

Clarifications and corrections to the Business Connectivity Market Review consultation document of 15 May 2015 and the Leased Lines Charge Controls and Dark Fibre Pricing consultation document of 12 June 2015

9 July 2015

1. Purpose of this document

This document sets out clarifications and corrections to the consultation document on the Business Connectivity Market Review published on 15 May 2015, which can be found at: <http://stakeholders.ofcom.org.uk/consultations/bcmr-2015/>

We refer to that document as the May 2015 BCMR Consultation Document.

This document also sets out corrections to the consultation document on Leased Lines Charge Controls and Dark Fibre Pricing published on 12 June 2015, which can be found at <http://stakeholders.ofcom.org.uk/consultations/lcc-dark-fibre/>.

We refer to that document as the June 2015 LLCC Consultation Document.

2. Clarifications

Below we set out clarifications to the May 2015 BCMR Consultation Document.

2.1 General remedies for the wholesale CISBO markets (Section 8)

BT has asked a question about the application of the SMP regulation in the wholesale CISBO market to Ethernet First Mile (EFM).

For the avoidance of doubt, we are not, as part of this review, proposing that EFM-based CISBO services should be subject to SMP regulation even though we consider that these services should form part of the CISBO market. We consider that the existing requirement on BT to provide MPF lines in the Wholesale Local Access market, together with continued availability of regulated products suitable for LLU backhaul, would allow CPs to compete using EFM.

2.2 Regulation of BT products downstream of regulated dark fibre (Section 9)

BT has raised a question whether we propose that any regulations would apply to products which BT, downstream of Openreach, might provide by using dark fibre products which Openreach would provide in compliance with our proposed Dark Fibre Access remedy.

We clarify here that we do not propose to impose SMP conditions *ex ante* on products which BT divisions, downstream of Openreach, might provide by using the dark fibre products which Openreach would provide in complying with our proposed Dark Fibre Access remedy, as long as BT fulfils otherwise the SMP conditions we propose in relation to active services. If Openreach were to fulfil all BT's obligations in relation to active services, and BT's downstream divisions were to provide additional active services by consuming regulated dark fibre from Openreach, we consider that our proposal to require BT to provide dark fibre on the basis of Equivalence of Inputs (EOI) should give sufficient assurance that CPs could compete in the provision of these downstream active services on a level playing field.

2.3 Estimation of productive efficiency benefit of passive remedies (Annex 23)

Both BT and Talk Talk have asked questions about the basis of the calculation of the upper bound estimate of potential equipment savings of up to £60-£120million in paragraph A23.161.

We clarify that our calculation estimates the upper bound of the potential total saving of equipment costs that could be achieved if all regulated active circuits were switched to solutions based on passive access over time. It estimates the potential saving in terms of the total over time, not per annum. To compute this estimate we have, for simplicity, used the volumes of active circuits we forecast for 2018/19 as proxies for the volumes of regulated active circuits in the long run. We multiplied these forecast volumes by the estimated potential one-off savings in equipment cost per circuit, for each bandwidth separately. We then added together the savings for each of the bandwidths. The savings were not discounted over time.

2.4 Likely characteristics of an efficient bandwidth gradient (Annex 24)

Talk Talk asked which characteristics we refer to in paragraph A24.143 in the phrase "...a gradient with these characteristics..".

We clarify that the characteristics referred to are those outlined in 24.133, in particular sub-point (a).

3. Corrections

Below we set out corrections of errors in the May 2015 BCMR Consultation Document.

3.1 Errors in the overview of remedies for wholesale CI markets in the Executive Summary (Table 1.5)

The overview of remedies proposed for wholesale CI markets in which BT would have SMP, presented in Table 1.5, contained the following errors:

- i. the scope of price controls on Ethernet services incorrectly omitted services with bandwidth of 1Gbit/s;
- ii. specific WDM access remedies in the London Periphery were incorrectly excluded;
- iii. the scope of Equivalence of Inputs in the London Periphery incorrectly included Ethernet services with bandwidths greater than 1Gbit/s;
- iv. the heading of the middle column was imprecise; and
- v. the title of the table contained an error.

All of these errors are corrected, tracked and highlighted below.

Table 1.5: Overview of remedies proposals in wholesale markets- CI markets in which BT would have SMP

Remedies	UK, except London, Central London Area, London Periphery and Hull	London Periphery
Network access on reasonable request	Yes	Yes
<u>Specific access remedies</u>		
Dark fibre	Yes	Yes
Ethernet	Yes	Yes
Minimum Quality Standards for Ethernet	Yes	Yes
WDM	Yes	No/Yes
<u>Price controls</u>		
Dark fibre	Yes	Yes
Ethernet <= 1Gbit/s	Yes	Yes
Ethernet >1Gbit/s and WDM	Safeguard cap	No
<u>Equivalence of Inputs</u>		
Dark fibre	Yes	Yes
Ethernet <= 1Gbit/s	Yes	Yes
Ethernet > 1Gbit/s and WDM	Yes	n/a
Other general access remedies, including:		
- No undue discrimination		
- Publication of reference offers		
- Notification of changes to charges, terms and conditions	Yes	Yes
- Publication of technical information		
- Accounting separation		
Develop new products	Yes	Yes
Ethernet Quality of Service	Yes	Yes

3.2 Missing note below Table 4.4, Section 4

The note referenced with ***** against the row title “Pricing and profitability” in Table 4.4 is missing. It should read:

***** See Annex 22, table A22.1.

3.3 Redundant asterisks in Table A10.2, Annex 10

The headings in the last two columns of the table should be “Ethernet” and “EFM”, not “Ethernet*” and “EFM*”. Accordingly, no footnotes are missing from the published table.

3.4 Missing trunk aggregation node in Schedule 5 of Annex 6

The following row is missing in the table of Schedule 5, Annex 6, and should be inserted after the entry for Aberdeen:

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3.5 Redundant footnote reference in Section 4

The reference to a footnote 7 at the end of paragraph 4.202 is an error. There is no corresponding footnote.

Below we set out corrections of errors in the June 2015 LLCC Consultation Document.

3.6 Errors in Table 6.12: Outputs of sensitivity analysis in Annex 6

The figures presented in the table used an incorrect input. All of the errors are corrected, tracked and highlighted below. These corrections have no bearing on any other figures included in the June 2015 LLCC Consultation Document.

Table A6.12: Outputs of sensitivity analysis

Scenario	Description	Ethernet basket	TI basket
Base case		CPI - 13.75%	CPI - 12.25%
June 2015 Cost Attribution Review overhead adjustment (removes c. [X] from base year costs)			
	No June 2015 Cost Attribution Review overhead adjustment	CPI - 12.50%	CPI - 11.75%
Efficiency (5%)			
	4%	CPI - 13.25% CPI - 13.00%	CPI - 12.00% CPI - 11.50%
	7%	CPI - 14.75% CPI - 15.00%	CPI - 13.50% CPI - 13.75%
WACC (10.1%)			
	9.1%	CPI - 15.00% CPI - 14.50%	CPI - 13.00% CPI - 12.50%
	11.1%	CPI - 13.25% CPI - 12.75%	CPI - 12.50% CPI - 12.00%
Operating cost inflation (2.5% pay; 2.6% non-pay)			
	1.5% pay; 1.6% non-pay	CPI - 14.50% CPI - 14.00%	CPI - 13.50% CPI - 13.00%
	3.5% pay; 3.6% non-pay	CPI - 13.50% CPI - 13.25%	CPI - 12.00% CPI - 11.75%
CVEs and AVEs (component-level LRIC:FAC ratios)			
	Base case * (-10%)	CPI - 14.50% CPI - 14.25%	CPI - 10.25% CPI - 9.75%
	Base case * (+10%)	CPI - 13.50% CPI - 13.25%	CPI - 15.00% CPI - 14.50%
Volume forecasts			
	Base case * (-10%)	CPI - 12.75% CPI - 12.25%	CPI - 11.25% CPI - 11.00%
	Base case * (+10%)	CPI - 15.25% CPI - 14.75%	CPI - 14.00% CPI - 13.50%