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From the
Parliamentary Under Secretary of State

/ September 1981

Kenneth Baker MP

Mrs Sally Oppenheim MP
Minister of State for Consumer Affairs
Department of Trade
1 Victoria Street
London SW1H 0ET

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Dear Minister of State,

Thank you for your letter of 24 August about POUNC's comments on BT's recent proposals for price increases.

For myself, I think that POUNC's allegations about the misleading way that BT presented its price increases were somewhat overstated, and indeed did not always fit easily with the detail of their comments. With such a multiplicity of tariffs it is inevitable that the overall tariff package should be presented in terms of changes to the average residential bill and I notice that POUNC made no criticisms of BT's calculations on that score.

Nevertheless I share your concern about the tariff increases and the effect they will have on the consumer. I pressed Sir George Jefferson hard to try and find some way of moderating the increase on local call charges, possibly by avoiding any increase in the off-peak rate. I am afraid that he regards this as impractical for technical reasons concerned with metering procedures. I am not satisfied about this and we will be pursuing this with him.

BT has now responded to POUNC's comments. They have agreed to adopt the alternative tariff package recommended by POUNC, with the smaller rise in rentals and consequent benefit to the smaller user, whether residential or business, and to adopt some phasing for the connection charges for leased circuits. Both these changes are in the right direction, and you may like to see the enclosed letter from Sir George to John Morgan which gives this undertaking and also responds to POUNC's comments on the presentation of the tariff proposals.

Given BT's reaction to POUNC's comments, I do not feel that the time is yet right for a Section 11 reference of BT under the Competition Act. B¹ will only come into existence next month and



already faces very considerable changes stemming from the liberalisation of telecommunications attachments and the greater freedom for private firms to use its network. A reference to the MMC could well divert management resources from handling the adjustment to their new more competitive environment. However, I regard your concern as a most useful means of maintaining pressure on BT to behave in a commercial manner and I shall ensure that it is brought to Sir George's attention.

I am copying this letter to the Prime Minister.

Yours sincerely,
J. Baker

for

KENNETH BAKER

(Approved by the Minister and
signed in his absence)

from the Chairman
Sir George Jefferson CBE

Mr Nieduszynski
for info.

cc PS/SOS.
PS/IMM.
PS/SEC.
M/CRT.
Mr Solomon.
Miss Marshall.

27 August 1981

PERSONAL

Mr Kenneth Baker
Department of Industry
Ashdown House
123 Victoria Street
LONDON
SW1E 6RB

RECEIVED IN
23 AUG 1981
OFFICE OF THE
MINISTER OF STATE
KENNETH BAKER

Dear Kenneth,

When we met earlier this week, you mentioned to me that it would be very helpful, in presentational terms, if we could do something to moderate the impact on residential customers of the increase in local call tariffs. In particular, you had in mind avoiding any increase in the off-peak rate.

Let me say at once that I was very sympathetic to your views, because I was myself aware of the presentational advantages that such a modification could bring.

However, I regret to say that I have now been convinced that, largely for technical reasons concerned with the way our metering system works, such a modification would not be practical without either, on the one hand, a radical change to other aspects of our proposals or, on the other, a substantial loss of revenue.

I have, therefore, responded to POUNC in the terms of the attached letter. Presentationally, we will be concentrating on our decision to go ahead with the alternative proposals, preferred by POUNC, and on the decision to phase the introduction of the connection charges for private circuits.

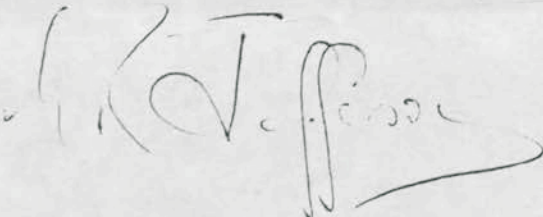
It is, of course, the case that both our positions have been made rather more difficult by the terms of some of POUNC's public comments, which have contrasted quite sharply with the detailed content of their commentary.

/This is

PERSONAL

Mr Kenneth Baker

This is very unfortunate, in that it has left the impression that some bills might go up by as much as 115%, which is, of course, simply untrue. In our public response, we are seeking to correct that impression, without provoking a quarrel with POUNC.

Yours sincerely,


SIR GEORGE JEFFERSON

from the Chairman
Sir George Jefferson CBE

27 August 1981

Mr John Morgan
Chairman
Post Office Users' National Council
Waterloo Bridge House
Waterloo Road
LONDON SE1 8UA

TELECOM PRICES

Thank you for your prompt response to our proposals for price increases. I am pleased to note that, with the exception of private circuit connection charges, you have not recommended rejection of our proposals. As you know, these proposals, averaged across all our customers, represent an increase of $9\frac{1}{2}\%$ on bills, some $1\frac{1}{2}\%$ less than the expected increase in the price of goods and services generally over the same period, as measured by the RPI.

In those circumstances, I must confess, that I was a little disappointed that the careful weighting of points in your detailed comments was not fully reflected in the POUNC Press and Broadcast Notice and subsequent comments. We now have a situation where some customers believe that their bills are likely to be more than doubled. In fact, there is no way in which these proposals are likely to lead to such an increase even under the most unfavourable circumstances. Indeed, in the case of the much-quoted local calls, it is perhaps worth noting that the cost to the customer of some 60% of all such calls made at the standard and peak rates will increase by only $7\frac{1}{2}\%$.

We do, however, fully agree with you that these are complex changes, and difficult to present to our customers in a readily comprehensible way. We felt - and still feel - that to quote the average effect was the most relevant way of getting the message across to the majority of our customers, while making clear that there could be considerable variations from those averages. However, to assist our customers, I have asked for urgent consideration to be given to the most informative ways in which these new rates can be presented in our further literature.

/Turning

Mr John Morgan

Turning to the more general aspects of our performance, you are, I believe, aware of my continuing concern to improve efficiency and productivity. However, although much still needs to be done, the record is by no means unimpressive. Between 1975 and today the size of the telephone network has increased by approximately 40%, while today's manning levels are, if anything, slightly lower than they were in 1975.

Moreover, prices have been held to about three-quarters of the levels they were ten years ago, in real terms. At the same time, the extent to which capital requirements have been financed from our own resources has increased from around 50% in 1970 to 85% in 1980-81. The fact that we have been able to do this while reducing the real cost of our services to the customer is due largely to the improvements in productivity and utilisation of resources that we have achieved in this period. This will bear favourable comparison with the performance of most companies in the private sector.

I appreciate that customers do not easily reconcile our apparently large 'profits' with the overall financing situation and the need for price increases. However, the facts are that the recently announced profits are both small in relation to the size of the business and fall short of Government profit targets. Moreover, customers should recognise that these profits are fully retained in the business to assist the financing of the investment programme. Our profits are therefore contributing to the improvement of the facilities we shall be able to offer.

Of course, it would be easier for all of us in the current circumstances where there exists a major backlog of investment necessary in the improvement of the scale and quality of our plant, if a greater part of the investment programme could be financed by money that British Telecom borrowed from Government or other sources. But this should not be taken to excess, and in arriving at these proposals, we have increased our borrowing to around 20% of capital requirements in 1981-82 compared with the fully self-financing rates of a few years ago. However, we, too, look forward to the time when capital financing may be eased by scope for recourse to the commercial market, and I welcome your continued strong support in this respect.

The current degree of cross-subsidisation between services has, as you say, been criticised by yourself over the past two years and more recently in Professor Beesley's Report. The extent to which we are moving towards a rebalancing of the tariff structure is, in our view, well justified in the light of your previous comments and the Government decision in relation to liberalisation of the network. The proposals still fall a long way short of total rebalance. We have no wish to raise the cost of telephones to our domestic

/customers

Mr John Morgan

customers excessively, and we very much hope that any further development of liberalisation by the Government will be phased in a way that maximises our opportunity to protect the interests of all our customers. It was in that latter context that we put to you our alternative proposals. We are grateful for your advice and concur in your recommendation that we should proceed with smaller increases in rentals on this occasion, at the expense of some reductions contemplated on other services.

The Government's intentions on value added network services certainly lend urgency to the need to set connection charges for leased circuits at levels that reflect current costs. However, in view of your comments, and the comments we have received from other representative bodies, we judge that it would be right for the increases to be staged. We are accordingly arranging to implement only half the proposed increase on orders received from 1st August; the full increase will be implemented on orders received from 1st February 1982. At the same time, we have reduced the charges for some short-distance circuits by £50. The charges will be reviewed during 1982 as part of our continued work to align costs and prices. The associated schedule shows the revised figures and the staged implementation.

During 1980-81 you will have seen that we have secured a significant improvement in the quality and provision of service to customers, compared with the unacceptable level of performance in the late 1970s. For example, currently:

- the proportions of calls on which plant was satisfactory and adequate, at 98.7% on local calls, 97.3% on STD calls, and 98.0% on IDD calls, show a marked reduction in failure rates over the past two years;
- with $1\frac{3}{4}$ million new lines supplied during 1980-81, the 300,000 orders now waiting for service, are approximately half the number two years ago;
- 160 electronic exchanges were brought into service in 1980-81, serving more than half a million customers.

The results of our modernisation programme can also be seen in the introduction of the microprocessor controlled Monarch and Herald call connect systems, new public telephones, an extended range of special range telephones, and improved facilities for telex, datel and mobile telephone services. International services, supported by a wide range of modern developments, have continued to grow at substantial rates. Such service improvements depend on adequate finance for our investment programmes.

/I am

Mr John Morgan

I am glad that you have found your regular discussions with us to have been helpful in coming to a conclusion on our proposals. We will now proceed to implement these on the basis of the alternative smaller exchange line rental increases and associated call price changes, with the staging of private circuit connection charges outlined in this letter.

We will be releasing the main points of my letter in the associated Press and Broadcast statement, which is embargoed until 12 noon on 28 August.

Yours sincerely,
[Signature]
SIR GEORGE JEFFERSON

STAGING OF INCREASES ON PRIVATE CIRCUITS CONNECTION CHARGES

Type of Circuit:		Connection Charge (£) for Chargeable length of circuit (Kms)				
		0-0.8	0.8-16	16-80	80-160	160 and over
S1 O	before 1.8.81	60	100	120	140	160
	from 1.8.81	130	175	210	270	300
	from 1.2.82	200 *	250 *	300 *	400	450
S2 H J	before 1.8.81	60	100	120	140	160
	from 1.8.81	150	200	230	270	300
	from 1.2.82	250	300	350	400	450
S3	before 1.8.81	60	100	140	160	180
	from 1.8.81	180	250	290	330	360
	from 1.2.82	300 *	400	450	500	550
T	before 1.8.81	80	120	140	160	180
	from 1.8.81	210	260	290	330	360
	from 1.2.82	350	400	450	500	550
Y1	before 1.8.81	19	30	80	90	100
	from 1.8.81	160	190	240	270	300
	from 1.2.82	300	350	400	450	500
Y2	before 1.8.81	19	30	80	90	100
	from 1.8.81	180	210	260	290	320
	from 1.2.82	350	400	450	500	550

The proposed increases on miscellaneous facilities and wideband circuit connection charges will be maintained except where the increases exceed 100% (on miscellaneous facilities) where these will also be staged.

*Charge £50 less than originally proposed.

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*Await DoI
Kspanx.*

MAP 26/VIII

*With the Compliments of
the Minister of State
for Consumer Affairs Office*

RESTRICTED



From the
Minister of State
for Consumer Affairs

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01 215
SWITCHBOARD 01 215 7877

Kenneth Baker Esq MP
Minister of State
Department of Industry

24 August 1981

[Handwritten signature]

You will have read with some concern the allegations made by POUNC about the misleading nature of the British Telecom announcement of its price increases. If the POUNC allegations are correct, then I believe that the way in which this announcement was made by British Telecom is quite disgraceful and will cause widespread and unnecessary public resentment.

As Minister for Consumer Affairs, I must express my concern, both at the amount of the increase and the way in which it was announced. Naturally, I have no way of knowing whether the claims made by POUNC that the large increase is due to inefficiency and overmanning are correct, but it does strike me that this would provide an ideal time and a necessary circumstance for a Section 11 reference under the Competition Act, and would be grateful to learn your views.

All too often the Government's financial targets are blamed for price increases when the real reason is costs incurred by the above.

I am copying this letter to the Prime Minister.

[Handwritten signature]
[Handwritten signature]

SALLY OPPENHEIM

RESTRICTED

25 MAR 1987

