

20 August 2013

Correction: Fixed access market reviews: Approach to setting LLU and WLR charge controls

Ofcom has today issued a revised version of its consultation on the Fixed access market reviews: Approach to setting LLU (local loop unbundling) and WLR (wholesale line rental) charge controls which was published on 11 July 2013.

The revisions correct errors identified in the calculation of non-pay operating costs in the Cost Model and make an adjustment to the ranges for SMPF rentals, MPF rentals and WLR rentals to reflect the sensitivity for broadband line testing which was not reflected in the published ranges.

The correction of these errors has resulted in changes to the Base Case 'X' and the 'X' ranges included in the original consultation as explained further below.

We have also taken the opportunity to correct other minor errors identified in the document as explained below.

Correction of broadband line testing sensitivity error

The ranges for SMPF rentals, MPF rentals and WLR rentals set out in the original consultation did not include the adjustment described at paragraph 7.13 of the original consultation which was intended to reflect the sensitivity for broadband line testing.

In the original consultation, we explained at paragraphs 6.136 to 6.146 that we proposed not to use the 2011/12 RFS allocations for broadband line testing costs. Instead we proposed to allocate broadband line testing costs equally between SMPF rentals and WLR rentals, based on the 2011/12 RFS total cost allocated to the WLA and WFAEL markets.

However, we noted that we would undertake further work to understand the 2011/12 RFS allocations and explained at paragraph 7.13 that in recognition of this we intended to include a sensitivity in the range which reflected BT's allocation basis (which, using 2011/12 allocations resulted in an increase to the MPF cost stack of £4.70 and a reduction to the SMPF cost stack of £2.91). Specifically, we explained that

“the high case for MPF Rentals assumes the broadband line testing costs are allocated as per the 2011/12 RFS. This forms part of the high case for WLR Rentals, but the low case for SMPF Rentals.”

Contrary to our expressed intention, this sensitivity was not included in the ranges reported in the original consultation, which was an omission. The corrected ranges reflecting the broadband line testing allocations have now been included in the revised consultation (as part of the ranges corrected for the non-pay calculation error below).

Correction of an error identified in the calculation of non-pay operating costs

In the Cost Model, the calculation of non-pay operating costs from 2012/13 to 2016/17 included an error. The formula used in the Cost Model was:

*Non-pay(t-1) * (1 + Component Volume Growth Rate) * CVE * Productivity adjusted factor price change, non-pay*

The corrected formula is:

*Non-pay(t-1) * (1 + (Component Volume Growth Rate * CVE)) * Productivity adjusted factor price change, non-pay*

The corrected formula is the same as that applied to pay costs in the Cost Model.

The correct calculation is to multiply the component volume growth rate by the CVE and then add 1. For example, using a component volume growth rate of 5% and a CVE of 0.9, the impact of the incorrect and corrected formulas is set out below:

The incorrect non-pay formula: $(1+5\%) * 0.9 = 0.945$

The corrected non-pay formula: $1+(5%*0.9) = 1.045$

The impact of the correction is to increase costs and therefore reduce the Base Case 'X' and the 'X' ranges included in the original consultation.

Impact of corrections

The original tables 1.1 and 1.2 included in the original consultation document are reproduced below (with the footnotes omitted here for ease of presentation), followed by the revised tables which reflect the corrections set out above (again the footnotes have been omitted).

We then set out the references to the tables and paragraphs of the original consultation which have been amended for these corrections.

Original table 1.1: Proposed LLU charge controls 2014-17

Basket/service	2011/12 revenues (£m)	Current Charge 2013/14 (£)	Charge for 2014/15 base case (range) nominal (£)	Charge control for 2015/16 to 2016/17 base case (range)
MPF Rental	451	84.26	83.73 (86.18 to 81.12)	CPI-3% (CPI-0% to CPI-6%)
SMPF Rental	43	9.75	8.97 (9.19 to 8.80)	CPI-10.25% (CPI-8% to CPI-12%)
MPF Single Migration	31	30.65	29.15 (30.12 to 27.98)	CPI-7.25% (CPI-4% to CPI-11%)
MPF Bulk Migration	15	28.42	24.27 (25.09 to 23.38)	CPI-17% (CPI-14% to CPI-20%)
MPF New Provide	58	45.53	40.83 (42.01 to 39.28)	CPI-12.5% (CPI-10% to CPI-16%)
SMPF Single Migration	8	30.65	29.15 (30.12 to 27.98)	CPI-7.25% (CPI-4% to CPI-11%)
SMPF Bulk Migration	2	28.42	24.27 (25.09 to 23.38)	CPI-17% (CPI-14% to CPI-20%)
SMPF New Provide	25	30.65	27.41 (28.28 to 26.44)	CPI-12.75% (CPI-10% to CPI-16%)
MPF ancillary services basket	[X]	Various	n/a	CPI-11% (CPI-7% to CPI-14%)
SMPF ancillary services basket	[X]	Various	n/a	CPI-11% (CPI-7% to CPI-14%)
Co-mingling ancillary services basket	[X]	Various	n/a	CPI-14% (CPI-11% to CPI-17%)

Revised table 1.1: Proposed LLU charge controls 2014-17

Basket/service	2011/12 revenues (£m)	Current Charge 2013/14 (£)	Charge for 2014/15 base case (range) nominal (£)	Charge control for 2015/16 to 2016/17 base case (range)
MPF Rental	451	84.26	85.61 (89.55 to 82.81)	CPI-0.75% (CPI+4% to CPI-4%)
SMPF Rental	43	9.75	9.23 (9.39 to 7.92)	CPI-7.75% (CPI-6% to CPI-21%)
MPF Single Migration	31	30.65	29.91 (31.04 to 28.90)	CPI-4.75% (CPI-1% to CPI-8%)
MPF Bulk Migration	15	28.42	24.92 (25.94 to 23.95)	CPI-14.50% (CPI-11% to CPI-18%)
MPF New Provide	58	45.53	41.88 (43.38 to 40.19)	CPI-10.25% (CPI-7% to CPI-14%)
SMPF Single Migration	8	30.65	29.91 (31.04 to 28.90)	CPI-4.75% (CPI-1% to CPI-8%)
SMPF Bulk Migration	2	28.42	24.92 (25.94 to 23.95)	CPI-14.50% (CPI-11% to CPI-18%)
SMPF New Provide	25	30.65	28.13 (29.20 to 27.06)	CPI-10.50% (CPI-7% to CPI-14%)
MPF ancillary services basket	[X]	Various	n/a	CPI-8.5% (CPI-5% to CPI-12%)
SMPF ancillary services basket	[X]	Various	n/a	CPI-8.5% (CPI-5% to CPI-12%)
Co-mingling ancillary services basket	[X]	Various	n/a	CPI-10.75% (CPI-8% to CPI-14%)

Original table 1.2: Proposed WLR charge controls 2014-17

Service	2011/12 revenues (£m)	Current charge 2013/14 (£)	Charge for 2014/15 base case (range) nominal (£)	Charge control for 2015/16 to 2016/17 base case (range)
WLR Rental	2,042	93.27	88.54 (90.00 to 86.10)	CPI-5.0% (CPI-2% to CPI-8%)
WLR Transfer	13	3.39	4.67 (4.52 to 4.82)	CPI+35.5% (CPI+31% to CPI+40%)
WLR Connection	68	47.11	41.46 (43.00 to 40.17)	CPI-14.25% (CPI-11% to CPI-17%)
WLR+SMPF Simultaneous Provide	N/A	65.51	29.15 (30.12 to 27.98)	CPI-7.25% (CPI-4% to CPI-11%)
WLR Conversion	N/A	34.86	29.15 (30.12 to 27.98)	CPI-7.25% (CPI-4% to CPI-11%)

Revised table 1.2: Proposed WLR charge controls 2014-17

Service	2011/12 revenues (£m)	Current charge 2013/14 (£)	Charge for 2014/15 base case (range) nominal (£)	Charge control for 2015/16 to 2016/17 base case (range)
WLR Rental	2,042	93.27	90.66 (93.55 to 88.14)	CPI-2.5% (CPI-0% to CPI-6%)
WLR Transfer	13	3.39	4.83 (4.99 to 4.69)	CPI+40.25% (CPI+36% to CPI+45%)
WLR Connection	68	47.11	42.59 (44.41 to 41.12)	CPI-11.75% (CPI-8% to CPI-15%)
WLR+SMPF Simultaneous Provide	N/A	65.51	29.91 (31.04 to 28.90)	CPI-4.75% (CPI-1% to CPI-8%)
WLR Conversion	N/A	34.86	29.91 (31.04 to 28.90)	CPI-4.75% (CPI-1% to CPI-8%)

Reissuing the Cost Model

Ofcom has reissued the non-confidential Cost Model alongside the updated consultation document.

The correction is made to the 'unit opex' sheet rows 120-154.

Corrections made to the consultation document

The following tables have been updated to take account of this correction.

Section 1: Executive Summary

Table 1.1

Table 1.2

Paragraph 1.13

Section 3: Economic and regulatory background to the setting of cost-based charges for LLU and WLR

Figure 3.1

Section 4: Charge control design

Table 4.1

Table 4.2

Table 4.3

Table 4.8

Table 4.9

Table 4.12

Table 4.13

Table 4.15

Table 4.16

Table 4.18

Paragraph 4.122

Section 5: Quality of service review and fault rate effects

Table 5.2

Section 6: Charge control cost modelling

Table 6.8

Table 6.9

Table 6.10

Table 6.11

Table 6.12

Section 7: Proposed charge controls

Table 7.1
Table 7.2
Table 7.3
Table 7.4

Paragraph 7.2
Paragraph 7.12

Footnotes 356 and 358

Annex 6: Differentials between MPF and WLR/WLR+SMPF

Table A6.1
Table A6.2
Paragraph A6.8
Paragraph A6.9

Footnote 35 in Annex 6

Annex 13: Detailed Cost Modelling Assumptions

Paragraph A13.63
Paragraph A13.65
Paragraph A13.67
Paragraph A13.70
Paragraph A13.72

Annex 17: Draft Legal Instruments

Draft legal condition 7A.2
Draft legal condition 7A.6
Draft legal condition 7C.2
Draft legal condition 7C.4

Other minor errors identified

The revised version corrects questions 4.7 and 4.8 in Annex 4: Consultation questions so that they replicate questions 4.7 and 4.8 in Section 4 (pages 93 and 100 respectively). The revised version also corrects errors identified in Annex 18: Sources of Evidence. The corrections to Annex 18 comprise the inclusion of sources of evidence noted in references within the remainder of the consultation document and the deletion of unused sources of evidence which were included in error. Further, the title of the Annexes part of the consultation has been changed so that it exactly matches that of the main part of the consultation. We have also corrected some other minor typographical errors.