

LLCC PPC POINTS OF HANDOVER PRICING REVIEW SECOND CONSULTATION

JULY 2011

Cable&Wireless
Worldwide

INTRODUCTION

- We welcome Ofcom's ongoing work on this project. Further refinement since the previous consultation has identified that appropriate POH rental costs are in the region of £2.7M to £3.5M compared to BT's original estimate of £11.7M.
- We remain doubtful that the level of recovery for network management overheads is appropriate for these services or that these services do indeed drive incremental network management costs.
- We would appreciate confirmation from Ofcom that it is no longer relevant for BT to levy the grandfather charge for 4x2 and 16x2 equipment as these costs are captured by Ofcom's model.
- We now look forward to early conclusion of the project and rapid implementation of the new charges.

ANSWERS TO QUESTIONS

Q1 Do you agree with our revised proposals for the capital costs, in particular the annual rental charges for duct and fibre? If not, please explain why and provide alternative data.

Ofcom has modified its approach and now proposes to use a modelling assumption of 15p per metre for fibre. We agree that Ofcom's approach to deriving this number is based on reasonable assumptions and is sufficiently transparent as it is derived from other published charges.

Ofcom calculates the number of fibres to share costs to be 148 per duct rather than 240. This is based on BT evidence which Ofcom considers to be reasonable and we accept Ofcom's validation of BT's data.

In response to BT's comments that this component is covered via the CSH charge Ofcom has removed the sub duct costs for blown fibre. We agree with this approach.

BT has proposed that costs of internal tie cables are to be included and Ofcom has added £24. We consider that the tie cable could be shared by a greater number of services and a proportion of the £24 would be a better reflection of costs. We recognise that a change to the £24 will not be material overall.

Q2 Do you agree with our revised approach and estimates for the operational costs, in particular the network management costs associated with POHs? If not please explain why and provide alternative data.

Ofcom has revisited its approach to calculating accommodation costs. As BT has confirmed that rack charges are included in the POH one off installation charges, consequently Ofcom has removed them from the model and replaced them with an accommodation licence fee. We agree with this approach.

BT has argued that the power costs that Ofcom has included did not include an uplift for backup generated power which BT supplies. This leads to an increase from £13.20 per kW to £162 per kW. BT agrees that this charge should have a LRIC/Price ratio. We draw Ofcom's attention to the fact that backup power is not available at all sites. Backup generator power is finite. Presently there are

100 exchange sites which Openreach has announced have a lack of additional power. CPs using these sites therefore may not have access to the backup generator power.

BT has argued that AC power at £348 per 10kW should be included at a LRIC/Price ratio. Ofcom has then applied this proportionate to usage. We agree with this approach.

Ofcom has used the second lowest power option of 9p per watt rather than the lowest proposed by C&WW of 6p as BT has argued that future forecasting is difficult and therefore it may not always achieve the most efficient solution.

Ofcom proposes to reduce the network management overhead from 23% to 17%. We regard 23% to be too high and consider that 17% is a far more reasonable estimate. However we continue to question whether incremental costs for POH network management are identifiable. We consider network management costs to be largely fixed and unrelated to changes in overall network volume in particular the low volumes of PPC POH compared to the overall BT network. We believe that there is a compelling case to set this value for PPC POH rental charges to zero.

Should Ofcom proceed with the inclusion of costs for network management overheads we note that in the future as the number of more expensive-to-manage PDH POH declines we would certainly expect a greater level of reduction in the overall network management percentage.

Q3 Do you agree with our revised estimate for the support costs associated with POHs. If not please explain why?

We agree that the new proposals represent a fair and reasonable estimate for support costs.

Q4 Do you have any additional comments on our cost estimates and modelling approach? In particular do any of our proposed changes to the modelling alter any previous response you provided to the January Consultation on any issues not raised directly in this consultation?

Within Section 8.1 of the Carrier Price List sub-section 1.3 there is a list of rental charges for re-designated and grandfathered CSH. It is our understanding these charges are no longer relevant as costs are recovered via the new PPC POH rental charges. In response to the last consultation we submitted a supplementary letter outlining how the charges we paid for these services appear to

be recovered via the POH rental pricing model. We appreciate confirmation from Ofcom that these other charges for grandfathered equipment are no longer to be charged.

Q5 Do you agree with our proposal to remove the phasing for Type II POH charges and to introduce both charges concurrently from 1st October 2011? If not please explain why.

We agree that based on the current information on the showing the charges for Type II POH charges on the base case (or below) that it is not necessary to phase the introduction of these charges.

Q6 Do you agree that BT should not be allowed to exceed the Type I and Type II POH charge levels proposed by Ofcom during the period between 1st October 2011 and 30th September 2012?

Yes we agree.