BT Group response

Prohibiting inflation-linked or percentage based in contract price rises

Date: 13 February 2024

Summary

We welcome the opportunity to respond to Ofcom's consultation regarding inflation-linked and percentage increase mid contract price rises. Our position in short is as follows.

- **Significant network investment is driving good consumer outcomes.** Ofcom recognises that the significant investment by providers, in broadband and mobile networks, has led to good outcomes for consumers[1].
- **For most broadband and mobile customers affordability is not an issue.** 90% of households with broadband and 91% with mobile find their service affordable[2]. Further, fewer than 1 in 10[3] customers with a CPI+ pricing mechanism had any difficulty paying their bill after the last price increase in 2023.
- **Affordability support is available for financially vulnerable customers**. BT currently supports nearly 1mn of our most in need customers with subsidised or discounted tariffs like Home Essentials, our broadband social tariff.
- **Customers are engaged with the market and have choice.** Engagement in telecoms markets for most consumers is straightforward. In FY23, 37.7mn[4] pay monthly customers changed deal or provider.
- **Our research shows most customers understand CPI and inflation-linked pricing.** Two-thirds of consumers understand CPI. While c.8 in10[5] BT customers understand our inflation-linked pricing model.
- **Inflation-linked price increases do not lead to large increases in household spend.** When CPI was at 10.5%, over three times the level of the highest inflation year in the proceeding 8 years, BT broadband prices only (on average) increased by c.£3 a month.
- **Inflation-linked price increases, since 2014, in the mobile market have not led to poorer outcomes**. Analysis shows engagement in the mobile market has increase, irrespective of inflation-linked pricing. For example, switching rates increased from 10% in 2018 to 16% in 2021.
- **BT's price increases are annual, contracted, and transparent.** We clearly set out annual price rises in order journeys. We provide an example of the price increase calculation in pre-contract information. We notify all customers individually ahead of the annual price rise.
- **Ofcom presents scant economic analysis.** Ofcom sets out a series of assertions as to why it considers consumer harm is substantial but offers no evidence. We see no consumer harm from mid-contract price rises.
- **Regulatory intervention should be proportionate and targeted.** We agree with Ofcom that any regulatory intervention is limited to only those customers who are in contract and have an inflation-linked price increase in their contract, and that any new regulation apply only to new or re-contracting customers.
- **Of the options Ofcom has considered, £/p is the most appropriate.** All the other options would have more significant unintended consequences. We also agree that moving to a fixed price model would constrain the commercial flexibility of providers to an unnecessary degree[6].
- **The telecoms sector needs medium term regulatory certainty.** A predictable and stable regulatory environment helps provide confidence for investment. We understand Ofcom has concerns following recent inflation volatility, but this is a unique situation. We ask that Ofcom does not consider any further pricing interventions. But instead looks to provide medium term regulatory stability.
- **We ask Ofcom to reconsider including business customers**. Small and Medium Business (SMB) products are available for any business that has 1-249 employees. This means the new regulation will cover the whole of our SMB base – resulting in regulatory creep, potentially disproportionate to any potential issue for smaller SMB's.
- **This is a complex change for Business, we need longer to implementation.** Due to the nature of servicing businesses of different sizes, there is greater complexity when building dynamic journeys to surface £/p values. We will need nine-months from Ofcom's statement to implement on our business brand.
- **BT has signalled its intent to move to Ofcom's preferred solution.** Notwithstanding our concerns with Ofcom's assessment of consumer harm, we consider it extremely unlikely that Ofcom will change its proposals. We will therefore move to Ofcom's £/p solution, for BT and EE consumer tariffs, ahead of Ofcom's final statement.

More detail on each of these areas is set out in the remainder of this document.

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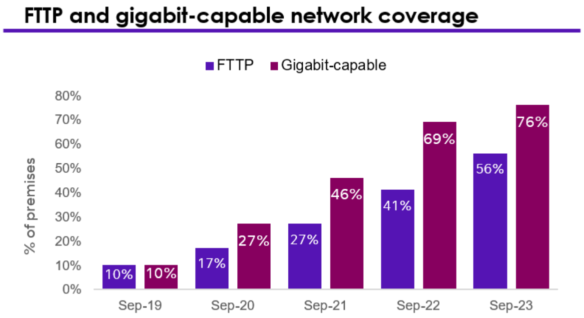
[1] Para 1.6 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)
[2] Communications Affordability Tracker - Ofcom
[3] Footnote 102 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)
[4] BT Insights excluded PAYG.
[5] 79% mobile customers BT&EE and 81% broadband BT&EE customers
[6] Para 4.41 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)

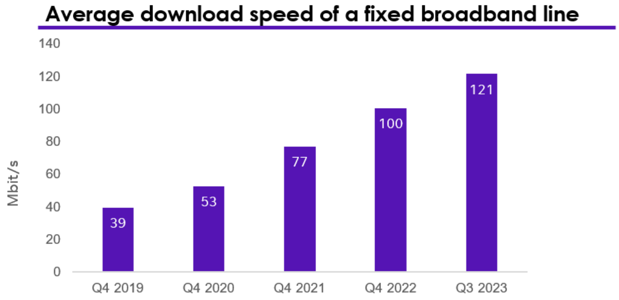
Investment and strong competition are providing good outcomes for consumers.

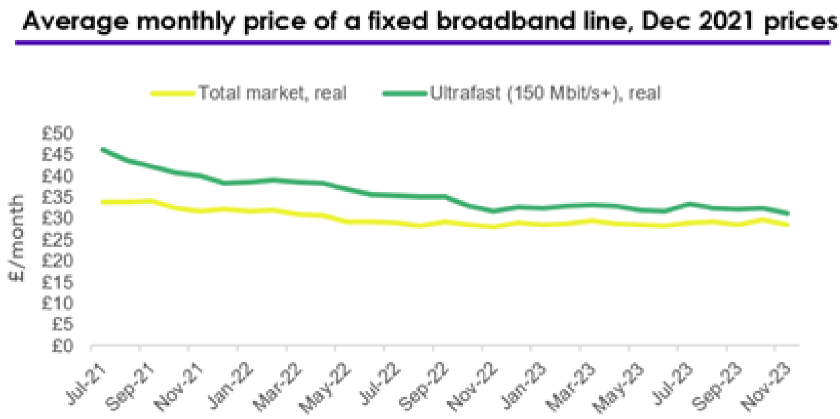
Significant network investment is driving good consumer outcomes.

We are pleased that Ofcom recognises that the significant investment by providers, in full-fibre and 5G networks, has "*led to significant improvements in the speed and reliability of the services that keep us connected*[7]." Broadband FTTP network coverage has risen from 10% in September 2019 to 56% by September 2023, with gigabit-capable coverage rising from 10% to 76% over the same period. The average download speed for consumers has tripled. Data usage has increased significantly, and prices have declined in real terms, and especially for ultrafast broadband.

Statistics on fixed broadband in the UK[8]







We see a similar trend in mobile. 5G coverage was available to 85% of premises outdoors in April 2023, up from 69% in May 2022. Over the last five years, the average monthly price of mobile services[9] fell by 33% in real terms, while mobile data use grew by almost 250%. Uniquely in telcos, whilst prices fall customers use more.

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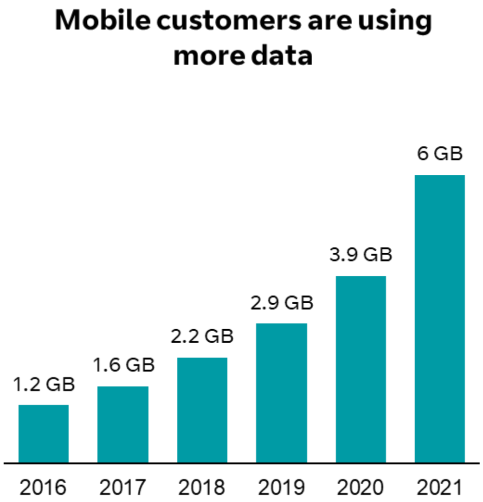
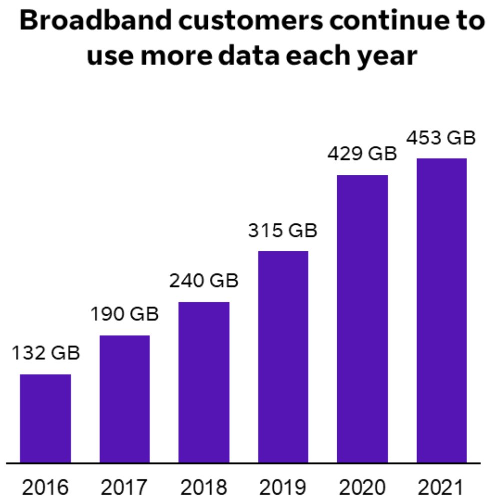
[7] Para 1.6 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)
[8] Interactive report - Ofcom, Check UK Broadband Performance and Coverage _ Statistics (thinkbroadband.com), BT Analysis of FDM consumer broadband sales pricing data.
[9] based on average use and excluding handset costs





Source: Mobile and broadband data usage, average GB/month: Communications Market Report, Ofcom, 2022.

In 2024 and beyond, BT will continue to invest billions of pounds to give our customers ever improving network performance, to enable us to keep pace with growing data demands and allow us to continue our commitment to protecting vulnerable customers suffering from financial hardship. To enable us to do this we have to have predictable consistent revenues. One way in which we have tried to underpin this in recent years, is through the 3.9% aspect of our pricing mechanism.

For most broadband and mobile customers affordability is not an issue.

As acknowledged by Ofcom the UK telecoms market is highly competitive and there are good deals available for consumers. Overall, as shown by Ofcom's ongoing monitoring, customer satisfaction is good with 87% of mobile customers, and 82% of broadband customers, satisfied with the service from their provider[10]. We agree that prices are a key consideration for customers when engaging with the market and so are pleased to see that 90% of households with broadband and 91% of those with mobile find their service affordable[11]. Furthermore, Ofcom's research showed that fewer than 1 in 10[12] customers with a CPI+ pricing mechanism in their contract had any difficulty paying for their broadband or mobile bills after the last price increase in 2023. In 2023, even with extraordinary inflation rates, Ofcom's analysis shows that on average prices at an industry level increased by £5.16 per month for bundled broadband and landline. Whereas average monthly data usage for broadband users rose to around 535 GB per connection per month from 2022 to 2023[13]. Overall telecoms only accounts for 4% of household spending. Generally, affordability within telecoms is not an issue.

Affordability support is available for financially vulnerable customers.

For that small percentage of customers who may struggle to pay, BT has various ways in which we provide help and support. For example, a variety of communication methods, access to 3rd party help, breathing space, financial vulnerability flagging etc. Last year we were pleased to support Ofcom's amendments to its 'treating vulnerable customers fairly' best practice guidance[14], to include additional good practice measures for all providers, to support any customer in debt or struggling to pay.

BT currently supports nearly 1mn of our most in need customers with subsidised or discounted tariffs like Home Essentials, our social tariff product. Across industry we are seeing a steady increase in the take up of social tariffs. According to Ofcom research[15] take-up has reached 380,000 customers, with nearly 160,000 new customers since February 2023. This figure also needs to be set against the context of a

[10] Comparing customer service: mobile, landline and home broadband (ofcom.org.uk)
[11] Communications Affordability Tracker - Ofcom
[12] Footnote 102 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)
[13] Connected Nations 2023 - UK report (ofcom.org.uk)
[14] proposal to amend the guide
[15] Pricing trends for communications services in the UK (ofcom.org.uk)

fiercely competitive broadband market, which means some operators are offering standard deals at a similarly low price, so reducing the need for customer to move to a social tariff to afford connectivity.

However, based on research commissioned by BT, we see that broadband affordability issues are narrower but deeper than current social tariffs alone can address. For telecoms social tariffs to really have an impact we must look broader than just the number of customers on these tariffs. To shed some light on this complex problem BT commissioned[16] research on the challenge of take-up, which we have shared with Ofcom and government, along with suggestions on a possible way forward.

Consumers are engaged with the market and have choice in a competitive market.

The telecoms market is highly competitive, with constant innovation and a very wide range of offers. Ofcom says that "*effective consumer engagement plays a key role in ensuring good outcomes. Engaged consumers are more likely to make informed choices and to drive providers to compete effectively*." Engagement in mobile and broadband telecoms markets for most consumers is straightforward, facilitated by easy access to relevant information, easy switching processes and different ways to access connectivity. As demonstrated by the number of customers transacting in the market each year. For example, in FY23, 37.7mn pay monthly broadband and mobile customers transacted (changed deal or provider) in the market, with 10.3mn changing provider[17].

Competition has resulted in a broad range of tariffs and services, allowing customers to choose packages and providers to suit their needs. Within this competitive landscape, there are options for customers to decide on the level of price certainty they want within their minimum contract term. For example, consumers may choose a provider that increases prices at any time but offers a right to exit or one that gives the option to fix the price duration of their minimum term (sometimes for an additional fee), or they could opt for a monthly rolling mobile contract and switch at any time. Ofcom's research shows that customers are choosing a range of pricing options, with 60% of broadband customers and around half of mobile customers currently not on a contract with a CPI pricing mechanism[18].

Price variation provides incentives for consumers to engage in markets and helps drive competition. All consumers (both engaged and unengaged) benefit from competition which drives efficiency and innovation. Indeed, Ofcom acknowledge this within their consultation "*in our view, introductory discounts can be good for competition and are liked by consumers. However, for the fixed charges requirement to work as intended […] it may be necessary to restrict introductory discounts*[19]". Any artificial reduction of price differentials would mean less engaged consumers in the market, reducing the competitive pressure on providers and distorting dynamic competitive market outcomes over time. Furthermore, pricing intervention could affect revenue and margin, which may impact our ability to invest in new technologies and services.

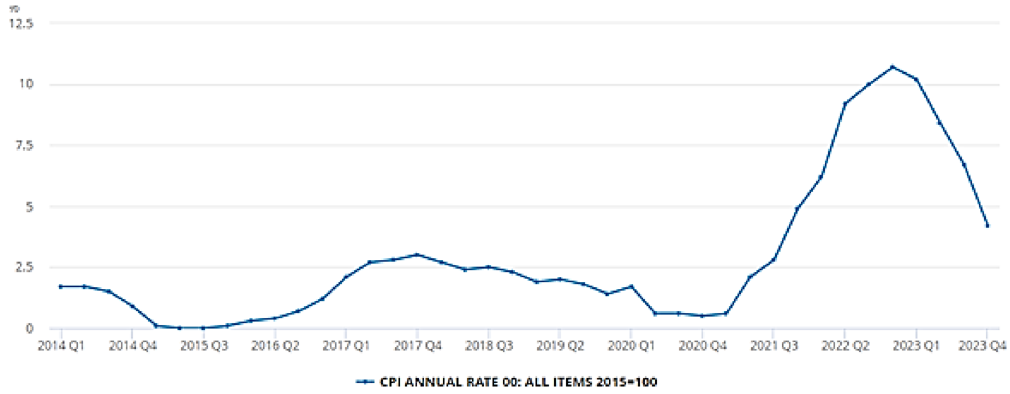
Inflation-linked pricing does not lead to significant consumer harm.

Inflation-linked price increases do not lead to large increases in household spend.

Inflation plays a role in calculating annual price increases in many sectors. For example, the November CPI figure is used across the water industry to calculate annual bills. CPI is usually stable, ranging from zero to 3% in the seven years between 2014-2020. The last two years have seen unexpected higher inflation compared to previous years, although it is has now dropped sharply and is expected to continue to fall.

[16] What is going on with social tariffs? BT Group reveals. | Helen Burrows posted on the topic | LinkedIn
[17] BT Insights excluded PAYG.
[18] April 2023
[19] Para 4.33 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)

CPI annual rate of inflation since 2014



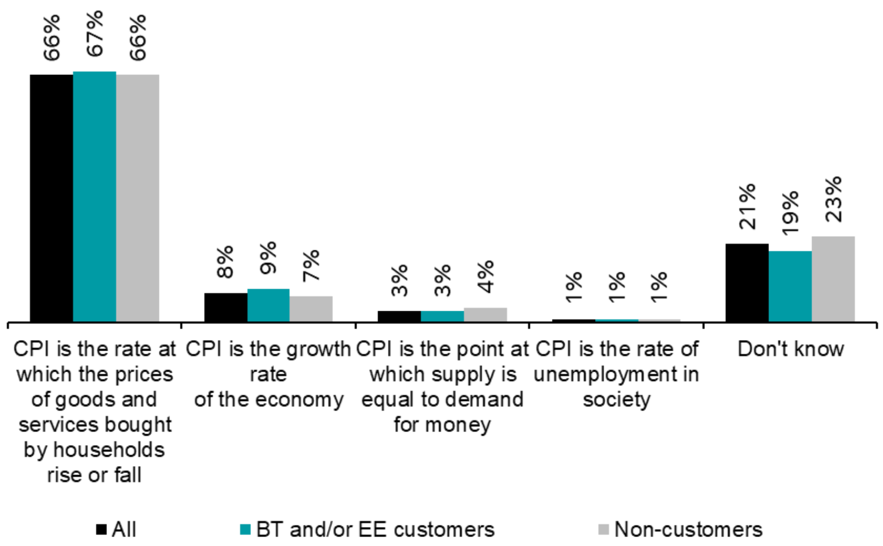
Source: [CPI ANNUAL RATE 00: ALL ITEMS 2015=100 - Office for National Statistics (ons.gov.uk)]

Linking price increases to inflation makes rational sense and is necessary to cover business costs such as energy costs, procurement costs, people costs, etc., which are all subject to inflation. Similarly, many consumers see their annual income raise by the rate of inflation. Many benefits are inflation-linked, and this is also usually the case for wage increases – for example, wages in the UK grew by approximately 6.6% in November 2023[20] whereas CPI was 3.9%. CPI+ pricing mechanisms in the telecoms market do not lead to large increases in monthly spend for consumers. For example, if we take 2022 – when CPI was at 10.5%, over three times what it had been in the highest inflation year over the proceeding 8 years, BT broadband prices only (on average) increased by c.£3 a month (CPI+3.9% pricing mechanism).

Our research shows most consumers understand CPI and inflation-linked pricing.

Our own research undertaken by Yonder Consulting[21], contradicts Ofcom's findings on consumer understanding of inflation and inflation-linked pricing models. Our research showed that two-thirds of consumers understand what CPI measures.

Our research shows that most customers understand the consumer rate of inflation.



Source: Source: BT Consumer/Yonder insights: mid contract price increases, December 2022.

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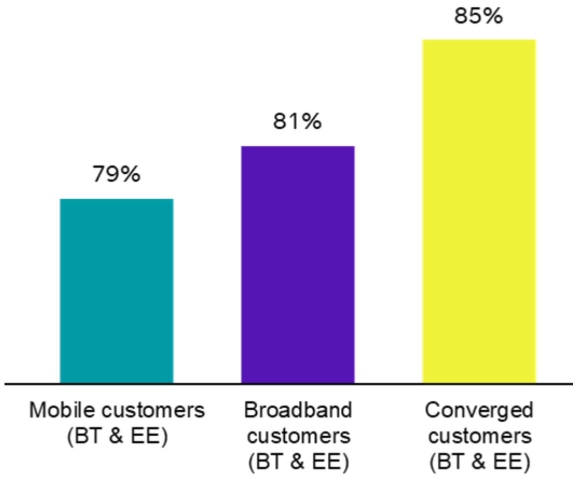
[20] UK wage growth 2023 | Statista
[21] BT Consumer/Yonder insights: mid contract price increases, December 2022.

The same research showed that around 8 in 10[22] of our mobile and broadband customers understand our inflation-linked pricing model.

There is high awareness amongst customers of our inflation-linked pricing model.



Source: Source: BT Consumer/Yonder insights: mid contract price increases, December 2022.

Inflation-linked price increases in the mobile market have not led to poorer outcomes for consumers.

As Ofcom set out in their discussion paper on the future approach to mobile markets, "*the mobile sector has delivered good outcomes*", as "*customers have a range of choices, and many customers are now getting more for less*". Ofcom's analysis also shows[23] that in comparison with France, Germany, Italy, Spain and the USA, the UK had the lowest standalone mobile prices in 2020. It had the joint-cheapest weighted average standalone mobile prices with France, and the joint-cheapest lowest available prices, with Italy.

Inflation-linked pricing has been standard practice in mobile since 2014, during that time we have seen competition intensify, choice increase, prices remain low and consumer engagement increase. The level of customer switching between mobile providers has gradually increased over time and increased significantly recently. Since 2020, BT/EE has included a +3.9% in its pricing mechanism. Which? analysis[24], shows that the industry has seen an increase in customer switching rates in mobile since 2018 from 10% to 16% in 2021. Which? state that the rate at which people switch their provider is almost twice as high in the mobile as the broadband market. Which? concludes that "*for mobile network customers, […] there is no statistically significant difference in likelihood of switching between those with pre-payment mobiles, SIM-only contracts or those with handsets in their deal. Thus, the difference in how mobile deals are structured does not appear to affect switching behaviour in mobile markets*."

This analysis by Ofcom and Which? underpins the fact that CPI+ mid contract price increases have not negatively impacted the market, which remains highly competitive, or resulted in any consumer harm.

BT's price increases are annual, contracted, and transparent.

In 2018, Ofcom wrote to all mobile providers asking them to consider moving from RPI (as the pricing inflation measure) to CPI, Ofcom's rationale being that CPI is more transparent / well known. No issues were raised regarding inflation linked pricing mechanism at the time. In 2019, BT Group started to align our pricing mechanism across our consumer brands. By 2020, we had redesigned our consumer pricing

[22] 79% mobile customers BT&EE and 81% broadband BT&EE customers
[23] Discussion paper: Ofcom's future approach to mobile markets
[24] Customer switching in mobile and broadband - Which? Policy and insight

policy to create consistency across BT, EE and Plusnet products and services. We simplified our approach to price changes, updated our terms and conditions and removed the inconsistencies between RPI (mobile), CPI (broadband, fixed voice) and ad hoc price rises (TV). Our price rises became annual, contracted, and consistent. We make our price increase mechanism clear when customers sign up or renew their contract and write to all customers, individually notifying them ahead of an annual price rise. Furthermore, we set out an example calculation in pre contract information, of how much a customer's price will increase at the next price rise (if CPI were at the same rate as the last price rise). The form of this example is set by Ofcom.

We are concerned with the lack of robust analysis within Ofcom's consultation.

Ofcom presents scant economic analysis.

We are concerned that Ofcom presents little economic analysis in its consultation. Ofcom does not assess or explain the expected impact of its proposed changes, and how that would result in customers being better off overall. Ofcom also hasn't made any real attempt to assess how the proposals fit with statutory duties, including how these changes will promote competition or that Ofcom's preferred option is the least intrusive measure available to meet its objective of increased transparency on the price customers will pay at different points in their minimum term. Ofcom only discusses how they consider other intervention options to be overall worse than this one.

We are further concerned that some of the research Ofcom is relying on to make policy decisions is based on a sample of 54 participants. While this sort of qualitative research can provide an opportunity to talk to certain individuals about their experiences, as the research agency states, "*as this was a qualitative study, this research cannot – and does not set out to be – representative of the wider population*[25]." Further, as previously discussed, research commissioned for BT contradicts the findings of Ofcom's quantitative research.

Ofcom's own research shows the subjectiveness of its evidence, for example the consultation states that "*our January 2023 survey suggests that broadband respondents who reported having a mental health condition are significantly more likely than other respondents to be unaware of whether their provider applies price rises during the contract period. However, our October 2023 survey does not show such differences*."

Ofcom's regulatory principles state that "*Ofcom will strive to ensure that interventions are evidence-based, proportionate, consistent, accountable and transparent in both deliberation and outcome*." We do not consider that this consultation meets that criterion. Ofcom sets out a series of assertions as to why it considers the scale of consumer harm is substantial, however does not provide robust evidence in support of these assertions. Indeed, we have presented the counter arguments to this position in the first part of this response. This is set out below, with Ofcom's assertion highlighted in bold, followed by a summary of our counter argument:

- **Most major providers apply inflation-linked price variation terms**. Ofcom's own research shows that customers are choosing a range of pricing options, with 60% of broadband customers and around half of mobile customers currently not on a contract with a CPI pricing mechanism[26]. The highly competitive telecoms landscape means there are options for customers to decide on the level of price certainty they want within their minimum contract term. For example, consumers may choose a provider that increases prices at any time but offers a right to exit or one that gives

[25] Inflation-linked-price-rises-qualitative-research-report.pdf (ofcom.org.uk)
[26] April 2023

the option to fix the price duration of their minimum term (sometimes for an additional fee), or they could opt for a monthly rolling mobile contract and switch at any time.

- **Increases cognitive burden and can lead to consumers not finding the best deal for their needs.** All providers must provide customers with contract information and contract summary before they enter a contract. These documents set out key information, including price and an example of how inflation-linked or percentage increase mid-contract price increases will affect price. How this example is set out is determined by Ofcom. When Ofcom announced the implementation of this regulation[27], it stated that *"this will mean that people will be provided with a straightforward example of any price rises, which will help them make a fully informed choice about the deal that works best for them[28]."*
- **The degree of consumer awareness and understanding of inflation-linked price variation terms is very low**. Research[29] commissioned by BT contradicts this, showing that two-thirds of consumers understand CPI. While around 8 in 10[30] of BT's mobile and broadband customers understand our inflation-linked pricing mechanism. We make our price increase mechanism clear, for example, we set out an example calculation of how much a customer's price will increase at the next price rise (if CPI were at the same rate as the last price rise) in pre-contract information, and we notify customers of their individual price increases ahead of any pricing change.
- **The size of the inflation-linked price rises is substantial, [..], as consumers do not anticipate or understand these large price rises and cannot work out actual prices reliably**. This simply is not the case. CPI is usually stable over time and not substantial. In the seven years between 2014 and 2020 CPI has ranging from zero to 3%. Ofcom states that for a consumer to work out the impact of an inflation-linked price increase they "*must be confident in engaging with inflation-linked price variation terms*". However, Ofcom regulation requires providers to give an example calculation for customers before they enter a contract. Ofcom goes on to describe specifically how that calculation should be set out. Additionally, if the increase uses an inflation index, then providers must use the most recent figure for the example. "*For example, using last year's RPI value of 2%, this would mean your monthly price of £40 would increase to £40.80 from April next year*". All customers whose price will rise by the CPI+ mechanism in April 2024, will have been presented with an example in pre contract information that shows a higher percentage increase than the actual amount their monthly price will increase by.
- **In spring 2023, most customers on contracts subject to inflation-linked price rises saw their bills increase by 14-17%.** Even in 2023 when CPI was at its highest rate in 7 years, Ofcom's analysis shows that on average prices at an industry level increased by £5.16 per month for bundled broadband and landline. As inflation is now falling further inflation-linked price increases will likely be substantially smaller.
- **Limits consumer engagement, which in turn can reduce the effectiveness of competition.** Ofcom state that "*the Switching Tracker is Ofcom's key data source on switching levels, attitudes, and experiences across the communications markets[31]*", and yet it has chosen not to cite this research in this consultation. What the trackers show is that there has been no reduction in engagement levels since the wider adoption of CPI+ pricing terms. For example, the research shows that there has been no change to the number of customers who have made changes to their broadband package within each reporting period, at c.30%. Further, Ofcom has not cited Which? research that shows, that in the mobile market inflation-linked pricing mechanisms have not dampen engagement. Inflation-linked price increases have been the pricing mechanism in the mobile market since 2014. In that time, levels of customer switching between mobile

[27] New rules on short and simple contract details - Ofcom
[28] Quote in press release, Ofcom's Director of Telecoms Consumer Protection
[29] BT Consumer/Yonder insights: mid contract price increases, December 2022.
[30] 79% mobile customers BT&EE and 81% broadband BT&EE customers
[31] Ofcom's research and data collection programme - Ofcom

providers gradually increased and increase significantly recently. Which? analysis[32], stated an increase in customer switching rates in mobile from 10% in 2018 to 16% in 2021.

- **Inflation-linked price variation terms have a particular impact on certain vulnerable consumers.** For that small percentage of customers who may be financially vulnerable, BT has various ways in which we provide help and support. BT currently supports nearly 1mn of our most in need customers with subsidised or discounted tariffs like Home Essentials, our social tariff product. If a customer is financially vulnerable and eligible, they can switch to Home Essentials from any of our consumer brands without held to term charges. Ofcom has introduced additional good practice measures for all providers, to support any customer in debt or struggling to pay.
- **Impose unfair financial risks on consumers.** The qualitative research that Ofcom has relied on to evidence its proposals shows that outside 'being annoyed', for both broadband and mobile, that the price rise was expected, small, affordable, and understood[33]. Some broadband customers were surprised by the price increase, but fewer than 2 in 10 and as Ofcom's own research showed customers could afford recent CPI+ price increases[34]. None of Ofcom's research supports the argument for CPI+ terms increasing financial risk for customers, beyond the general point that higher prices can be challenging for some customers but as discussed, Ofcom has set guidelines for how those customers should be helped by providers.
- **Expect the lack of clarity and certainty of inflation-linked price variation terms to remain, even if inflation were to return to low levels in future.** Engagement in mobile and broadband telecoms markets for most consumers is straightforward, facilitated by easy access to relevant information, easy switching processes and different ways to access connectivity. In FY23 37.7mn pay month broadband and mobile customers transacted (changed deal or provider) in the market, with 10.3mn changing provider[35].

Regulatory intervention should be proportionate and targeted.

Any potential issue is limited to in contract customers with an inflation-linked pricing mechanism.

Any intervention on pricing, by Ofcom, must be proportionate to potential consumer harm. Ofcom must strike a fine balance, addressing only the issue of transparency. We support Ofcom's proposal to limit this intervention to new or re-contracting customers, from the point the new regulation comes into force.

All customers are contacted before each price increase, and any out of contract customer who do not accept the price increase can switch contract or provider. Additionally, we have over 3 million customers who are excluded from mid contract price increases. Plus, as previously discussed, given the stability of inflation rates between 2014 and 2020 – it is only potentially the last two years in which customers may have found it more difficult to predict the amount by which prices would increase. However, as evidenced through our research most customers do understand CPI and do understand BT's pricing mechanism.

Of the options Ofcom has considered, £/p is the most appropriate.

If Ofcom is to intervene the £/p model is likely to have the least unintended consequences, of the options considered by Ofcom. As Ofcom set out, all the other options would have more significant unintended consequences. But that is not to say this option will not have unintended consequences for the market. We further agree that moving to a model where the price was fixed for the duration of an up to two-year

[32] Customer switching in mobile and broadband - Which? Policy and insight
[33] Consultation: Prohibiting inflation-linked price rises - Ofcom
[34] Footnote 102 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)
[35] BT Insights, excluded PAYG

contract would constrain the commercial flexibility of providers to an unnecessary degree[36], which in turn would serve to dampen competition leading to poorer consumer outcomes.

The telecoms sector needs medium term regulatory certainty.

The regulatory framework and Ofcom oversight should provide a predictable and stable regulatory environment. This helps provide confidence for investment in the telecoms market and drives the good outcomes we see for consumers. Given falling inflation rates and lack of affordability issues in telecoms, when Ofcom does impose its pricing proposals it needs to ensure there is no further intervention on pricing. We understand Ofcom has concerns following recent inflation volatility, which has led to this intervention, Ofcom should now be looking to provide medium term stability. Investors need stability to have the confidence to invest in telcos, so that we in turn can continue to develop new technologies and services, to ensure continued good outcomes for consumers.

Any regulatory intervention should not extend to business customers.

Business customers have different needs and different options.

Ofcom discusses the fact that at the time of implementing its last round of consumer protection regulations it was bound by the requirements of the EECC, and a fully harmonising implementation for member states. In this consultation, however, Ofcom states that it is deviating from the EECC with its changes to the Contract Summary. Within this context, we ask Ofcom to reconsider including business customers within the scope of its proposals. Currently businesses with up to ten employees are afforded the same protections as consumers. However, business customers and consumers are different – they have different needs, transact in different ways, and have different options available to them. There is no analysis is Ofcom's consultation regarding potential harm for business customers.

Ten or fewer employees is an artificial construct. In reality, SMB products are available to purchase for any business that has 1-249 employees and therefore our technology systems are built to support that full range of customers. We also share technology systems with our 'Corporate' and 'Global' colleagues so isolating the 'up to 10' group has practical and systems development implications across 'Business'. This means that any regulation Ofcom imposes de facto covers the whole of our SMB base – resulting in regulatory creep that is potentially disproportionate given Ofcom has not demonstrated any potential issue for SMB's. We would, therefore, ask Ofcom to reconsider the need to include SMBs 'up to 10' in this regulation and limit its scope to consumer tariffs.

This is a complex change for Business that would need a longer time to implementation.

If Ofcom does implement the regulatory requirement as proposed and include SMB 'up to 10', due to the complexity of the change we will need considerably more time than the four-months to implement on our business brand. As we sell our business products differently to consumer products, due to the nature of servicing businesses of different sizes, there is greater complexity when building dynamic journeys to surface £/p values. We are concerned that Ofcom appears to have formed an opinion on cost - "*likely to be relatively small*" and implementation complexity - delivery "*period of four months*", without fully understanding the changes necessary to implement their proposals for business tariffs.

Ofcom states, as part of its rationale for a four-month implementation period, that providers were able to move to a CPI+3.9% mechanism. But unlike with CPI, we will have to run concurrent systems to allow different price increase mechanism depending on the price rise clause in a customer's contract. Furthermore, we made the change to CPI+ through our scheduled development roadmap. These proposed changes require new terms, changes to pre contract information, product cards, and price guides – across each of our sales channels. Along with systems changes, parallel approaches for front

[36] Para 4.41 Prohibiting inflation-linked price rises - Proposals for new rules and guidance (ofcom.org.uk)

book and back book customers, different approaches for core subscription price and add-ons, changes to advertising etc. We will need nine-months to implement on our business brand.

BT has signalled its intent to move to Ofcom's preferred £/p solution.

Notwithstanding our concerns with Ofcom's assessment of consumer harm, we consider it extremely unlikely that Ofcom will change its proposals. We have therefore made the decision to change our pricing mechanism to its preferred solution of £/p. We expect to do this for any new customers or existing customers entering into a new contract. We do, however, expect to have to make further changes once Ofcom publishes its final guidance. If Ofcom significantly change its proposals from those consulted on, we will require more than four months to implement the changes on our Consumer brands.

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