

## Clarification to the WLA Market Review further consultation document of 14 September 2017

30 October 2017

### Purpose of this document

This document sets out a stakeholder query and clarification in relation to the further Ofcom WLA charge control consultation of 14 September 2017 (the "Consultation"), which can be found at: [https://www.ofcom.org.uk/data/assets/pdf\\_file/0023/106448/Proposed-charge-control-forwholesale-standard-and-superfast-broadband.pdf](https://www.ofcom.org.uk/data/assets/pdf_file/0023/106448/Proposed-charge-control-forwholesale-standard-and-superfast-broadband.pdf).

This note supplements the Consultation, and the Consultation should be read accordingly.

Should stakeholders wish to provide any further comments on this specific point in light of our clarification, we invite them to do so by 13 November 2017.

### Cumulo (Question 3.1 of the Consultation)

*We were asked to clarify the average rate in the pound of 50.5p quoted in paragraph 3.60 of the Consultation<sup>1</sup> and why this was lower than all the rates in the pound for all the nations quoted in Table A17.5 of the March 2017 WLA consultation.*

The purpose of paragraph 3.60 of the Consultation was to explain how we had calculated the attribution of cumulo costs to GEA services (including the role that transition would have on the counter-intuitive results presented in Table 3.5). This table showed that although we were assuming BT's Rateable Value (RV) was lower than we forecast in the March 2017 WLA consultation, GEA unit cumulo costs were expected to be higher (and did not change for the different potential values of BT's RVs that we had illustrated).

As we explained in the Consultation at paragraph 3.60, the 50.5p was calculated by dividing the output cumulo unit cost of £9.09 by the assumed rateable value of £18. The £9.09 has been calculated by taking our estimates of total cumulo payments in 2020/21 for GEA services and dividing them by the forecasts of mid-year volumes that are used in the bottom-up model. This ensures that the bottom-up model includes the correct amount of cumulo costs.

Our forecasts of total GEA cumulo payments in 2020/21 reflect the impact of volume growth in GEA services over the year. We estimate the impact of increases in GEA volumes on BT's RVs (GEA related material changes in circumstances (MCCs)) every six months and take account of this in our estimates of BT's cumulo costs (see the worked example below). The imputed rate in the pound also therefore reflects the impact of volume growth over the year.

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<sup>1</sup> In paragraph 3.60 of the Consultation, we refer to 0.505p (and later to 0.428p). In these references, we mean 50.5p and 42.8p.

## Illustration of GEA cumulo cost calculations for the 2020/21 financial year

This is shown in an illustrative example in which volumes grow from the start of the year, 1 April 2020 to the mid-point of the year, 1 October 2020.

The assumed RV per line is £18 and the total GEA RV is calculated by the volume multiplied by the assumed RV per line.

We then apply the poundage rates. In this example we use a blended rate of England, Wales, Scotland and Northern Ireland, 52.4p, to give us an annualised cost. The total annual cost is the sum of the costs in these two periods (the start and the mid-point of the year).

To calculate the unit cumulo cost, £9.09, we divide the total annual cost by the mid-year volumes. Therefore, the implied poundage rate, 50.5p, is the assumed RV per line (£18) divided by the unit cumulo cost (£9.09).

	01/04/2020	01/10/2020	Comments
GEA forecasts (lines)	10,000,000	10,770,000	These are not actual forecasts for GEA lines in 2020/21 but illustrate the forecast growth of c. 7-8%
Assumed RV/line	£18.00	£18.00	See discussion in paragraphs A17.79 – A17.80 in March 2017 WLA consultation
Total GEA RV	£180,000,000	£193,860,000	
Assumed rate in the pound	£0.524	£0.524	Blended rate of England, Wales, Scotland and Northern Ireland – see discussion in A17.34-A17.37 and Table A17.5 in the March 2017 WLA consultation
Annualised cost	£94,320,000	£101,583,000	Total GEA RV multiplied by the assumed rate in the pound
Number of months	6	6	
Actual costs in each period	£47,160,000	£50,791,000	
Total GEA cumulo costs in 2020/21		£97,951,000	Sum of actual costs in each period
2020/21 GEA volumes used in the bottom-up model		10,770,000	The bottom-up model uses mid-year volumes
Unit cumulo cost for use in the bottom-up model		£9.09	Total GEA cumulo costs in 2020/21 divided by mid-year volumes used in the bottom-up model
Implicit rate in the pound (RV@£18/line)		£0.505 (50.5p)	Calculated as £9.09 divided by £18