

OPENREACH'S REGULATORY FINANCIAL REPORTING – A FRESH APPROACH – SUPPLEMENTAL NOTE

INTRODUCTION

This note, dated 11 August 2020, is a supplement to the report for UKCTA “*Openreach's Regulatory Financial Reporting – A Fresh Approach*” by Competition Finance Limited, dated 20 May 2020, (“*The Report for UKCTA*”)¹ and should be read in conjunction with that report.

Section 5.2 of the Report for UKCTA addresses the classification of connectivity between BT's core nodes and concludes that “*Openreach's IEC market should contain the fibre used in BT's core network*”. This note provides some additional detail of this issue.

FIBRE USED FOR BT'S CORE CONNECTIVITY IS SUPPLIED BY OPENREACH

Connectivity between core nodes is illustrated in Annex 6 to Ofcom's WFTMR Consultation.²

The Report for UKCTA explains that the cables between these nodes appear to be installed, operated and maintained by Openreach. In particular this signifies that provision and maintenance of such fibre is being carried out by the management and staff of Openreach Limited, and the fibres used for core connectivity are likely to be part of the same cables that are used for backhaul and access connectivity.

The supply of fibre to provide BT's core connectivity should therefore be classified as an activity of Openreach.

CORE CONNECTIVITY IS PART OF TRUNK CONNECTIVITY AS DEFINED IN THE WFTMR CONSULTATION

In its WFTMR Consultation, Ofcom explains that:

“We define trunk segments as circuits carrying aggregated traffic between points of aggregation. These are typically made up of backhaul and core connections between network nodes, BT exchanges and data centres. Annex 6 provides further background on the different types of trunk routes and IEC.”³

Trunk connectivity as defined above thus includes core connectivity.

¹ https://www.ofcom.org.uk/_data/assets/pdf_file/0028/199171/competition-finance-report-for-ukcta.pdf

² Consultation: Promoting investment and competition in fibre networks – Wholesale Fixed Telecoms Market Review 2021-26 <https://www.ofcom.org.uk/consultations-and-statements/category-1/2021-26-wholesale-fixed-telecoms-market-review> (“WFTMR Consultation”), Figure A6.1

³ WFTMR Consultation, Volume 2, Paragraph 6.18

CORE CONNECTIVITY FALLS WITHIN THE IEC PRODUCT DEFINITION, BUT NOT THE SMP GEOGRAPHIC DESIGNATION

Ofcom further defines Inter-Exchange Connectivity (IEC) as trunk connectivity for BT to BT exchange routes.⁴ As BT core nodes are situated at BT exchanges, connectivity between BT core nodes would therefore be classified within the IEC product market.

Within the IEC product market, Ofcom proposes that BT/Openreach is designated as having significant market power (SMP) where BT/Openreach only, or BT/Openreach and one other operator are present at the exchange.⁵ BT/Openreach would not have SMP where two or more other operators are present.

Ofcom explains that “Core nodes are typically located in a city of significant population within the geographic area covered by the network. ... Most locations or sites housing core nodes also contain backhaul and access aggregating nodes.”⁶ It is highly likely, therefore, that core nodes are situated at exchanges where at least two or more other operators are present.

Core connectivity will thus fall within the IEC product market as proposed by Ofcom, but within the geographic area where BT/Openreach would not have SMP.

CONCLUSION

Fibre connectivity between BT core nodes should be accounted for within the “Openreach non-SMP” activities in BT/Openreach’s regulatory financial statements (RFS) as a supply of dark fibre from “Openreach non-SMP” to “Rest of BT” (assuming that core nodes are situated at exchanges where two or more other operators are present).

Core connectivity should not be shown in the RFS as fibre assets directly attributed to “Rest of BT”, with a supply of Physical Infrastructure Access (PIA) services supplied directly from the Openreach PIA SMP market to “Rest of BT”.

Although this change to the accounting for core connectivity would not alter the results of any markets that have been designated as having SMP, either under the current definitions or under the WFTMR proposals, it would affect the results of Openreach division as a whole, which is reported in the RFS under the requirements of BT’s Commitments.⁷

⁴ WFTMR Consultation, Annex 6, Table A6.47

⁵ Ibid, Volume 2, paragraph 8.4

⁶ Ibid, Annex 6, paragraphs A6.7 and A6.8

⁷ Commitments of BT plc and Openreach Limited to Ofcom (“BT’s Commitments”) paragraph 20.3 <https://www.bt.com/bt-plc/assets/documents/about-bt/our-company/group-governance/our-committees/bt-compliance-committee/publications-and-dcr-documents/commitments-final-issue-3-4-march-2019.pdf>