A6. Estimated costs of Code to Switch and One Touch Switch

Introduction

A6.1 As set out in Section 2, throughout 2020 the OTA engaged with industry to develop detailed specifications of Code to Switch and One Touch Switch. As part of this, the OTA gathered estimates of the costs that industry would incur under each option and submitted these estimates to us. Such costs were set out in Annex 7 of the February 2021 Consultation.

A6.2 During the consultation period, Virgin Media and Sky proposed a revision to the Code to Switch Process which introduces an option for consumers to obtain their code via an IVR (interactive voice response) system, rather than speaking to a live agent. We published details of the proposed IVR option on 29 March 2021 and extended our consultation deadline by two weeks to allow stakeholders time to offer their views, including revised cost estimates.

A6.3 Virgin Media, Sky and Vodafone submitted revised cost estimates for the Code to Switch option which included the cost of implementing an IVR system. No other providers submitted revised cost estimates.

A6.4 Based on the latest costs estimates submitted by industry, this annex updates the analysis presented in the February 2021 Consultation and sets out an estimate of the likely costs that industry would incur under the revised Code to Switch and One Touch Switch processes. We note that this analysis is based on projections of the likely costs of adapting to new switching rules, that some elements of the switching process may develop during the implementation phase, and there is necessarily an element of opinion in any estimate of the costs of a process that does not yet exist. The figures reported in this annex should therefore be treated as best 'order of magnitude' estimates.

A6.5 As set out below, we find that, at industry level, costs would be small on a per connection basis across either option. In particular, the aggregate cost per connection would be no larger than £0.03 per month for One Touch Switch and no larger than £0.01 per month for Code to Switch.[1] We note that the estimated increase in costs may not necessarily be fully passed on to customers in the form of higher prices. However, even if this was the case, the impact of this would be £0.03 per month or less which is very small when compared to the typical bill for landline and broadband services of a UK household (c.£41 per month).[2]

[1] For cost per connection see Table A6.2.

[2] Ofcom, 2021. The Communications Market Report 2021, Summary of UK telecoms metrics.

A6.6 In the following sections, we first describe the approach used to gather cost estimates from industry. We then present the impact of Code to Switch and One Touch Switch on industry costs. Lastly, we discuss the extent to which changes in industry costs may affect end prices.

Approach to gathering cost estimates

A6.7 In this annex we aim to measure the impact on providers and third parties as a consequence of implementing Code to Switch or One Touch Switch. This is the net effect of any cost increases caused by the introduction of the new switching process after considering any benefits from cost savings that might also be generated by bringing in Code to Switch or One Touch Switch.

A6.8 As set out in the introduction, the costs reported below are based on estimates that the industry submitted to the OTA (see Table A6.1). Specifically, industry provided information on:

a) Set up costs (capex): this includes process development, testing, staff training, new hardware, other costs (e.g. reporting/tracking development and delivery); and

b) Ongoing operating costs (opex): this includes customer service agent time and the related agent resources (i.e. full-time equivalents) and the average handling time to support each option.

A6.9 We note that:

a) these are projections of the likely costs of adapting to new switching rules, that some elements of the switching process may develop during the implementation phase, and there is necessarily an element of opinion in any estimate of the costs of a process that does not yet exist and may develop further over the implementation phase. Hence, the figures reported by industry to the OTA are relatively high-level and should be treated as best order of magnitude estimates.

b) The estimates do not account for potential dynamic changes that could happen such as a change in the number of switches.

c) Finally, the figures reported below are a projection of the potential costs borne by providers and do not necessarily reflect the costs (or cost savings) that might ultimately be passed through to customer bills.

A6.10 Notwithstanding the above caveats, we believe that industry participants are best placed to provide order of magnitude estimates which we consider appropriate to derive an indication of the likely costs that industry would incur under the revised Code to Switch and One Touch Switch processes respectively.

A6.11 In the following paragraphs we separately describe the approach to gathering costs estimates from providers and third parties.

Providers' costs

A6.12 In order to obtain cost information from industry, the OTA provided relevant providers with high-level assumptions including baseline requirements and assumptions on the number of switches that the new solution will need to accommodate each year. The OTA estimated that switching volumes are currently c.200,000/month. The two solutions were designed to allow up to c.300,000 switches/month. The OTA explained that industry broadly agreed with these assumptions.[3]

A6.13 As discussed above, providers submitted information on set up costs (capex) and ongoing operating costs (opex). Some providers have provided cost ranges, while others provided point estimates.

A6.14 The OTA explained that they have not applied any adjustments to the cost estimates provided by respondents. The only exception to this approach is constituted by large retailers/resellers (e.g. standalone resellers such as Post Office, which is now part of Shell Energy). For these retailers/resellers, where no cost estimate was provided by the relevant parties, the OTA estimated a 'ball-park' figure based on costs provided by systems partners.[4] This is because large retailers/resellers typically use third party systems partners to develop and operate the software infrastructure needed for these solutions.

A6.15 The OTA explained that the estimates for large retailers/resellers were sense-checked against the costs associated with regional/small alternative networks, who also typically rely on third party system partners. Moreover, to reflect any residual uncertainty, the OTA provided these estimates as a range.

A6.16 Lastly, we note that Sky, Virgin Media and Vodafone, submitted an estimate for the cost of implementing the IVR system needed for the revised Code to Switch option. Other providers did not include these cost estimates in their submissions. We note that many providers do not currently make extensive use of IVR systems and so would need to upgrade their systems more substantially to be able to offer a switching code via IVR. These costs are not included in our assessment and so the costs presented here will understate the cost of Code to Switch.

A6.17 In its response to the February 2021 Consultation, Virgin Media submitted that costs provided by third party systems partners are not a reliable input to a cost analysis as third party systems partners would not have a view of the resource requirements and other costs that are not directly related to interacting with that third party's systems.[5]

A6.18 We recognise that there may be some uncertainty around the exact magnitude of these costs. However, we consider that the methodology used by the OTA to produce costs estimates for large retailers/resellers is consistent with the 'order of magnitude' standard used for this assessment.

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[3] OTA, September 2020. Appendix G - Volumetrics Statement.
[4] System partners are companies such as Fujitsu or Netadmin who typically develop and / or operate the software infrastructure required for these switching solutions.
[5] See Virgin Media, Response to February 2021 Consultation, paragraph 218.

A6.19 Lastly, in response to the February 2021 Consultation, Virgin Media submitted that One Touch Switch estimates provided by providers do not capture costs (or savings) associated with delivering number porting alongside One Touch Switch nor are provider to provider backchannel costs included.[6] It further submitted that Hub costs estimates sourced from third parties by the OTA could not have reflected number porting costs associated with One Touch Switch as it was absent from the design and requirements given to those vendors.[7]

A6.20 We recognise that the One Touch Switch process will need further development in relation to number porting and that there may be a need for the Hub to include a communications channel.[8] We note that costs associated with number porting are likely to constitute a small component of overall costs.[9] There are also opportunities to automate porting that may lead to cost savings for providers. Hub costs are also a relatively small component of overall costs.[10] Therefore, we consider that the lack of some elements of costs associated with number porting and the Hub is unlikely to result in a material increase in the estimated cost of One Touch Switch.

Third party costs

A6.21 Both Code to Switch and One Touch Switch are expected to involve three types of third-party support, namely:

a) a Hub;

b) Third Party Integrator (TPI) services[11]; and

c) Systems Partner[12] (e.g. for small/medium-sized alternative networks, retailers and resellers).

A6.22 The OTA contacted five companies that offer 'Hub services' to request indicative cost estimates to provide a Hub service to support the two options. The OTA provided the companies with a set of assumptions including assumptions on switching volumes. The OTA used the responses to estimate the cost of the Hub to incorporate into the overall cost summary.

A6.23 The OTA also engaged directly with two well-established system integrators to get a view of indicative costs to provide TPI services for the large community of small retailers. These generally use Openreach products and typically do so via an already established relationship with a TPI agent. The retailers would connect through a port connecting with

[6] See Virgin Media, Response to the February 2021 Consultation, paragraph 229.
[7] See Virgin Media, Response to February 2021 Consultation, paragraph 229.
[8] This may also be the case for Code to Switch.
[9] [✂]
[10] See paragraph A6.27
[11] An organisation that provides business integration services to providers to support their provision of retail services to customers. It may also support these providers' interactions with the access provider or the Hub.
[12] System partners are companies such as Fujitsu or Netadmin who typically develop and / or operate the software infrastructure required for these switching solutions

the TPI which, in turn, would interact with the Hub over an application programming interface.

A6.24 In response to the February 2021 Consultation, Sky submitted that there is a significant risk that Hub service providers and system integrators will have underestimated, possibly quite significantly, the likely complexity, and therefore costs, of implementing and operating the Hub platform given their vested interest in securing this work[13].

A6.25 We note that the OTA did not undertake a formal tender process, and no contracts were to be awarded based on the data submitted. As such, it is not clear why Hub service providers and system integrators would have an incentive to underestimate the costs of either proposal. In any event, to the extent that the costs of both proposals have been underestimated[14] this would have a limited impact on the relative costs of the two options.

Summary of OTA cost information

A6.26 A summary of all capex and opex that industry reported to the OTA is presented in Table A6.1 below.[15]

[13] See Sky, Response to February 2021 Consultation, page 21.
[14] Both Code to Switch and One Touch Switch are expected to involve support from a Hub and from system partners. Hence, even in the hypothetical event that these costs had been underestimated, there would be no clear incentive for Hub service providers and system integrators to underestimate the costs of one particular proposal.
[15] In response to the February 2021 Consultation Sky, Virgin Media and Vodafone submitted revised cost estimates. As a result, the figures presented in this annex may slightly differ from the ones reported at consultation stage.

Table A6.1: Summary of capex and opex information submitted by industry[16]

Role	Stakeholder	Costs for Code to Switch		Costs for One Touch Switch	
		Capex (£m)	Opex (£m p.a.)	Capex (£m)	Opex (£m p.a.)
Large network provider[17]	Openreach	✂	✂	✂	✂
Large network provider	Virgin Media	✂	✂	✂	✂
Large provider[18]	BT Consumer[19]	✂	✂	✂	✂
Large provider	BT Wholesale	✂	✂	✂	✂
Large provider	BT Business[20]	✂	✂	✂	✂
Large provider	Sky	✂	✂	✂	✂
Large provider	TalkTalk	✂	✂	✂	✂
Large provider	Vodafone	✂	✂	✂	✂
Medium network providers[21]	Hyperoptic	✂	✂	✂	✂
Medium network providers	CityFibre	✂	✂	✂	✂
Medium network providers	Gigaclear	✂	✂	✂	✂

[16] np = none provided

[17] These are defined as the companies that run the networks which providers use to deliver communications services to end users.

[18] These are defined as the losing and gaining providers that have or will have the contractual relationship with the customer. These providers, especially the large ones, may also have other roles in the supply chain, such as resellers (to other providers) or wholesalers (with or without end customers).

[19] These are costs for BT Consumer only and do not include costs for EE or Plusnet. We note that their exclusion understates industry's aggregate costs for both options. Such understatement could be more significant for Code to Switch than One Touch Switch, considering that [✂]. However, as EE and Plusnet represent a small set of customers relative to BT Consumer the impact of such omission is likely to be modest, particularly if there are economies of scale deriving from being BT brands.

[20] The new fixed switching process will apply to residential customers only. Providers might however introduce some of the features of the new switching process for business customers. It is therefore not clear that all of these costs are incremental to the introduction of Code to Switch or One Touch Switch respectively. To the extent that this estimate includes costs that are not incremental to the new switching process, our calculations will overstate the costs of Code to Switch and One Touch Switch.

[21] These are defined as the companies that run the networks which providers use to deliver communications services to end users.

Role	Stakeholder	Costs for Code to Switch		Costs for One Touch Switch	
Regional small alternative networks[22]	e.g. INCA members	✂	✂	✂	✂
Large retailers/resellers[23]	e.g. Post Office	✂	✂	✂	✂
Medium/small Retailers[24]	e.g. FCS/ITSPA members	✂	✂	✂	✂
TPI Service[25]	TPI Agent	✂	✂	✂	✂
Hub[26]	Hub provider	✂	✂	✂	✂
Hub	Hub - On-boarding[27]	✂	✂	✂	✂
Total		**35.2 to 48.2**	**-6.0**	**28.3 to 39.8**	**3.1**

Source: OTA submissions on 24 September 2020, ECWG Final Cost Estimates for Ofcom V1.3

A6.27 Overall, on the basis of the information presented in Table A6.1 we observe that:

- Capex estimates were provided for all industry participants.[28] These indicate that, in aggregate, industry expects to incur lower capex for One Touch Switch compared to Code to Switch. Among providers, five reported higher capex for Code to Switch. Four reported capex that was identical or very similar for both options. Two reported higher capex for One Touch Switch.

[22] These are defined as the losing and gaining providers that have or will have the contractual relationship with the customer.
[23] These are defined as the losing and gaining providers that have or will have the contractual relationship with the customer. These include standalone resellers such as Post Office, which is now part of Shell Energy.
[24] These are defined as the losing and gaining providers that have or will have the contractual relationship with the customer.
[25] An organisation that provides business integration services to providers to support their provision of retail services to customers. It may also support these providers' interactions with the access provider or the Hub.
[26] The Hub would allow providers to communicate and share information with each other to support customers switching between different networks or within the same network.
[27] Hub on-boarding figures refer to the estimates of the number of parties that would connect to the central Hub under either option. The difference in the estimates is driven by the design of the two options. In Code to Switch, the proponents of the process proposed that network providers and large retail providers connect directly to the Hub. In One Touch Switch, the proponents of the process proposed all retail providers connect to the Hub (either directly or through a TPI). The different approaches to connecting to the Hub could be used under either of the two options.
[28] There is much variation between industry participants, with capex correlated with size (i.e. larger providers typically reporting higher capex than small providers – as would be expected) although not perfectly.

- Opex estimates were provided by six providers which accounted for around half of industry capex. The estimates reported indicate an opex increase as a result of One Touch Switch and an opex saving as a result of Code to Switch. The latter, however, is driven by the opex estimate of a single respondent who reported substantial savings related to Code to Switch.[29] For the remaining respondents who provided opex information, four had estimates which were the same across the two switching options and one respondent reported higher opex for Code to Switch;
- Hub costs have only a marginal impact on aggregate costs of either option, i.e. about 1% of capex for Code to Switch, and about 3% of capex for One Touch Switch.

Impact of Code to Switch and One Touch Switch on industry costs

Methodology to account for the missing opex estimates

A6.28 Some respondents did not provide opex information. Where data was available, we used the respondents' specific cost estimates as reported to us by the OTA.

A6.29 We have used two scenarios to account for the missing opex estimates in the data provided:

a) **Scenario 1**: in our first scenario we have assumed a cost of zero where cost data was not provided; and

b) **Scenario 2:** in our second scenario we have assumed an opex value based on the value of capex provided by that operator multiplied by the average 'opex to capex ratio' reported by respondents who provided both capex and opex estimates.[30] As mentioned above, one provider reported opex estimates for Code to Switch that are a significant outlier when compared to other industry participants. We consider these estimates are also unlikely to be representative of industry participants who did not submit opex estimates. On this basis, we have excluded them from the calculation of the average 'opex to capex ratio' for both options.

A6.30 We note however that results based on scenario 1 are likely to be an underestimate as most providers that provided opex estimates reported opex costs that were greater than zero.

A6.31 In response to the February 2021 Consultation, Virgin Media questioned Ofcom's approach to the treatment of missing operating costs. In particular it said that:

a) assuming a cost of zero is an incorrect presumption given that both proposals will lead to changes to systems and processes for all operators;[31] and

[29] This respondent reported negative opex (i.e. an overall saving in operating costs) of over £7m per year for Code to Switch but positive opex of around £2m each year for One Touch Switch. This is the only respondent to report opex savings as a consequence of implementing a new switching process. The value of these savings is large relative to the capex involved and in absolute value is an order of magnitude greater than the opex impacts reported by any other industry respondents.

[30] [✂]

[31] Virgin Media, Response to February 2021 Consultation, paragraph 226.

b) [✂][32]

A6.32 As noted above, assuming a cost of zero where a cost estimate does not exist risks understating industry costs. To mitigate such risk we have estimated missing opex based on an average of costs incurred by other industry participants, which we consider is a reasonable approach. None of our stakeholders has suggested any alternative methods to derive opex costs in the absence of a provider estimate.

Time horizon and discounting approach

A6.33 We expect that capital expenditure will be incurred at the start of the process as providers adapt their systems to fit the new switching process. Operating costs and savings will accrue over time. To calculate the overall net present cost (NPC) for the industry we have estimated the cost impact of Code to Switch and One Touch Switch over a 10-year time horizon.

A6.34 Total industry cost comprises setup costs (capex incurred in year 1) and 10 years of operating costs (opex) or cost savings. We assume that the number of providers, the number of customers, and industry switching rate are all constant over the period.

A6.35 In deriving the NPC of the cost estimates from industry, we have discounted future time periods at the Weighted Average Cost of Capital (WACC). Specifically, we have used the WACC for 'Other UK telecoms' from the 2021 Wholesale Fixed Telecoms Market Review (WFTMR) statement.[33] This is 7.8% pre-tax nominal, which corresponds to 5.8% pre-tax real, assuming 2% CPI inflation.

Results

A6.36 For both Code to Switch and One Touch Switch, Table A6.2 sets out:

a) The net present value of industry costs (NPC): this is calculated as the incremental capex, operating costs and cost savings, aggregated across all affected entities, and discounted over the 10-year time horizon.

b) The equivalent annual costs (EACs): this can be interpreted as the average annual cost of building, operating, and maintaining an asset (in this case the switching infrastructure) over its lifespan, taking account of the time value of money. We have calculated the EAC for the two options, by dividing the NPC of either solution over 10 years (based on the mid-point of the NPC values reported in Table A6.2) into a series of payments made at equal (annual) intervals using a real WACC of 5.8%.

[32] [✂]
[33] Ofcom, 2021. Promoting investment and competition in fibre networks: Wholesale Fixed Telecoms Market Review 2021-26, page 198.

c) the cost per switch and the monthly cost per residential connection: the cost per switch represents the equivalent annual cost divided by the number of switches per year (2.4m) provided to us by the OTA.[34] The monthly cost per residential connection is then calculated as the annual cost divided by the number of fixed residential connections in the UK (26.1m)[35] and by the number of months in a year.

A6.37 As mentioned above, to account for missing opex estimates, we present results across two scenarios. Moreover, as some respondents provided ranges for capex, in Table A6.2 below we provide a range of estimates. 'Low' scenarios are based on the minimum values of the provided ranges, while 'high' scenarios are based on the maximum value of these ranges.

Table A6.2: Estimated costs of implementing Code to Switch and One Touch Switch

Estimated net present costs of implementing Code to Switch and One Touch Switch			
Opex scenario	**Capex scenario**	**Code to Switch**	**One Touch Switch**
Scenario 1: missing opex figures assumed to be zero	Low	-£9m	£51m
	High	£4m	£63m
Scenario 2: opex-to-capex ratio used to estimate missing opex figures	Low	£6m	£60m
	High	£19m	£71m
Estimated Equivalent Annual Costs of Code to Switch and One Touch Switch			
Opex scenario	**Capex scenario**	**Code to Switch**	**One Touch Switch**
Scenario 1: missing opex figures assumed to be zero	mid-point	-£0.4 m	£7.7 m
Scenario 2: opex-to-capex ratio used to estimate missing opex figures	mid-point	£1.7m	£8.8m
Estimated cost per switch and monthly cost per residential connection			
Opex scenario	**Capex scenario**	**Code to Switch**	**One Touch Switch**

[34] See OTA, September 2020. Appendix G - Volumetrics Statement.
[35] The number of UK fixed residential connections in the UK is from: Ofcom, 2020. Telecommunication Market Date Update Q1 2021, Table 7.

		Cost per switch[36]	Monthly cost per connection[37]	Cost per switch	Monthly cost per connection
Scenario 1: missing opex figures assumed to be zero	mid-point	-£0.2	-£0.001	£3.2	£0.02
Scenario 2: opex-to-capex ratio used to estimate missing opex figures	mid-point	£0.7	£0.01	£3.7	£0.03

Source: Ofcom analysis of data provided to the OTA by industry.

A6.38 The costs presented above indicate that, at industry level, the aggregate cost would be small on a per connection basis across either option. In particular, the aggregate cost per connection would be no larger than £0.03 per month for One Touch Switch and no larger than £0.01 per month for Code to Switch.

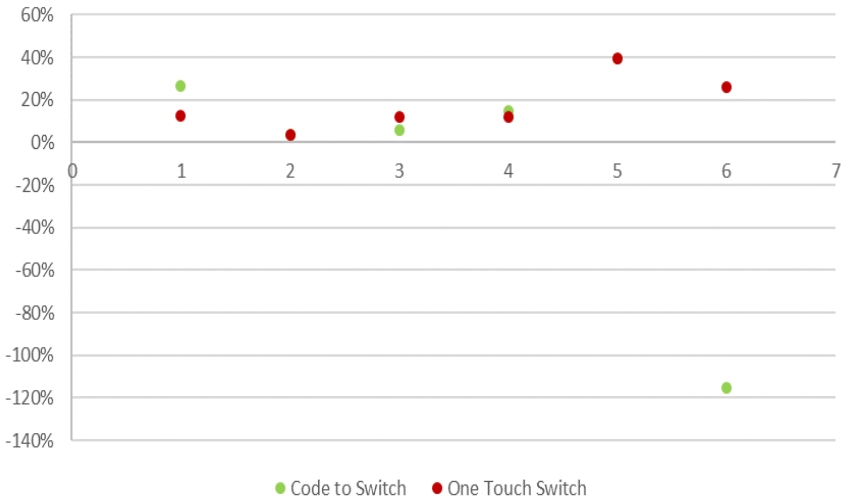
Outlier observations

A6.39 As mentioned in paragraphs A6.27, the cost estimates reported by one respondent are a significant outlier when compared to other industry participants. We note that in deriving the results presented at paragraph A6.38 we have included this outlier. However, by way of illustration, in the following paragraphs we describe the impact of this outlier on the overall results.

A6.40 In Figure A6.3 we present the opex to capex ratio for those respondents that have provided relevant information.

[36] the cost per switch represents the equivalent annual cost divided by the number of switches per year (2.4m) provided to us by the OTA. See OTA, September 2020. Appendix G - Volumetrics Statement.
[37] The monthly cost per residential connection is calculated as the annual cost divided by the number of fixed residential connections in the UK (26.1m). The number of UK fixed residential connections in the UK is from: Ofcom, 2020. Telecommunication Market Date Update Q1 2021, Table 7.

Figure A6.3: Opex to capex ratios across the two options



Source: Ofcom analysis of information from the OTA.

A6.41 Figure A6.3 above shows that five out of six respondents had an opex to capex ratio that was the same or very similar across the two options. For these, the difference between the ratios for the two switching options is between 0 and 14 percentage points. However, for one respondent the difference between the two ratios is 142 percentage points.

A6.42 We note that the opex figures reported by the sixth provider in the chart above have a significant impact on the overall industry costs estimates. By way of illustration, if we replace the opex figures reported by this provider for both Code to Switch and One Touch Switch with a value that reflects the average opex to capex ratio amongst the remining providers (using the same approach described in paragraph A6.29b)) we see that the costs of Code to Switch would be significantly higher than in opex scenarios 1 and 2.

Table A6.4: Illustration of the impact of a potential outlier

	Code to Switch	One Touch Switch
Net present cost	£65m-£78m	£50m-£61m
EAC	£9.6m	£7.5m
Annual cost per switch	£4.0	£3.1

Source: Ofcom analysis of data provided to the OTA by industry.
Note: EACs are based on the mid-point of the NPC values reported in Table A6.2.
Note: The annual cost per switching is based on the EACs included in this table.

A6.43 In order to understand this issue further, we used our statutory information gathering powers, under section 135 of the Communications Act 2003, to request information from the respondent in question asking them to provide details of their workings alongside the evidence and assumptions relied on to prepare its estimates.

A6.44 We found that this provider had assumed that 62% of switchers under One Touch Switch would continue to call their losing provider. This was based on Ofcom research conducted

in 2015 regarding the number of customers switching providers over the Openreach network that contacted their losing provider.[38] More recent data, however, shows that the proportion of switching customers on the Openreach network that contact their losing provider has reduced. Our 2020 consumer research found that 49% of switching customers on the Openreach network had contact with their losing provider.[39]

A6.45 Using this more recent data, the overall incremental cost of One Touch Switch is reduced. For example, in opex scenario 2 the NPC would reduce to £47m-£58m, the EAC would reduce to £7.1m and the cost per switch would reduce to £2.90.

A6.46 In response to the February 2021 Consultation, one respondent [✂] submitted that it continues to consider that the 62% figure resulting from Ofcom 2015 research would best capture – albeit likely underestimate – the number of switchers contacting their losing providers.[40]

A6.47 In response to the February 2021 Consultation, Sky submitted that it expects that the percentage of customers contacting their losing provider under One Touch Switch is likely to be somewhere between the original (62%) and revised (49%) figures, with a high degree of confidence it will be towards the upper end of this range because[41]:

a) the data Ofcom has used is based on our 2020 'Switching Experience Tracker', which relates to consumer experiences under a different switching process (i.e. Notification of Transfer) where the implications of switching (early termination charges, impact on other products, etc.) are sent directly to the customer by the losing provider separately and after the switch order has been placed.

b) more information regarding the implications of switching is provided during the One Touch Switch process than the current Notification of Transfer process;

c) information is delivered in real-time during a gaining provider sales journey (including a sales call); and

d) information is delivered to the customer directly via a Hub, without the customer having the opportunity to ask questions or discuss it with the gaining provider sales agent who is on the phone/online signing them up.

A6.48 We do not agree with Sky that the number of switchers contacting their losing provider will be close to 62%.

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[38] Ofcom, 2015. Triple Play Switching Research, slide 55.
[39] Ofcom, 2020. Switching Experience Tracker Q14A/B/C Net of those who switched a dual or triple play package within the Openreach network and did one or more of: contacted their previous provider (23%), experienced the losing provider trying to persuade them to stay (22%) and tried to negotiate a better deal (24%). We note that some of these contacts may have been outbound contacts by the losing provider and so this figure may overstate the proportion of Openreach switchers that contacted their losing provider.
[40] [✂].
[41] See Sky, Response to February 2021 Consultation, page 19.

a) As we note above we think the right starting point is the more recent survey evidence provided in our 2020 consumer research which gave a figure of 49%. We recognise that this research was conducted when the Notification of Transfer process was in place.

b) Sky noted some reasons why, in its view, the proportion of switchers that call their losing provider may be higher under One Touch Switch than under the existing Notification of Transfer process. Some of these reasons are not persuasive. For example it is plausible that the fuller and more timely information provided under One Touch Switch could remove the need for some switchers to call their old provider rather than increase it.

c) There are plausible reasons to suspect that the proportion of customers that call their losing provider might reduce under One Touch Switch. Consumer experience with switching processes is occasional because switching does not occur often, and contacting the losing provider may be declining as familiarity with gaining provider led systems has grown. In this context, the 62%-to-49% trend in the number of customers contacting their losing provider may be an indication that familiarity with gaining provider led systems is likely to grow over time. As a gaining provider led process is rolled out across all switches, it might accelerate this downward trend.

A6.49 We therefore remain of the view that 49% is an appropriate estimate, and note that the volume of calls to the losing provider may decline further in the future following the implementation of One Touch Switch. In any event, we note that this parameter does not have a material impact on our conclusions and that the top of the range of costs we have used is based on a value of 62%.

A6.50 Lastly, in response to the February 2021 Consultation one respondent [✂] submitted that Ofcom should consider whether cost estimates that assume both identical opex and capex costs across both models are well founded.[42] In addition, it submitted that given comments from across industry that various providers' ability or intent to undertake a cost assessment would be limited or constrained, it is not clear why Ofcom has not sought details of any other operator's analysis under our statutory information gathering powers.[43]

A6.51 As noted above, we do not agree with one respondent [✂] that submitting costs that are similar, or identical, for both options is an indication that the estimates are unreliable. These estimates were provided as order of magnitude cost estimates and it is plausible that the costs of both options could be the same or very similar. In fact, similarity of costs estimates across providers ([✂]) may add to their validity.

A6.52 We also do not agree with one respondent [✂] that we should have sought details of all providers' analysis using our statutory information gathering powers. We used our statutory information gathering powers to issue an information request to a respondent [✂] to better understand the reasoning behind their views of costs. This is because, as

[42] [✂]
[43] [✂]

noted above, one respondent's [✂] estimates differed markedly from the rest of the industry and had a significant impact on the overall industry costs estimates. No other operators were in a similar position.

Customer pass-through

A6.53 The estimates provided above represent the potential cost impact of Code to Switch and One Touch Switch on industry. These estimates do not necessarily reflect the costs (or cost savings) that would ultimately be passed through to customers in the form of higher or lower prices.

A6.54 The 'pass-through rate' (i.e. the extent to which a change in costs results in a change in price) depends on a range of market factors and their interactions.[44] A wide range of pass-through rates is possible. Under many market settings the pass through is less than the original cost change.[45]

A6.55 We note that Code to Switch in particular appears to have an asymmetric impact on the costs of industry participants in that it is claimed to deliver a large cost saving to one firm and a cost increase to others. Where costs increase this may provide an incentive for those firms to increase prices. Where costs decrease this may provide incentives to reduce prices. The potential impact of Code to Switch on prices is therefore ambiguous. Cost reductions that affect only one firm may be less likely to be passed on to consumers than cost reductions that affect all industry participants.[46]

A6.56 Finally, even if the change in costs generated by either option were to be passed to customers in full, the impact of this across the retail telephone and broadband markets in aggregate would be £0.03 per month per customer or less which is very small when compared to the typical bill for landline and broadband services of a UK household (c.£41 per month).[47,48]

[44] See, for example, A. T. Kate and G. Niels, 2005. To What Extent are Cost Savings Passed on to Consumers? An Oligopoly Approach. See also RBB Economics, 2014. Cost pass-through: theory, measurement, and potential policy implications, sections 4, 6 and 7.

[45] RBB Economics. Cost pass-through, footnote 18, sections 4, 6 and 7.

[46] RBB Economics. Cost pass-through, pages 20, 75 and 154.

[47] For cost per connection see Table A6.2

[48] Ofcom, 2021. The Communications Market Report 2021, Summary of UK telecoms metrics.