source – Dimension Data – Global Contact Centre Benchmarking Summary Report[1]

The MTR

As stated in our response to CICRA's Pan CI Consultation on Mobile Termination Rates (15/22), JT remains unconvinced that any changes to MTRs will have the desired effect of ensuring that Channel Islands calls remain in the call bundles offered by UK mobile operators. UK retail mobile rates and the bundles offered by the UK mobile operators are not regulated by Ofcom. The Channel Island mobile operators interconnect with BT and not directly with the UK mobile operators and therefore it is the rate charged by BT that is passed on in the price of mobile calls. The MTR incurred by the UK mobile operators is one of the costs that are considered when setting retail rates, however, there are many other commercial considerations when setting retail price. We don't see the direct correlation of a reduced MTR with a reduction in UK retail call rates or the inclusion of Channel Island minutes in UK bundles. UK mobile operators provide international bundles[2] which provide bundled minutes to Jersey

[1] https://www.dimensiondata.com/Global/Downloadable%20Documents/2015%20Global%20Contact%20Centre%20Benchmarking%20Summary%20Report.pdf

[2] EE provides 1000 international minutes which includes Jersey, Guernsey and Isle of Man for £10 per month,

and Guernsey mobiles[3]. Isle of Man is also listed as an international destination by EE and its MTR is very close to the UK rate at 1.25 pence per minute.

This is further supported by the fact that although MTRs are lower in the UK than the Channel Islands, these lower MTRs are not being passed onto consumers by way of lower mobile call rates.

The table below shows UK and CI operators rates for out of bundle calls

<u>Out of Bundle Call Rates (UK and CI mobile operators)</u>

	local call		UK calls		call to France		call to USA	
EE	£	0.50	£	0.50	£	1.00	£	1.60
O2	£	0.30	£	0.30	£	1.50	£	1.50
Voda	£	0.55	£	0.55	£	1.50	£	2.00
JT	£	0.25	£	0.25	£	0.55	£	0.55
Sure	£	0.35	£	0.35	£	0.45	£	1.10
Airtel	£	0.18	£	0.18	£	0.25	£	0.25

The Channel Island mobile operators have a higher cost base than the UK mobile operators and do not benefit from the same economies of scale and scope. Added to this, as operators in islands, we have the additional costs of operating off island submarine cables. We cannot therefore agree with the use of the Ofcom MTR model as a suitable proxy to be used as a BU-LRIC MTR model to be applied to the Jersey and Guernsey market.

CICRA are proposing the use of the BU-LRIC MTR model instead of benchmarking, which was the approach taken historically. CICRA appear to pick and choose at its convenience whether it wants to compare Jersey with Guernsey or the UK market. In this instance it looks like it suits CICRA to benchmark the Channel Islands against their closest partner in terms of 1) closeness of markets (we are not sure if this is distance or how the markets work); 2) trading partners; 3) network integration; and 4) volume of conveyance of calls to and from the Channel Islands. While the UK is the market that the majority of calls flow to, the Channel Islands will receive a very small proportion of the UK traffic.

Previously, MTRs have always been set by way of benchmarking whether by looking at the EU market MTRs or just benchmarking Jersey to rates that are already in place in Guernsey, as was the basis of the 4.11 ppm MTR that is currently in place. However, as stated previously we do not believe a change in MTRs will have any effect on consumer pricing which brings us back to the question, what outcome is CICRA seeking to achieve by changing MTRs?

CICRA's role is to focus on ensuring that Channel Island consumers receive value and choice and it should not be focused on the rates offered by UK mobile operators. A reduction in the MTR is unlikely to result in Channel Islands numbers being included in UK bundles and is evidenced by Isle of Man numbers being excluded from UK bundles when its MTR is close to UK MTR rates. The additional costs/reductions in revenues that will be incurred by a change in MTR *"to between 1 ppm and potentially below the UK MTR"* will have an impact on Channel

[3] http://shop.ee.co.uk/cart#addonaddons_1__2

Island consumer bills as Channel Island mobile operators seek to maintain revenues, thereby increasing consumer pricing.

Ofcom does not have any jurisdiction over retail mobile rates, however it does control the allocation and administration of number ranges. Many number ranges have set retail prices that are mandatory. We suggest that this is the route that CICRA should explore with Ofcom for UK mobile numbering to address the issue of including Channel Islands numbers in UK mobile operators bundles if this is the issue CICRA are looking to address with this consultation.