



**Business Connectivity
Market Review**
Update to the 21 February
2013 Draft Statement –
amendment to the Ethernet
charge control

Statement

Publication date:

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Business Connectivity Market Review: Change to the Ethernet basket X

On 25 February 2013 we published the draft Statement of our Business Connectivity Market Review. This Statement is in draft form pending comments from the European Commission, BEREC and other National Regulatory Authorities.

Following a further review of our calculations, we have identified an error in our allocation of Ethernet costs and revenues between the Ethernet basket and the basket for AI services in the London geographic market (WECLA). This error has a material impact on our charge control calculations and consequently we are changing the value of X for our Ethernet basket charge control from RPI-11% to RPI-11.5%.

We have notified the European Commission of this amendment. We do not believe that this will affect their, BEREC's or other National Regulatory Authorities' consideration of the Business Connectivity Market Review as the Ethernet basket charge control value of X of RPI-11.5% remains within the range of RPI-8% to RPI -16% on which we consulted (see paragraph 20.381 of the draft Statement).

The amendment also results in the change of some numbers in a table which appears twice in the draft Statement, at Figure 20.7 (following paragraph 20.294) and Figure A12.6 (following paragraph A12.22). This table is copied below with the changed numbers highlighted in yellow.

We will be making the required amendments in the final Statement to reflect this change, including to SMP Condition 5.3.

Adjustment	Revenues (£m)	Operating costs (£m)	Capital costs ¹ (£m)	Mean capital employed (£m)	ROCE (%)
RFS 2011/12					
All Ethernet services (i.e. Ethernet services up to 1Gbit/s)	725	246	284	1,357	14.4%
Adjustments to the scope of the basket					
All services above 1Gbit/s	[X]	[X]	[X]	[X]	
Exclusion of Cablelink, Street Access, CCTV Access, Broadcast Access and ancillary services	[X]	[X]	[X]	[X]	
Adjustments to costs and revenues					
Inclusion of internal EBD, ONBS and associated Mainlink services	[X]	[X]	[X]	[X]	
Adjustments to RFS costs to reflect the scope of the basket	[X]	[X]	[X]	[X]	
Exclusion of ECC assets ²	-57	n.a.	n.a.	n.a.	
Ethernet basket	733	252	299	1,365	13.4%
Geographic disaggregation					
Exclude services delivered within the WECLA	-99	-29	-34	-160	
Ethernet services outside the WECLA	634	223	265	1,205	12.1%
Ofcom cost adjustments					
Current cost normalisation	-	-	-54	-	
Exclusion of transmission equipment	-	-	-18	-32	
Exclusion of 21CN costs	-	-5	-5	-19	
Payment terms	-	-	-	-22	
Regulatory asset value (RAV) adjustment to duct assets	-	-	-5	-61	
Total Ethernet basket in 2011/12	634	218	183	1,071	21.7%

¹ Capital costs include depreciation and holding losses (gains).

² The adjustment for ECC relates only to Revenues as BT submitted costs data that did not include ECCs.