

Joanna Gough
Floor 4, Competition Finance
Office of Communications
Riverside House
2A Southwark Bridge Road
London SE1 9HA

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Telephone: 01738 456401

Facsimile: 01738 456415

Email:

Our Reference:

Your Reference:

Date: 29 May 2008

Dear Joanna

BT's regulatory financial reporting

I am writing to provide SSE's comments on the above consultation. SSE is a supplier in the retail market for the provision of telephone services based on the regulated wholesale products available. As an energy company with regulated network infrastructure, we are also subject to regulatory financial reporting requirements in these markets.

Our answers to the specific questions are set out in the attached appendix and we make some further general comments below.

We continue to support Ofcom's programme of work to develop and enhance the usefulness of the regulatory reporting regime in the communications markets and of BT's regulatory financial reporting as a specific part of that. We recognise that a number of the proposed amendments reflect "business as usual" developments to keep the regulatory reporting requirements in step with market conditions – such as changes to the detail of network component lists. This year, however, we note that a number of changes are proposed as a result of Ofcom's review of the business connectivity market. Ofcom makes a number of statements in the document about concerns relating to the calculation of transfer charges in these markets and the general equivalence, in this respect, between BT's treatment of its own downstream businesses and external purchasers of the same services.

We agree with Ofcom that these issues are a matter of concern and support the ongoing work with BT to establish more robust calculation by BT of relevant transfer charges so that non-discrimination can be demonstrated. We agree with Ofcom that this is an important regulatory requirement where BT has significant market power (SMP) in a wholesale market and, in our view, it would justify further effort by both BT and Ofcom. There has been recent regulatory focus on developing a disclosure and audit regime to support Ofcom's work to monitor compliance with price controls, for example, and it appears to us that non-discrimination requirements are similarly important.

Beyond this general comment, we would also note that there are two areas where clarity on cost and revenue information is particularly useful, although the relative

sums involved may be under the thresholds of materiality that are currently in place. These areas are emerging markets and declining markets.

For emerging markets using newly developed wholesale products, there might be competition concerns if the costs and revenues for internal and external customers were not transparent.

An example of a declining market is that of retail low bandwidth leased lines, which was discussed in the business connectivity market review consultation and which is important to us as users of these lines for electricity protection circuits. For this market, the proposed remedies for BT's SMP included a fall-back cost-orientation of charges. It has also been recognised that the volume of these lines has been falling. Taking these elements together, it could be seen that the situation might develop where cost-orientation of charges was required, but relatively low volumes of circuits required meant that costs and revenues were below materiality thresholds. We suggest that Ofcom considers requiring additional information on both emerging and declining markets as part of regulatory financial reporting for a suitable period when the need arises in such markets.

I hope these comments are helpful and would be happy to discuss them further if required.

Yours sincerely

Aileen Boyd
Regulation Manager

Consultation Questions

Question 1: Do you agree with Ofcom's proposal that BT provides an AFI that explains the difference between the revenue reported in the regulatory financial statements compared to the revenue recognised in BT's general ledger for 2007/08 for the markets covered by the replicability review?

Yes. We believe it is important that Ofcom has available to it all the relevant information from BT to understand differences in revenue reporting between BT's regulatory financial statements and other financial information.

Question 2: Do you agree with Ofcom's proposal for BT to report OSPs [other single payments], resilience and third party equipment charges separately in the relevant markets within the regulatory financial statements?

Yes. We agree that revenue from these sort of charges should have some transparency for both internal and external customers in the regulatory financial statements.

Question 3: Do you agree that BT should calculate and disclose service revenues on the CLZ and non-CLZ based prices in the relevant market statements?

Yes. If Ofcom is concerned that transfer charges to BT's own retail business is likely to be overstated by the policy of always applying the higher non-CLZ [Central London Zone] charge then it is appropriate that steps are taken to make sure that more accurate revenue figures are calculated and used in financial reporting.

Question 4: Do you agree that BT should update its Accounting Documents to transparently describe how the transfer charges and external revenues are calculated?

We believe that this is a very important issue in markets where BT competes as a vertically integrated retail business against other operators to whom it also sells upstream wholesale products. It is of some concern that Ofcom has found, in its recent review of the business connectivity markets, that the transfer price calculations are not explained in regulatory financial documents or even understood by Ofcom. We agree that the proposed explanations should be made and we also suggest that Ofcom should then form its own view on the reasonableness of the method used – if felt necessary, this could be a matter of consultation with the industry.

Question 5: Do you agree with Ofcom's proposal for BT to amend their current calculation of debtor days which is used to calculate notional debtors?

We believe it would be worth checking that the calculation of BT's debtor days is realistic.

Question 6: Do you agree with Ofcom's proposals to amend the list of Network Components?

Yes. We particularly agree with Ofcom's comments in relation to BT's "21CN" costs. This investment is in its early stages but it is therefore particularly important that stakeholders have transparency of the costs, which will be used as a basis to charge for products based on 21CN in due course.

Question 7: Do you agree with Ofcom's proposal requiring BT to provide Ofcom with the details of the cost stack underlying the regulated PPC and technical area services?

Yes. The provision of Partial Private Circuits (PPCs) is an area where, according to the recent review of business connectivity, Ofcom has found that BT continues to have some significant market power. We therefore agree that Ofcom should, in the first instance, obtain a greater understanding from BT, about the cost components that have been identified as relevant to the regulated products in this area. We would hope that Ofcom would then soon be in a position to propose a more meaningful set of components for public reporting as suggested in this section.

Question 8: Do you agree with Ofcom's proposal for additional disclosure of non-matched sales and costs in the RFR to assist users understanding of the underlying return for that market?

Yes.

Question 9: Do you agree with Ofcom's proposal to expand the list of services reported in the ASBO market?

Yes. We agree with the objective of increasing the transparency of costs and revenues between the IPstream and Datastream services that fall into this market.

Question 10: Do you agree with Ofcom's proposal to expand the list of disclosed services in the AISBO market?

No comment.

Question 11: Do you agree with Ofcom's conclusion that the attribution treatment of LUS costs is currently inappropriate in the context of BT's USO obligations and therefore the Accounting Documents and in turn the Regulatory Financial Statements should be amended?

Yes. We agree that it is inappropriate for BT to treat the USO obligation cost of its "light user scheme" retail tariff as borne by the wholesale access markets provided by Openreach when the countervailing benefits of the obligation are mainly at the retail level. As Ofcom notes, a different regulatory accounting treatment may be appropriate if a future review of the USO changes the basis on which these services are provided by the market. At present, however, it would be useful if Ofcom could confirm in its final statement on this matter that none of these LUS costs have been taken into account in setting wholesale charges such as those for wholesale line rental.