
Promoting competition and investment in fibre networks: BT Regulatory Financial Reporting

Reporting requirements covering wholesale fixed
telecoms markets 2021-26

CONSULTATION:

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1. Overview

- 1.1 On 8 January 2020, we published the consultation for our Wholesale Fixed Telecoms Market Review (WFTMR)¹. This document sets out our proposed regulatory financial reporting requirements on BT in these markets. BT's regulatory reporting will be subject to these requirements from April 2021 for five years.
- 1.2 Because the WFTMR covers most wholesale fixed telecoms markets we regulate and will determine our regulatory approach for the next five years, we are taking the opportunity to conduct a more holistic review of BT's reporting requirements. This will ensure they remain fit for purpose while making the published information more accessible and easier to understand.
- 1.3 Our proposals cover the preparation and presentation of information published by BT, and information provided privately to Ofcom.

What we are proposing

We are proposing to impose regulatory financial reporting requirements on BT which require the production of Regulatory Financial Statements (RFS).

Our main proposals in relation to the presentation of BT's published (RFS) are to:

- **Increase focus on Openreach performance.** We think it is helpful to distinguish between costs incurred by Openreach and those incurred elsewhere in BT and attributed to Openreach. We propose changes to the publication requirements to make this clearer.
- **Improve reporting of physical infrastructure (PI) market.** We want to clarify the relationship between PI and downstream markets, for example in relation to costs attributed from PI to downstream services offered by Openreach.
- **Improve presentation of service costs.** Service costs are currently broken down by cost component. While components will continue to play an important role in BT's accounting system, we propose to present service costs in the RFS on the same basis as market costs – i.e. distinguishing between costs incurred by Openreach and those attributed from other parts of BT.
- **Remove requirements that are no longer required.** We propose to remove the adjusted financial performance schedule.
- **Introduce new requirements in response to changes in regulation.** We propose new requirements to help assess the impact and effectiveness of remedies proposed in the January 2020 WFTMR consultation. For example, in relation to our Regulatory Asset Base (RAB) proposals in Area 3, we propose to require BT to report homes passed by fibre to the premises (FTTP) and the revenue associated with the proposed mark-up on Metallic Path Facility (MPF) services.

Our main proposals in relation to the preparation of the RFS are to:

- **Improve transparency of attribution rules.** We propose that BT must publish schedules showing the attribution rules used to allocate the main operating cost categories. We also propose that BT should publish diagrams showing how assets such as duct and fibre are attributed.

- **Give BT flexibility to change cost components.** We propose that BT must publish a list of components used in their cost accounting system and that changes can be made to this through the Change Control Notification process. We also propose some improvements to fibre components.
- **Prepare costs for geographic markets on a national unit cost basis.** This is consistent with our proposed approach to setting cost-based prices in these markets.
- **Improve the reporting of passive costs.** We propose that BT should improve the identification and recording of costs associated with poles, duct and dark fibre.

Our main proposals in relation to the information BT provides us privately are to:

- remove the requirement on BT to maintain a LRIC model;
- require BT to provide us with data and models used by its cost accounting software ('CostPerform') to produce the RFS;
- require BT to provide details of grant-funded assets;
- require BT provide information on costs associated with PI and dark fibre;
- require BT to provide details of its incremental investment in FTTP in Areas 2 and 3; and
- remove or amend requirements to provide most of the other existing schedules.

Next steps

- 1.4 The proposals set out in this consultation are informed by discussions with stakeholders, including early thoughts shared by stakeholders in two industry workshops. This helped us understand which issues are important to stakeholders in terms of the way information is prepared and presented in the RFS.² We are now keen to understand stakeholders' views in more detail.
- 1.5 Responses to this consultation must be received by 1 April 2020 (the same date as the January 2020 WFTMR consultation closes). Annex 1 of this document provides further details on how to respond.
- 1.6 This consultation forms part of our overall proposals for the WFTMR and should be read alongside those proposals, in particular on market assessment and approach to remedies. We will publish our statement setting out our decisions before the new regulation will take effect in April 2021. Depending on the responses to this consultation, we may consult on specific issues again in Q2 2020/21. This review does not cover the Hull area, which will be subject to a separate consultation in Q1 2020/21.

¹ Link: [January 2020 WFTMR Consultation](#).

² Held on 8 October 2018 and 16 October 2019.

2. Introduction

Purpose of regulatory reporting

- 2.1 BT is currently subject to regulatory financial reporting requirements across all of the wholesale fixed telecoms markets in which it is regulated. These requirements are imposed on BT by way of a significant market power (SMP) condition set in each regulated market, and directions imposed in each market pursuant to the associated SMP condition. The SMP condition sets out our general regulatory financial reporting requirements, including accounting separation and cost accounting. The directions then set out our detailed regulatory financial reporting requirements.
- 2.2 As part of these requirements, each year BT must prepare Regulatory Financial Statements (RFS). The RFS are prepared according to a defined framework and methodology and include published statements as well as information that is not published but submitted to Ofcom privately.
- 2.3 BT's regulatory financial reporting obligations secure the creation and retention of the information needed for our regulation of SMP markets, particularly price controls, to be, and be seen to be, effective. They provide us with the information necessary to help us make informed regulatory decisions, for example cost information to support price controls on an ongoing basis, and information necessary to assess the impact and effectiveness of our decisions, for example, trends in the usage and returns associated with regulated services. They also enable us to monitor and, if necessary, enforce no undue discrimination and some price control regulations.
- 2.4 Publication of some information helps inform stakeholders so they can have confidence that BT is complying with its obligations and that regulation is effective and appropriate to achieve its purpose. It enables them to identify and bring issues to our attention and effectively contribute to the regulatory regime. This promotes confidence in the market, which in turn creates the conditions for effective competition.
- 2.5 We have previously said that effective reporting should have the following attributes³:
- **Relevance.** The information needs to answer the right questions, in the right way and at the right time.
 - **Reliability.** The underlying data must be reliable, suitable rules for treatment of data must be chosen and those rules need to be followed.
 - **Transparency.** The basis of preparation should be understood by the users of the reports and the presentation of the data should be clear.
 - **Proportionality.** The reporting requirements should be proportionate to the benefits.

³ See for example our [July 2019 Regulatory Financial Reporting \(RFR\) Statement](#).

- 2.6 In the 2014 Regulatory Reporting Statement⁴ we imposed an SMP Condition that placed requirements on BT in relation to the basis of preparation and form and content of its RFS, taking account of the attributes above. In that Statement we also set out the Regulatory Accounting Principles which are fundamental reporting principles with which BT's reporting must comply.
- 2.7 In the 2015 Directions Statement we set out detailed directions, including the Regulatory Accounting Principles Directions, in relation to the basis of preparation and form and content of BT's RFS.⁵
- 2.8 Since then, as part of each market review we have imposed reporting requirements on BT through a common SMP condition and set of directions. We briefly describe below the purpose of the SMP Condition and directions currently imposed on BT.

SMP Condition

- 2.9 The "Regulatory Financial Reporting" SMP condition we impose on BT includes general requirements for accounting separation and cost accounting. The SMP condition also requires BT to produce the RFS and other accounting documents as directed by Ofcom.
- 2.10 The purpose of this SMP condition is to ensure that sufficient and robust information is published by BT and provided privately to Ofcom to enable us to perform our duties and for stakeholders to have confidence that BT has complied with its SMP conditions. More specifically, this SMP condition serves as a basis for imposing directions on BT that set out detailed regulatory financial reporting requirements.

Directions

- 2.11 We currently impose on BT a set of eight directions to implement our detailed regulatory financial reporting requirements, though there are exceptions in some markets where certain directions may not be relevant. The current directions are as follows:
- a) Regulatory Accounting Principles Direction
 - b) Consistency with Regulatory Decisions and Regulatory Asset Value Direction
 - c) Transparency Direction
 - d) Audit of the RFS Direction
 - e) Reconciliation Report Direction
 - f) Adjusted Financial Performance Direction
 - g) Preparation, Delivery, Publication, Form and Content Direction
 - h) Network Components Direction

⁴ [Regulatory Financial Reporting](#), 20 May 2014.

⁵ [Directions for Regulatory Financial reporting](#), 30 March 2015.

Wholesale Fixed Telecoms Market Review

- 2.12 The January 2020 WFTMR Consultation sets out the markets where we propose to find SMP and the structure of regulation for the five years from April 2021. We propose that BT has SMP in the following product and geographic markets:
- the supply of wholesale access to telecoms physical infrastructure for deploying a telecoms network (in the UK excluding the Hull Area);
 - the supply of wholesale local access at a fixed location (Area 2⁶ and Area 3⁷);
 - the supply of Leased Lines Access (Area 2, Area 3 and High Network Reach areas⁸); and
 - the supply of Inter-exchange Connectivity Services (BT only and BT+1 exchanges).
- 2.13 In this document we explain that we propose to apply regulatory financial reporting remedies on BT in each of these proposed SMP markets as part of our package of remedies to address the competition concerns identified in our market assessment.
- 2.14 Over the last five years we have taken steps to improve the quality and reliability of BT's RFS and increase transparency around how the RFS are prepared. For example, in 2015 we introduced a requirement for BT to publish an annual change control notification setting out the changes it planned to make to each year's RFS⁹ and in 2016, as part of the business connectivity market review, we reviewed some of BT's cost attributions and proposed some changes, in particular to overhead and property allocations.¹⁰
- 2.15 The overlapping nature of previous market reviews has made it difficult to impose changes across all markets at the same time. Given the current SMP condition dates from 2014, and the WFTMR will impose requirements for a five-year period, we consider it is an appropriate time to review the SMP condition determining BT's reporting requirements to ensure it remains fit for purpose.
- 2.16 Some features of our proposed approach to regulation could mean that the information required in future will be different from that needed in the past. For example, going forward, the vast majority of our regulation of BT will be focused on Openreach¹¹ and there is an increased emphasis on passive products and geographic remedies to encourage

⁶ Area 2 is defined as postcode sectors where there is already some material commercial deployment by rival networks to BT or where this could be economic.

⁷ Area 3 is defined as postcode sectors where there is unlikely to be material commercial deployment by rival networks to BT.

⁸ High Network Reach Areas are defined as postcode sectors where there are two or more rival networks to BT in the provision of leased lines outside of the Central London area.

⁹ [Change Control Notification](#), 31 March 2019.

¹⁰ [Business Connectivity Market Review](#) – Annex 28, April 2016.

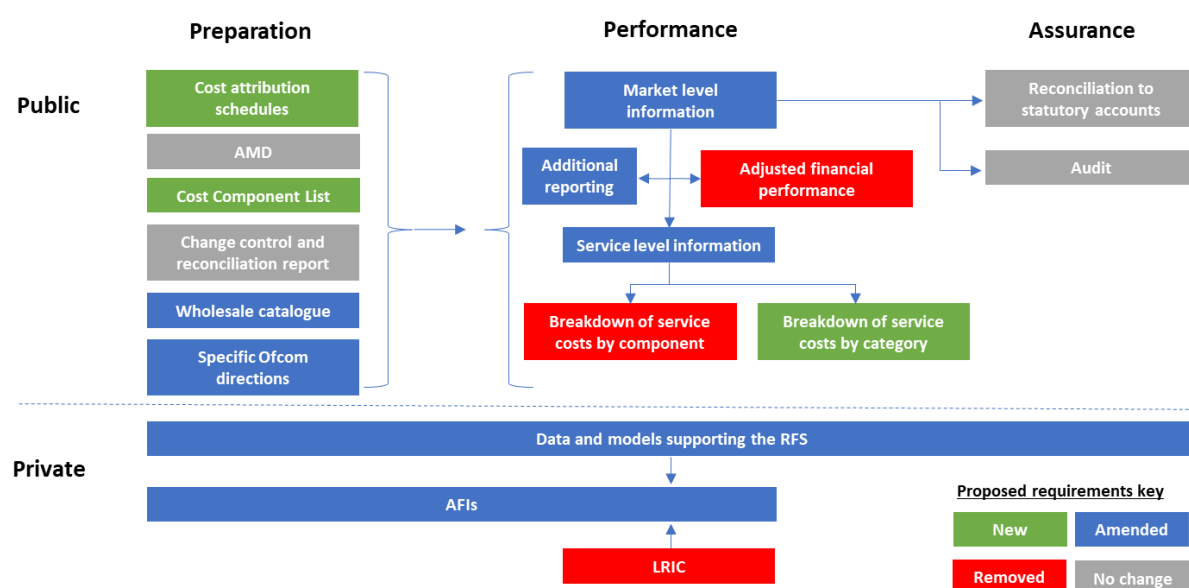
¹¹ BT's 2018/19 regulatory financial statements indicate that 97% of SMP market returns sit in Openreach. The following non-Openreach markets were reported in the 2018/19 RFS: Low Bandwidth TISBO, Call Origination, Call Termination and DLE Interconnect Circuits. The 2019 BCMR Statement removed regulation on TISBO services while the remaining non-Openreach markets will be reviewed as a part of a consultation later this year.

greater investment in network infrastructure to support the rollout of fibre.¹² We have therefore also reviewed the directions imposed under the SMP condition to ensure the information we require BT to provide continues to meet the reporting attributes set out above.

Structure of this document

- 2.17 We currently require BT to publish information relating to the preparation of the RFS, the financial performance of regulated markets and assurance over the RFS. We also require BT to provide us with information privately.
- 2.18 The diagram below illustrates the main documents and schedules we require BT to publish and provide to us in terms of preparation, performance and assurance. We have reviewed each of these and the colour coding indicates whether we propose to introduce new requirements (green), amend existing requirements (blue), remove requirements (red) or maintain existing requirements (grey).

Figure 2.1: Illustration of current public and private requirements



- 2.19 We discuss each of these requirements below, summarising the current approach (where relevant), setting out our proposals and saying how these will be implemented. We are proposing to impose SMP conditions supported by six directions as follows:

- Regulatory Accounting Principles Direction
- Preparation, Delivery, Publication, Form and Content Direction

¹² BT will start reporting information on the physical infrastructure market in 2019/20. Given this is a relatively new SMP market, reporting may need to change as take up and the interaction with downstream markets develops. Similarly, while there is currently some geographic distinction in business connectivity markets, the January 2020 WFTMR Consultation proposed a broader application of geographic remedies across SMP markets.

- c) Consistency with Regulatory Decisions and Regulatory Asset Value Direction
 - d) Audit of the RFS Direction
 - e) Reconciliation Report Direction
 - f) Network Components Direction
- 2.20 We explain why we consider our proposals are appropriate by reference to the reporting attributes and the approach to regulation set out in the January 2020 WFTMR Consultation.
- 2.21 The rest of this consultation is structured as follows.
- **Section 3: Regulatory reporting remedies in the Wholesale Fixed Telecoms Market Review.** This section sets out our proposals to include an accounting separation and cost accounting remedy (together the “regulatory financial reporting remedies”) on the SMP markets consulted on in the January 2020 WFTMR Consultation (‘the proposed SMP markets’).
 - **Section 4: Published performance schedules.** This section sets out our detailed proposals for the market and service level schedules published in the RFS (the ‘performance’ category in the diagram above) for each of the proposed SMP markets. These proposals will be imposed via the Preparation, Delivery, Publication, Form and Content Direction.
 - **Section 5: Preparation and assurance requirements.** This section sets out our proposals for the reports and schedules we require BT to publish to demonstrate how the RFS have been prepared and provide assurance to stakeholders (the ‘preparation’ and ‘assurance’ categories in the diagram above). This section also includes proposals on how financial information should be prepared for each of the proposed SMP markets to ensure consistency with regulatory decisions.¹³ It covers the Regulatory Accounting Principles Direction, the Consistency with Regulatory Decisions and Regulatory Asset Value Direction, the Audit of the RFS Direction, the Reconciliation Report Direction and the Network Components Direction. It also addresses a few points that are implemented via the proposed Preparation, Delivery, Publication, Form and Content Direction.
 - **Section 6: Information provided to Ofcom.** This section sets out our proposals for the information BT is required to provide Ofcom with privately (the ‘private’ category in the diagram above). These proposals will be imposed via the Preparation, Delivery, Publication, Form and Content Direction.
 - **Section 7: Proposed SMP condition, directions and legal tests.** This section sets out the directions we propose to apply to each of the proposed SMP markets under the SMP condition. It also sets out why we consider our proposals meet the relevant legal

¹³ For example, where we have made adjustments to BT’s costs for the purpose of setting prices in the January 2020 WFTMR Consultation we review whether we need to direct BT to change how the RFS are prepared.

tests set out in the Communication Act 2003 (the Act). The proposed SMP condition and associated directions are set out in Annex 5.

3. Regulatory reporting remedies in the Wholesale Fixed Telecoms Market Review

Regulatory framework

- 3.1 We set out the relevant regulatory framework for market reviews and the imposition of SMP conditions in our January 2020 WFTMR Consultation. Reference should be made to that document for further detail.
- 3.2 Sections 87(7) and 87(8) of the Act allow us to impose accounting separation conditions on a dominant provider relating to network access to the relevant networks or the availability of relevant facilities, including requirements about the accounting methods to be used in maintaining the separation.
- 3.3 Section 87(6)(b) of the Act authorises us to set SMP conditions which require a dominant provider to publish, in such manner as we may direct, such information as we may direct, for the purpose of securing transparency in relation to matters connected with network access to the relevant network or with the availability of the relevant facilities. Article 9(1) of the Access Directive specifies that such information can include accounting information.
- 3.4 Section 87(9)(c) authorises us to set conditions imposing on the dominant provider such rules as we may make about the use of cost accounting systems for the purposes of price controls in relation to matters connected with the provision of network access to the relevant network, or with the availability of the relevant facilities; and such rules as we may make in relation to those matters about the recovery of costs and cost orientation.
- 3.5 Under section 87(10) this can include conditions requiring the application of presumptions in the fixing and determination of costs for the purposes of the price controls, recovery of costs and cost orientation rules, and the cost accounting system. Where such conditions are imposed, section 87(11) imposes a duty on us to set an SMP condition which requires the dominant provider to publish a description of the cost accounting system and to include in that description details of:
 - the main categories under which costs are accounted for; and
 - the rules applied for the purposes of that system with respect to the allocation of costs.

- 3.6 These provisions implement, and must be read in the context of, Articles 9, 11 and 13 of the Access Directive¹⁴, and Articles 17 and 18 and Annex VII(2) of the Universal Service Directive¹⁵.
- 3.7 We must also take due account of relevant recommendations, although in light of particular factors it may be appropriate to depart from them. We consider the 2005 EC Recommendation on accounting separation and cost accounting systems¹⁶ to be particularly relevant.
- 3.8 We also consider the 2013 EC Recommendation on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment.¹⁷

Impact assessment and equality impact assessment

Impact assessment

- 3.9 The analysis presented in this document constitutes an impact assessment as defined in section 7 of the Act.
- 3.10 Impact assessments provide a valuable way of assessing the options for regulation and showing why the chosen option was preferred. They form part of best practice policy-making. This is reflected in section 7 of the Act, which means that, generally, we have to carry out impact assessments in cases where our conclusions would be likely to have a significant effect on businesses or the general public, or where there is a major change in Ofcom's activities. However, as a matter of policy Ofcom is committed to carrying out impact assessments in relation to the great majority of our policy decisions.

Equality impact assessment

- 3.11 Annex 10 of the January 2020 WFTMR Consultation sets out our equality impact assessment (EIA) for the markets considered as part of this review. Ofcom is required by statute to assess the potential impact of all our functions, policies, projects and practices on equality. EIAs also assist us in making sure that we are meeting our principal duty of furthering the interests of citizens and consumers regardless of their background or identity.

¹⁴ [Directive 2002/19/EC](#) of the European Parliament and of the Council of 7 March 2002 on access to, and interconnection of, electronic communications networks and associated facilities

¹⁵ [Directive 2002/22/EC](#) of the European Parliament and of the Council of 7 March 2002 on universal service and users' rights relating to electronic communications networks and services

¹⁶ [Commission Recommendation of 19 September 2005](#) on accounting separation and cost accounting systems under the regulatory framework for electronic communications (2005/698/EC) (the "2005 EC Recommendation")

¹⁷ [Commission Recommendation of 11 September 2013](#) on consistent non-discrimination obligations and costing methodologies to promote competition and enhance the broadband investment environment (2013/466/EU)

- 3.12 It is not apparent to us that the outcome of our reviews (including the proposals set out in this consultation) is likely to have any particular impact on any particular equality group. More generally, we do not envisage the impact of any outcome to be to the detriment of any group of society. Nor do we consider it necessary to carry out separate EIAs in relation to equality schemes under the Northern Ireland and Disability Equality Schemes.

Regulatory financial reporting

- 3.13 In Sections 5 and 8 of Volume 2 of the January 2020 WFTMR Consultation we proposed that BT had SMP in the following product and geographic markets in the UK excluding the Hull Area (the proposed SMP markets):
- a) the supply of wholesale access to telecoms physical infrastructure for deploying a telecoms network in the UK excluding the Hull Area (physical infrastructure market);
 - b) the supply of wholesale local access at a fixed location (WLA) in two geographic areas: Area 2 and Area 3;
 - c) the supply of Leased Lines Access in three geographic areas: Area 2, Area 3 and high network reach (HNR); and
 - d) the supply of Inter-exchange connectivity services (IEC) in two geographic areas: BT Only and BT+1 exchanges.
- 3.14 Area 2 is proposed to be defined in WFTMR as a geographic market comprising postcode sectors where there is already some material commercial deployment by rival networks to BT or where this could be economic, while the proposed Area 3 refers to postcode sectors where there is unlikely to be material commercial deployment by rival networks to BT.¹⁸ HNR areas are proposed to be defined as postcode sectors where there are two or more rival networks to BT in the provision of leased lines.
- 3.15 In Volume 3 of the January 2020 WFTMR Consultation we said that we were considering imposing regulatory reporting obligations (in the form of accounting separation and cost accounting remedies) in each of the proposed SMP markets. In the paragraphs below we explain that we intend to impose accounting separation and cost accounting obligations in each of the proposed SMP markets. We propose to implement these obligations by way of a single SMP Condition and associated directions (see Annex 5) which specify what information we require BT to prepare and provide for each market. This SMP Conditions and associated directions are the subject of this consultation.

¹⁸ Paragraph 7.6 and 7.7, Volume 2, January 2020 WFTMR Consultation.

Accounting separation

- 3.16 We propose to impose an accounting separation obligation on BT in each of the proposed SMP markets. We consider that this obligation is necessary to monitor the overall impact and effectiveness of the remedies proposed and, in particular, to monitor BT's activities with regard to its no undue discrimination obligations.¹⁹ The obligation is also necessary to give transparency to stakeholders that BT has complied with its SMP conditions and that robust information is being created and retained during the current period, in order to secure that SMP regulation remains appropriate and that it can continue to be imposed if there is a need to do so at the end of the current period, a reassurance which promotes competition in the markets concerned and enables Ofcom to benefit from stakeholder input in monitoring compliance.
- 3.17 Requiring BT to produce financial statements on each regulated wholesale market, combined with an obligation to attribute costs in a fair, objective and transparent way (via the cost accounting obligation – see below) can also help prevent unfair cross-subsidy by ensuring that costs are not inappropriately loaded onto one set of regulated products to the benefit of another set of regulated products or unregulated products. We consider that this helps ensure that competition develops fairly, which ultimately benefits consumers, and is the least onerous obligation necessary to ensure a mechanism exists to allow us and stakeholders to monitor potentially discriminatory behaviour by BT.
- 3.18 We consider that our proposal to impose an accounting separation obligation, together with a cost accounting obligation (see below), will help ensure these regulatory reporting objectives are met.

Cost accounting

- 3.19 Cost accounting obligations require the dominant provider to maintain a cost accounting system (a set of processes and systems) to capture the costs, revenues, assets and liabilities associated with the provision of services and to attribute them in a fair, objective and transparent manner to individual services in order that the costs of individual services may be determined.²⁰
- 3.20 We propose to impose a cost accounting obligation in the proposed SMP markets to ensure that the processes and rules used by BT to attribute revenues and costs to

¹⁹ The accounting separation obligation requires BT to account separately for internal and external sales, which helps Ofcom and stakeholders monitor the activities of BT to ensure it does not discriminate unduly in favour of its own downstream business. In volume 3 of the January 2020 WFTMR Consultation we proposed to apply no undue discrimination obligations on BT in each of the proposed SMP markets, including alongside an equivalence of inputs obligation in some markets.

²⁰ We note that paragraph 2 of Point 1 of the 2005 EC Recommendation states that “the purpose of imposing an obligation to implement a cost accounting system is to ensure that fair, objective and transparent criteria are followed by notified operators in allocating their costs to services in situations where they are subject to obligations for price controls or cost-oriented prices.”

individual markets and services are fair, objective and transparent. The cost accounting obligation is an important means of ensuring that:

- we have the necessary information to monitor and assess the effectiveness of price controls, in particular to ensure that the pricing remedies we impose continue to address the competition problems identified and to enable our timely intervention should such intervention be needed;
- costs are attributed across markets (and the individual services within them) in a fair, objective, transparent and consistent manner. This mitigates the risk of cost over-recovery or that costs might be unfairly loaded onto particular products or markets, promoting confidence in the market;
- transparency (via publication of the processes and rules followed by BT) allows us to effectively challenge attribution processes and rules which we do not consider to be fair and objective;
- publication (i.e. reporting) of cost accounting information aids transparency, providing assurance to stakeholders about compliance with SMP obligations, allowing stakeholders to support Ofcom's monitoring of compliance and more generally promoting competition by providing reassurance that regulatory conditions are complied with;
- BT records all information necessary for the purposes listed above at the time that relevant transactions occur, on an ongoing basis. Absent such a requirement, there is a possibility that the necessary information would not be available when it was required for monitoring and enforcement purposes, and in the necessary form and manner;
- absent such a requirement, our price controls in the current regulatory period would be likely to be ineffective to address BT's SMP, as stakeholders could not be confident that the controls were effective to enable them to compete against BT on a fair basis, or that if price regulation continued to be required in the next regulatory period, the necessary information would be available for Ofcom to implement it.

Consultation question

Question 3.1: Do you agree with our proposal to impose accounting separation and cost accounting remedies on each of the proposed SMP markets? Please set out your reasons and supporting evidence for your response.

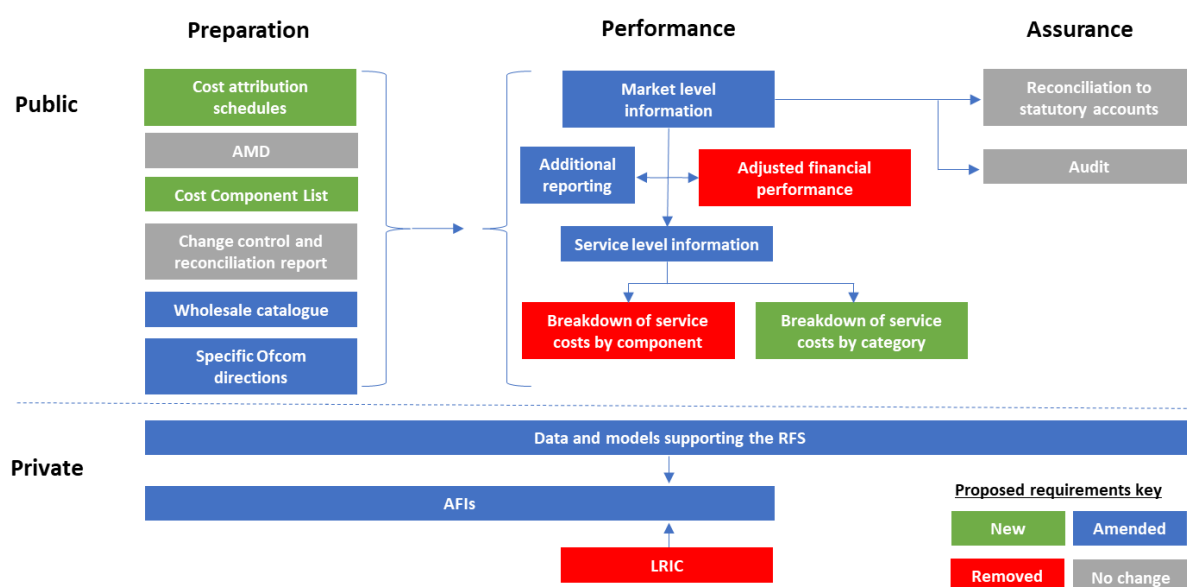
4. Published performance schedules

Introduction

4.1 Publication of financial information contributes to an open and competitive market and helps create an effective regulatory regime.²¹ We propose to make broad changes to the information presented in the RFS to ensure they remain relevant throughout this five-year review period and help secure that SMP regulation is and remains effective.

4.2 In this section we discuss the format of the ‘performance’ schedules highlighted in the diagram below and propose specific requirements for each of the proposed SMP markets.

Figure 4.1 Illustration of current public and private requirements



4.3 In the published RFS, financial information currently relates to three broad areas:

- **Market level information.** This is information on the revenues, operating costs, capital employed and returns on MCE for each SMP market and for BT Group overall. Currently, BT is also required to publish an ‘adjusted financial performance schedule’.
- **Service level information.** This can include the revenue, volume, price and costs of specific services or groups of services associated with SMP markets.

²¹ The Annex to the 2005 EC Recommendation says “regulatory accounting information serves national regulatory authorities and other parties that may be affected by regulatory decisions based on that information, such as competitors, investors and consumers. In this context, publication of information may contribute to an open and competitive market and also add credibility to the regulatory accounting system”.

- **Breakdown of service level costs.** A split of service level fully allocated costs (FAC) is currently provided by cost component alongside a schedule showing how unit cost components are calculated.²²

4.4 We set out our proposals on each of these areas below. We then set out what we propose the specific schedules will look like for each of the proposed SMP markets.

Market level information

Our main proposals for market level information

- **Separately show operating costs incurred within Openreach and operating costs attributed from other parts of BT** (affecting the summary of market performance and attribution of wholesale current cost schedules)
- **Split operating costs from Openreach and other parts of BT by direct and overhead cost categories** (affecting the summary of market performance and attribution of wholesale current cost schedules)
- **Revised asset categories to include poles, electronics and software** (affecting the attribution of wholesale current cost and attribution of wholesale MCE schedules)
- **Improve visibility of relationship between physical infrastructure (PI) and downstream markets** (affecting each market schedule)
- **Show if 'specific items' from the statutory accounts are attributed to SMP markets** (affecting the summary of market performance schedule)
- **Remove the adjusted financial performance schedule**

4.5 At the moment BT is required to publish three market performance schedules:²³

- **Summary of market performance:** this shows revenues, operating costs, returns, MCE and return on MCE for each SMP market as well as Openreach, the rest of BT and BT Group overall. BT also publishes an adjusted financial performance schedule which makes adjustments to this information as directed by Ofcom.
- **Attribution of wholesale current cost.** This shows a breakdown of operating costs and depreciation by cost category for each SMP market as well as Openreach, the rest of BT and BT Group overall.
- **Attribution of wholesale MCE.** This shows a breakdown of MCE by asset category for each SMP market as well as Openreach, the rest of BT and BT Group overall.

4.6 We propose to continue to require BT to provide market performance schedules because they provide an overview of the markets where BT has SMP and demonstrate that BT is providing the data required under its reporting obligations. They also help Ofcom and

²² In BT's cost attribution system, costs are ultimately attributed to cost components which in turn are attributed to services.

²³ Pages 22 to 35 and 40 to 42 of the 2018/19 RFS.

stakeholders assess the ongoing impact and effectiveness of the remedies imposed on each market, e.g. by reference to trends in revenues, costs and returns which have been prepared on a consistent basis across all markets. These schedules also show the outcome of BT's cost attribution decisions.²⁴

- 4.7 The March 2019 RFR Statement made some presentational changes to these schedules, for example by making it clear which SMP markets are provided by Openreach and the rest of BT.²⁵ We note that under the commitments given to Ofcom in March 2017, BT committed to provide certain information on Openreach in the RFS. The commitments say that “information about the financial results of Openreach Division in the regulatory financial statements of BT will include the following: headline revenue, operating costs disaggregated by major cost category, depreciation, revenues broken down into the broad product groups that Openreach LoB [line of business] provides and further split between internal and external sales, and separately identified payments to other parts of BT for products that form inputs to Openreach LoB products (eg electronics)”.²⁶
- 4.8 We have considered how to improve the market schedules by reference to the following general themes:
- **Openreach focus:** As noted above, the January 2020 WFTMR Consultation covers all SMP markets provided by Openreach, and Openreach represents the vast majority of markets that we regulate. Since it is Openreach providing services in the proposed SMP markets, we are likely to have fewer concerns about costs incurred by Openreach than those attributed in from other parts of BT. The review therefore offers an opportunity to consider how to present financial information in the RFS with a focus on the products provided by Openreach. We consider that this would be served by improving the visibility of operating costs incurred by Openreach compared to those attributed from other parts of BT and improving the reporting of assets used to provide Openreach services.
 - **PI:** The 2019/20 RFS will report financial information on the PI market for the first time. This is an upstream market for duct and pole access that provides inputs to downstream services in, for example, the WLA market. We consider that the market schedules should make the relationship between PI and downstream markets clear to help show i) the extent to which downstream markets are consuming PI, ii) how this compares to external purchases and iii) that attributions of PI costs are fair, objective and transparent. We think that this would help promote confidence in the market, which in turn creates the conditions for effective competition.

²⁴ The 2005 EC Recommendation annex specifically says that, subject to confidentiality considerations, profit and loss statements and capital employed statements should be published for relevant markets and services.

²⁵ See for example paragraphs 3.45 to 3.55 of the March 2019 RFR Statement.

²⁶ Paragraph 20.5, Commitments of BT Plc and Openreach Limited to Ofcom, Issue 3, 4 March 2019, <https://www.btplc.com/Thegroup/Ourcompany/Theboard/Boardcommittees/BTComplianceCommittee/Publications/index.htm>

- **Specific items.** In previous reviews, including this one, we have made adjustments to costs attributed to SMP markets which were presented under ‘specific items’ in the statutory accounts.²⁷ We consider that there should be greater visibility about whether these have been attributed to SMP markets to help ensure that costs have been appropriately attributed. In the past specific items reported in the statutory accounts have included EE acquisition costs, restructuring costs and regulatory fines.²⁸

4.9 Below we set out our full reasoning on our proposals for each of the three market schedules.

Summary of market performance schedule

4.10 We currently require BT to publish a summary of market performance schedule. This shows revenues, operating costs, returns, MCE and return on MCE for each SMP market as well as Openreach, the rest of BT and BT Group overall. For the reasons given below, we are proposing changes to the form and content of this schedule.

4.11 Our proposed summary by market performance schedule is shown below.

Table 4.1: Proposed summary by market performance schedule

Section		Openreach				Rest of BT				BT Group			Total SMP markets
		Physical Infrastructure	SMP markets (additional column for each market)	Non-SMP	Eliminations	Total	SMP markets (additional column for each market)	Non-SMP	Total	Eliminations	Roundings	Total	
PI revenues													
External purchases	£m												
Internal purchases	£m												
Inputs to downstream services	£m												
Total PI revenues	£m												
Other revenues													
External revenue	£m												
Internal revenue	£m												
Total other revenues	£m												
Total revenue	£m												
Attribution of PI costs	£m												
Operating costs - Openreach	£m												
Operating costs - Rest of BT	£m												
Depreciation	£m												
Total HCA operating costs	£m												
CCA adjustments	£m												
Total CCA operating costs	£m												
CCA Return	£m												
Mean capital employed	£m												
Return on MCE %	%												

4.12 The market information shown would depend on our conclusions in the WFTMR. We would expect each of the proposed SMP markets to be reported in a separate column.²⁹ We also propose to require a separate report for those ancillaries which are shared across Openreach SMP markets such as accommodation and power. This is explained further below.

²⁷ See note 10 to BT's 2018/19 statutory accounts.

²⁸ In annex 16 of the January 2020 WFTMR Consultation we proposed to make an adjustment to restructuring costs which are often reported under specific items in BT's statutory accounts.

²⁹ Note that the January 2020 WFTMR Consultation proposes to remove regulation on WFAEL, ISDN2, ISDN30 and WBA so these would no longer be separately identified in the RFS.

- 4.13 Our proposed schedule aims to increase the visibility of costs incurred within Openreach and costs attributed from other parts of BT by having separate operating cost lines ('Operating costs – Openreach' and 'Operating costs – Rest of BT'). We consider that this will improve transparency over the part of BT that costs in SMP markets come from, which is particularly important given that Openreach operates as a strategically independent company. As set out above, since it is Openreach providing services in the proposed SMP markets, we are likely to have fewer concerns about costs incurred by Openreach than those attributed in from other parts of BT. We think increasing transparency around this distinction will help ensure costs presented in the RFS are reliable and promote confidence in the market, which in turn creates the conditions for effective competition.
- 4.14 For the PI market, the proposed schedule shows how revenues and costs have been treated, especially attributions of PI costs to downstream services. All assets, such as duct and poles required to provide physical infrastructure access should be reported in the PI market.
- 4.15 We do not currently propose that Openreach is required to consume PI services as offered to other communications providers.³⁰ Because of this, there needs to be an attribution of PI service costs (rather than an internal sale of PI services) to downstream markets. The PI costs to be attributed to downstream services represent total PI costs (including a return on capital employed), net of any purchases of PI (to external CP's or possibly other parts of BT – e.g. Global Services).
- 4.16 We also expect reporting of internally consumed PI inputs to be consistent with external reporting so it is possible to assess the impact and effectiveness of the PI charge control.³¹ This would help demonstrate and promote confidence that BT is attributing PI costs to downstream markets, including charge-controlled services, on a fair and objective basis, in turn building confidence that our price control of PI services is effective to enable fair and effective competition.
- 4.17 For revenues, the proposed schedule therefore shows external sales of PI services (i.e. external communication providers buying PI, including network adjustments above the financial limit and ancillaries), internal sales of PI (i.e. other parts of BT such as Global Services purchasing PI, including network adjustments above the financial limit and ancillaries) and inputs to downstream services (the balancing figure to be attributed to downstream services which use PI). The 'inputs to downstream services' item includes a return on capital employed.

³⁰ Annex 12 of the January 2020 WFTMR Consultation said that, in relation to assessing the proposed non-discrimination obligations on PI *"In relation to other aspects of pricing (e.g. rental charges), we consider that the specific regulation we are proposing in relation to PIA pricing is sufficient to address our concerns over price discrimination with respect to third party charges in this review period"*.

³¹ That is, we would expect to see costs associated with, for example, single bore spine duct, separately identified in the costs of downstream services.

- 4.18 The proposed schedule also includes an operating cost row called ‘attribution of PI’. This row is blank for the PI market column but for other markets it shows how PI costs (i.e. those from the ‘inputs to downstream services’ revenue entry) have been attributed to other parts of BT. This means that downstream markets do not include assets associated with duct and poles, but instead include an operating cost attribution from the PI market.³²
- 4.19 The proposed schedule also shows a single line for CCA adjustments. These are made up of holding gains/losses, supplementary depreciation and other CCA adjustments. We propose that the detail of each of these items is reported in the attribution of wholesale current costs schedule (discussed below) to avoid duplication.
- 4.20 We also propose to require BT to include a note below this schedule showing which specific items reported in the BT Group statutory accounts have been attributed to SMP markets. Given that specific items can include unusual or one-off items, and in this and previous reviews we have made adjustments to such costs, we consider it is proportionate to require BT to reveal whether or not these have been attributed to SMP markets.

Attribution of wholesale current costs schedule

- 4.21 We currently require BT to publish an attribution of wholesale current costs schedule. This shows a breakdown of operating costs and depreciation for each SMP market as well as Openreach, the rest of BT and BT Group overall. This schedule currently provides a breakdown of operating costs by cost category (which BT calls ‘sectors’) such as provision/maintenance, network support, general support, general management, accommodation and other costs. It also provides a breakdown of depreciation by the following asset categories: ‘land and buildings’, ‘duct, access copper and access fibre’, ‘switch and transmission’ and ‘other related’.³³ For the reasons given below, we are proposing changes to the form and content of this schedule.
- 4.22 Consistent with our proposals for the performance summary schedule, we consider it would be more meaningful for BT to provide a breakdown of operating costs incurred by Openreach and those attributed from other parts of BT. This would increase the focus of this schedule on Openreach, help ensure costs presented in the RFS are reliable and promote confidence in the market and in our price controls, which in turn creates the conditions for effective competition. It will also help stakeholders understand the outputs of BT’s cost attribution system. Our proposed breakdown is shown below.

³² This would affect return on MCE reported in downstream markets.

³³ See page 26 of the 2018/19 RFS.

Table 4.2: Proposed attribution of wholesale current costs schedule

£m	Openreach					Rest of BT			BT Group			Total SMP markets
	Physical Infrastructure	SMP markets (additional column for each market)	Non-SMP	Eliminations	Total	SMP markets (additional column for each market)	Non-SMP	Total	Eliminations	Roundings	Total	
Section												
EOI input prices (if applicable)												
Attribution of PI costs												
Openreach opex (excl depreciation)												
- Service and network delivery												
- Openreach central functions												
- Leaver costs												
- SLG payments												
- Other opex												
Rest of BT opex (excl depreciation)												
- Exchanges												
- Other property												
- Cumulo												
- Central functions - Technology												
- Central functions - Group												
- Other opex												
Depreciation												
- Duct												
- Poles												
- Other PIA assets (if applicable)												
- Copper												
- Fibre												
- Electronics												
- Software												
- Land and buildings												
- Other depreciation												
- Less funded assets (BDUK, etc)												
Total opex excl other operating income												
Other operating income												
Total operating costs												
Total CCA adjustments												
- Holding gains												
- Supplementary depreciation												
- Other CCA adjustments												
Roundings												
Total CCA operating costs												

4.23 We explain the proposed breakdown of Openreach operating costs, rest of BT operating costs and depreciation below. Other elements (e.g. other operating income, CCA adjustments) are unchanged from the current schedule.

Openreach operating costs

4.24 BT's cost attribution system seeks to identify costs that can be directly allocated to products or groups of products and those that need to be attributed using cost pools and allocation drivers. We propose to require BT to split Openreach operating costs by those that are more 'direct' in nature and those that are more 'indirect'. We consider this will help stakeholders better understand the impact of BT's cost attribution system on the costs of SMP markets.

4.25 We would expect Openreach engineering teams to be largely allocated on a direct basis and propose that BT reports 'Service and network delivery' operating costs.³⁴ On the other hand we would expect Openreach central functions, like finance and HR, to require an attribution rule and so propose BT separately reports 'Openreach central functions' operating costs.

³⁴ We would expect this to largely capture the operating costs of Openreach's Service Delivery, Fibre and Network Delivery and Strategic Infrastructure Development teams described on its website: <https://www.openreach.com/about-us/who-we-are>.

- 4.26 We also propose to require BT to separately report Openreach leaver costs and service level guarantee payments (SLGs). It is relevant to report leaver costs since they are often adjusted when we set charge controls. They can be lumpy from year to year and in the January 2020 WFTMR Consultation we proposed to adjust for this when setting prices.³⁵ We consider it would help stakeholders assess the effectiveness of our charge controls for these costs to be separately reported.
- 4.27 SLGs represent the compensation Openreach pays to customers if it fails to meet agreed performance criteria – such as time taken to complete an installation – as set out in service level agreements. Publishing SLG payments can help stakeholders assess the impact and effectiveness of our remedies in relation to quality of service and given we propose to remove component level reporting below (which includes SLG components) we consider it proportionate to include SLG payments in this schedule.
- 4.28 We would not expect Openreach ‘other operating costs’ to be significant. However, given that there could be changes to the costs or structure of Openreach’s business during the control period we propose to require BT to provide a further breakdown of the operating costs included in the ‘other’ category where this exceeds 10% of total Openreach operating costs.

Rest of BT operating costs

- 4.29 As with Openreach operating costs, we propose to require BT to split operating costs from the rest of BT between those that are more direct versus those that are more indirect. We have sought to propose costs that are aligned with BT’s divisional structure since we think this would be informative for stakeholders while not being onerous for BT to provide.
- 4.30 The main BT divisions contributing costs to Openreach SMP markets are Property, Technology and Group.
- 4.31 Property costs represent rent and rates, including cumulo, on BT’s property portfolio, which principally consists of exchange buildings but also includes offices. Property costs are shared across Openreach SMP, Openreach non-SMP and non-Openreach services. While the majority of exchange and cumulo costs are attributed to Openreach, the attribution rules vary for different types of property cost. Cumulo costs have increased in recent years and are often considered separately when setting top down charge controls; in the January 2020 WFTMR Consultation we separately forecast BT’s cumulo rates for the purposes of setting prices.³⁶ Given their importance to Openreach SMP services, we propose to require BT to separately report operating costs for exchanges, other property costs and cumulo.
- 4.32 The Technology and Group divisions also contribute costs to Openreach SMP services from activities such as finance, HR and IT. Reporting costs attributed from these divisions will

³⁵ See annex 16 of the January 2020 WFTMR Consultation.

³⁶ See annex 16 of the January 2020 WFTMR Consultation.

help stakeholders understand the impact of BT's cost accounting system on SMP market costs and how costs develop over time.

- 4.33 We would not expect 'other operating costs' from the rest of BT to be significant. However, given that there could be changes to the costs or structure of BT's business during the control period we propose to require BT to provide an additional breakdown of the operating costs included in the 'other' category where this exceeds 10% of total Openreach operating costs attributed from the rest of BT.

Depreciation

- 4.34 We consider the depreciation line should be split between the major asset categories used to provide Openreach SMP services. The current breakdown excludes poles, other PI assets, electronics and software which are used to provide regulated services. We propose to include these.
- 4.35 The current breakdown also combines duct, access fibre and copper depreciation into a single heading, even though these are separately reported in the attribution of wholesale MCE schedule. To improve comparability and transparency we propose to align these schedules and require BT to separately report depreciation for duct, copper and fibre.
- 4.36 We propose to remove the requirement for separate disclosure of switch and transmission assets, which currently represent about 1% of total depreciation. These typically capture assets associated with old technology which are nearing the end of their useful lives. We note that, to the extent these categories include electronics costs, this will be captured by our proposal for BT to separately report electronics assets, and where they include costs of the core network this will be captured by the proposed requirement for BT to separately report assets for the IEC markets.

Attribution of wholesale mean capital employed schedule

- 4.37 This schedule currently provides a breakdown of MCE by asset category for each SMP market as well as Openreach, the rest of BT and BT Group overall. It includes information on current assets, current liabilities and provisions.
- 4.38 We propose that the asset category breakdown is the same as that proposed for depreciation in the attribution of wholesale current costs schedule. We also propose to simplify the reporting of current assets, current liabilities and provisions by having a single heading for each. Our proposed schedule is set out below.

Table 4.3: Proposed attribution of wholesale MCE schedule

£m	Openreach				Rest of BT			BT Group			Total SMP markets
	Physical Infrastructure	SMP markets (additional column for each market)	Non-SMP	Eliminations	Total	SMP markets (additional column for each market)	Non-SMP	Total	Eliminations	Roundings	Total
Section											
Non-current assets											
- Duct											
- Poles											
- Other PI assets (if applicable)											
- Copper											
- Fibre											
- Electronics											
- Software											
- Land and buildings											
- Other depreciation											
- Less funded assets (BDUK, etc)											
Current assets											
Current liabilities											
Provisions											
Roundings											
Total MCE											

Adjusted financial performance schedule

- 4.39 The Adjusted Financial Performance Schedule adjusts BT's returns to reflect changes made to its costs when setting prices. As part of previous market reviews we considered which adjustments needed to be made to the RFS to reflect the way prices were set.
- 4.40 This Adjusted Financial Performance Schedule was introduced in the 2014/15 RFS at a time when some large and longstanding adjustments were made to prices which were not reflected the RFS. Examples include the RAV (regulatory asset value) adjustment (affecting the valuation of duct) and the HON (hypothetical ongoing network) adjustment (which typically increased the value of BT's asset base in relevant markets to reflect what the asset value could be in a steady state). As a result, the returns indicated by the RFS were not consistent with the way prices had been set. To provide stakeholders with a better understanding of the impact of regulatory decisions at a market review level and to help them interpret published returns we introduced, we considered it was helpful to require BT to illustrate the impact of some the larger adjustments on the reported returns in the Adjusted Financial Performance Schedule.
- 4.41 However, in recent years, the number of significant differences between the way we set prices and the way costs are reported has reduced. For example, the RFS are now prepared on a RAV basis, HON adjustments are applied on a more limited basis and some of the larger adjustments made for the purposes of setting prices are difficult to reflect in the RFS (e.g. those affecting common cost redistributions).
- 4.42 Indeed, in the 2018/19 RFS the adjustments in this schedule are very small – the only impact is to reduce returns in the WLA market from 10.7% to 9.9%, with returns in other SMP markets unchanged.³⁷ We therefore consider that the original justification for the schedule no longer applies. Further we consider that the relatively small scale of the adjustments that are included means there is a risk of giving the impression that we are

³⁷ See page 41 of the 2018/19 RFS.

somehow “fine-tuning” the reported returns, rather than trying to help stakeholders interpret the published numbers.

- 4.43 We therefore propose to remove the requirement on BT to produce the Adjusted Financial Performance Schedule.

Implementation

- 4.44 The proposed market level schedules are included in the ‘form and content’ direction in Annex 5. We have removed references to the Adjusted Financial Performance Schedule from the SMP condition and associated directions in Annex 5.

Service level information

Our main proposals for service level information

- Replace service FAC with operating cost, MCE and return on capital employed

- 4.45 We propose to require BT to publish service level information because it can help demonstrate BT’s compliance with remedies (e.g. safeguard caps and no undue discrimination) and the overall impact and effectiveness of the remedies imposed (e.g. by comparing trends in costs where cost-based charge controls have been set). It also provides transparency about the relative usage of the services in the market by BT and external telecoms providers.
- 4.46 For most SMP markets we currently require some service and/or basket level information to be published. Where we currently require service information to be reported, this usually consists of information on internal and external revenues, volumes, prices and, for some services, FAC.
- 4.47 We consider information on internal and external revenues, volumes and prices should continue to be provided where this will help stakeholders assess BT’s compliance with, and the overall impact and effectiveness of, our remedies on particular services or groups of services.
- 4.48 However, we consider that service level costs, where required, could be presented in a more meaningful way. Service level FAC is currently reported which is made up of operating costs (including depreciation) and a return on MCE (RoMCE, estimated by multiplying MCE by an appropriate WACC).
- 4.49 We consider it would be more meaningful if service costs were presented on the same basis as market level costs discussed above, i.e. operating costs, MCE and a RoMCE, so that service costs could be directly compared across markets. It would also make the return on MCE earned by each reported service transparent which would make it clearer which services contribute to market returns and allow an assessment of the impact and

effectiveness of remedies imposed.³⁸ We therefore propose to require BT to report internal and external operating costs, MCE and RoMCE for each service where cost reporting is required. This would replace service FAC reporting. This is reflected in the proposed market summary schedules set out below.

- 4.50 Later in this section we consult on which combination of services and baskets BT will be required to publish for each SMP market.

Implementation

- 4.51 The proposed service level schedules are included in the ‘form and content’ direction in Annex 5.

Breakdown of service level costs

Our main proposals for breakdown of service level costs

- Remove component cost breakdown and replace with same operating cost and asset breakdown as used in the market summary schedules

- 4.52 Where service level FAC is required to be published, BT is currently required to provide a breakdown of service FAC by cost component. BT is also required to provide a schedule showing how the unit cost of each cost component is calculated (the ‘Network Activity Statements’).³⁹
- 4.53 While cost components represent the building blocks used by BT to prepare its RFS⁴⁰, it does not follow that it is helpful to report service costs in the same way. In the previous section we proposed to provide operating costs, MCE and RoMCE for each service (where cost reporting is required). We propose to remove the requirement to publish component cost information and instead require BT to provide a breakdown of service operating costs and MCE on the same basis as our proposal for market level costs (see Tables 4.2 and 4.3). This will allow service cost breakdowns to be directly compared across markets⁴¹ and ensure that both market and service level cost breakdowns focus on costs provided by Openreach compared to those attributed from other parts of BT.

³⁸ While comparing revenues to FAC can indicate whether or not returns are above the cost of capital, it is not straightforward to assess the extent to which returns exceed WACC.

³⁹ See Appendix 1 on page 110 of the 2018/19 RFS.

⁴⁰ BT’s cost attribution system attributes costs through several layers of cost pools and they ultimately end up in cost components. These cost components are then attributed to services using volumes and usage factors.

⁴¹ This is difficult at the moment since while some cost components are shared across markets, many are specific to particular markets.

Implementation

- 4.54 The proposed service level schedules are included in the ‘form and content’ direction in Annex 5.

Requirements for each proposed SMP market

- 4.55 This section focuses on the specific requirements for each SMP market in terms of information to be published in the RFS. Given our proposals above, published information broadly falls into two categories: market level information and service level information. Below we set out our proposals for:

- The market level information to be published in the RFS;
- The service level information to be published for each proposed SMP market; and
- Any additional reporting required for each proposed SMP market.

Our main proposed requirements for each proposed SMP market

- Require market level information for all proposed SMP markets and shared ancillaries
- Require some service level reporting for all proposed SMP markets and shared ancillaries
- Additional reporting for PI (relating to network adjustments) and WLA Area 3 (relating to RAB proposals - to show FTTP roll out and revenue from mark-ups on MPF).

Market level information to be published in the RFS

Proposed SMP markets

- 4.56 Market level information refers to the performance summary by market, attribution of wholesale current costs and attribution of wholesale MCE schedules.
- 4.57 We consider that where BT has wholesale regulatory reporting obligations it is important to publish some information relating to that wholesale market. In our view, information on market revenues, costs and returns would generally represent the minimum sufficient level of detail on wholesale markets that would allow stakeholders to have reasonable confidence that BT has complied with its SMP conditions, is providing the required data to Ofcom and the reporting regime overall is working as planned.⁴²
- 4.58 These schedules show the results of BT’s cost allocations between regulated markets and between regulated and unregulated markets, as required under its regulatory reporting obligations. We consider that providing stakeholders with the opportunity to assess the outcome of cost attributions facilitates stakeholder confidence that such costs have been allocated consistently and appropriately. It can also mitigate the risk that costs might be

⁴² Publication of market level information is also consistent with the 2005 EC Recommendation which recommends that such information is published for relevant markets.

unreasonably loaded onto particular markets (and services) since it allows stakeholders to scrutinise and challenge the outcomes of the bases of attribution.

- 4.59 Publication of market level information also allows stakeholders to assess the impact and effectiveness of the remedies imposed, for example by reference to trends in revenues, costs and returns that have been prepared on a consistent basis. This enables stakeholders to contribute to the regulatory regime, bring issues to our attention and ultimately ensure that SMP conditions including our price controls continue to address underlying competition issues.
- 4.60 We consider it is appropriate to require BT to publish market level information to demonstrate the overall reliability and robustness of the RFS and therefore we propose to require BT to provide this information for each of the proposed SMP markets.

Shared ancillaries

- 4.61 In Volume 4 of the January 2020 WFTMR Consultation we identified some cross-market ancillaries used to support network access in multiple markets. These included accommodation, power and cablelink ancillaries.⁴³
- 4.62 For these shared ancillaries we proposed to set the same charge control in each market, essentially setting a national price rather than different prices by geographic market.⁴⁴ We said we expected BT to report these ancillaries in aggregate, across all the SMP markets in which they are sold (rather than report them in each market).⁴⁵
- 4.63 There could be practical difficulties in identifying whether these shared ancillaries are supporting network access in one market over another.⁴⁶ Given the proposed price of these ancillaries is the same across all the proposed SMP markets and we said prices for ancillary services in aggregate should be close to costs, we consider it is appropriate and proportionate to require BT to report these shared ancillaries separately in aggregate, rather than for each SMP market.

Proposal

- 4.64 We therefore propose that BT publishes market level information on the following:
- Physical infrastructure
 - WLA Area 2
 - WLA Area 3
 - Leased Lines Access – Area 2
 - Leased Lines Access – Area 3
 - Leased Lines Access – HNR

⁴³ See Table 6.1 of the January 2020 WFTMR Consultation.

⁴⁴ Paragraph 6.13, section 6, volume 4, January 2020 WFTMR Consultation

⁴⁵ Paragraph 6.30, section 6, volume 4, January 2020 WFTMR Consultation.

⁴⁶ For example, identifying whether a communications provider has purchased accommodation space to support network access in the PI market versus the WLA market.

- Inter-exchange connectivity services – BT only exchanges
 - Inter-exchange connectivity services – BT+1 exchanges
 - Shared ancillaries
- 4.65 In practice, this means that each of these will be reported in a separate column in the performance summary by market, attribution of wholesale current costs and attribution of wholesale MCE schedules.
- 4.66 As shown in Table 4.1, we also propose to require BT to publish aggregate information on non-SMP parts of Openreach and rest of BT to ensure the overall coherence of the RFS and that Openreach and BT Group information can be reconciled to the BT Group statutory accounts. This is consistent with current requirements.

Service level information to be published in the RFS

- 4.67 Service level information includes the revenue, volume, price and costs of specific services or groups of services associated with relevant markets.
- 4.68 The objectives of publishing service level information include:
- **Assess compliance with remedies.** For example, publishing internal and external service level information helps demonstrate compliance with no undue discrimination obligations (e.g. by showing differences between internal and external prices) and provides data to help assess compliance with charge controls and their ongoing effectiveness (e.g. revenue information used in basket weightings and showing how average prices compare to price caps). It also helps demonstrate that BT is complying with its accounting separation obligations.
 - **Assess impact and effectiveness of remedies.** Service level information helps assess the extent to which our remedies are addressing some of the underlying competition concerns and how financial indicators have developed since our decision. For example i) where charge controls are cost based and designed to allow BT the opportunity to recover its costs, publishing cost information helps assess the effectiveness of those controls and ii) where there are concerns about discriminatory behaviour, service level information provides transparency about the relative usage of services by BT and external telecoms providers which could help assess if those concerns have been addressed.
 - **Understand the impact of BT's cost attribution decisions.** Where costs are shared with services in other markets, enabling stakeholders to see the effects of BT's attribution of costs on services in different markets provides assurance that attributions have been made appropriately and that the RFS are reliable.
 - **Contribute to an open and competitive market.** Publishing service level information allows stakeholders to identify and bring issues to our attention which adds credibility to the regulatory accounting regime and ultimately contributes to an open and competitive market.

- 4.69 In general, we consider that service level information should be published at the level at which prices are regulated (e.g. basket, sub-basket or individual service level). However, in some circumstances we may require BT to publish information on individual services within a basket where this meets any of the objectives above.
- 4.70 Similarly, we may require BT to report groups of services rather than individual services where it would not be proportionate to require detailed service reporting⁴⁷ or to ensure the overall coherence of the RFS.⁴⁸
- 4.71 In the rest of this section, for each of the proposed SMP markets and shared ancillaries, we set out proposals for service level information to be published in the RFS. For each service or group of services we identify, we propose, where appropriate, that BT must publish internal and external volumes, revenues and prices. Where appropriate, we propose that BT must also report service level cost information (operating costs, MCE and returns, as proposed above), and a breakdown of service level operating cost and MCE (as proposed above).
- 4.72 For some markets we also propose additional reporting to monitor the impact and effectiveness of particular remedies e.g. network adjustments for PI and our RAB approach in Area 3 for WLA.⁴⁹

Physical infrastructure

Existing requirements from the July 2019 RFR Statement

- 4.73 BT will report service level information on the physical infrastructure market for the first time in 2019/20. In the July 2019 RFR Statement we said 2019/20 will include minimal service information but that this would increase in 2020/21.
- 4.74 In 2020/21 the current direction requires BT to publish information on rental products for spine duct, lead in duct, poles, manholes and junction boxes for the following categories:
- Inputs into existing downstream services (i.e PI costs attributed to downstream active services);
 - PI rentals (i.e external purchases of PI); and
 - Ancillary charges.
- 4.75 BT is required to publish information on network adjustments above the financial limit. BT is also required to publish a schedule showing the FAC of network adjustments and how these are split between network adjustments below and above the financial limit. Of those

⁴⁷ For example where the remedy is at the individual service level but each service is relatively small it may be proportionate to limit the number of services reported in the RFS by aggregating some services.

⁴⁸ For example, where only some services in a market are subject to charge controls we may require an aggregation of 'other services' in that market to be reported so that service totals reconcile to market totals.

⁴⁹ In line with our proposals in this section, we do not include any proposals to publish component level information.

below the limit, the schedule should show whether they have been included in the ‘inputs into existing downstream services’ or ‘PI rentals’ categories above.⁵⁰

- 4.76 BT is also currently required to publish an appendix which restates all network adjustments on a comparable MCE basis.

Proposals

PI rentals

- 4.77 In the January 2020 WFTMR Consultation we proposed to set cost-based controls on PI rentals associated with duct, footway boxes and pole services.⁵¹ These services are also subject to a proposed no-undue discrimination obligation, though as noted above Openreach is not currently required to consume PI services as offered to other communications providers.
- 4.78 We propose that BT must publish revenue, volume, average price and cost information for PI services, split between internal and external customers, at the level that they are regulated (i.e. each duct, footway box and pole charge). We also propose that BT is required to separately show PI rentals (i.e. external purchases) and those rentals provided as inputs to downstream services, consistent with current requirements.
- 4.79 In relation to lead-in duct, we propose that BT is required to publish information on the simplified lead-in product consulted on in the January 2020 WFTMR Consultation.⁵²
- 4.80 We consider that publishing this information will demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation, in particular:
- Publishing cost information will help stakeholders assess the effectiveness of the cost-based charge control remedy.
 - Publishing internal and external revenues and volumes provides transparency about the relative usage of PI services by BT and external telecoms providers and indicates how take up of PI is developing.
 - Publishing internal and external price information split between PI rentals and inputs to downstream services indicates how PI utilisation is developing and in turn could help stakeholders assess the effectiveness of the remedies proposed.⁵³

⁵⁰ These requirements can be seen on page 49 of the legal directions to the July 2019 RFR Statement here:

https://www.ofcom.org.uk/data/assets/pdf_file/0020/156143/bt-rfr-directions-jul.pdf

⁵¹ Section 5, Volume 4, January 2020 WFTMR Consultation.

⁵² See paragraphs 5.45 to 5.55, Volume 4, January 2020 WFTMR Consultation. The simplified lead-in product would replace the existing lead-in duct, lead-in link duct and associated facility hosting products.

⁵³ For PI rentals, the price is an input from the price list, so revenue = price x volume. Since Openreach is not obliged to purchase PI for downstream services, we would expect the ‘price’ from the ‘inputs into existing downstream services’ section to be estimated by revenue/volumes (where revenue is equal to FAC for these services). Where internal utilisation of PI assets reflects the assumptions made to set PI prices, we would expect the published prices for PI rentals and ‘inputs into existing downstream services’ to be similar.

- Showing internal and external average prices allows stakeholders to see how these compare to the price cap and, where other parts of BT purchases PI, that this complies with the no undue-discrimination requirements.

4.81 We also propose that BT publishes a single line to capture ancillaries required specifically for PI.⁵⁴ We would expect this to capture PI-specific ancillary services purchased on a one-off basis (e.g. not including any ancillaries included in network adjustments).⁵⁵

Network adjustments

4.82 Network adjustments are undertaken by Openreach to make its physical infrastructure accessible and ready for use by other telecommunications providers. Consistent with previous reviews, costs associated with network adjustments should be included in the cost base of PI services, except where they exceed a financial limit of £4,750 (per km of spine duct).⁵⁶ In the January 2020 WFTMR Consultation we proposed to impose a no-undue discrimination obligation on BT in the PI market. In relation to network adjustments we said that “if Openreach undertakes network adjustments to support BT’s own deployments, we propose that it should charge itself internal transfer charges which are consistent with the charges for network adjustments faced by competing telecoms providers using PI (to the extent that a different approach cannot be justified). This means that costs of network adjustments above the financial limit which are incurred to support BT’s own deployments should be attributed entirely to Openreach’s downstream products, and not spread across all users of the physical infrastructure.”⁵⁷

4.83 We propose that BT must publish revenue, volume, average price and cost information for network adjustments above the limit, split between internal and external customers. This will help demonstrate BT’s compliance with the no-undue discrimination requirements and provide confidence to stakeholders that it is accounting for these separately.

4.84 We also propose to require BT to publish a note showing the operating costs and MCE associated with network adjustments and how these are split between those below and above the financial limit. Of those below the limit, the schedule should show whether they have been included in the ‘inputs into existing downstream services’ or ‘PI rentals’ categories above. This is consistent with current requirements. This schedule will help demonstrate BT’s compliance with the requirements for accounting for network adjustments.

4.85 Finally, we propose to require BT to publish an appendix showing cumulative internal and external network adjustments, both above and below the limit, on an MCE basis. This

⁵⁴ Ancillaries shared with other SMP markets, such as accommodation and power, are reported under ‘shared ancillaries’ consistent with our proposals. This is discussed further below.

⁵⁵ Note that under our proposals set out below we would expect the Wholesale Catalogue to list all ancillary items from the Openreach price list included in this ancillary service row.

⁵⁶ See paragraphs 5.86 to 5.93, Volume 4, January 2020 WFTMR Consultation

⁵⁷ Paragraph A12.30, annex 12, January 2020 WFTMR Consultation.

would mean that, regardless of the treatment of network adjustments in the RFS,⁵⁸ stakeholders could compare network adjustments on a consistent basis and it would help provide assurance that BT was complying with its no undue discrimination obligations.

- 4.86 The table below shows what we propose the service level information in the published RFS to look like.⁵⁹ For each service a breakdown of operating costs and MCE will also need to be provided as per our proposals above.

Table 4.4: Proposals for service level information for PI

Detailed service analysis	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume	Measure	Internal Average Price	External Average Price	Internal opex	External opex	Internal MCE	External MCE	Internal ROCE	External ROCE
	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
Inputs into existing downstream services														
Simplified underground lead-in														
Spine duct - 1 bore														
Spine duct - 2 bore														
Spine duct - 3+ bore														
Manholes														
Joint Boxes														
Poles - multi-end-user attachment														
Poles - single-end-user attachment														
Pole top equipment														
Cable up a pole														
Other PI rentals (if applicable)														
Total														
PI Rentals														
Simplified underground lead-in														
Spine duct - 1 bore														
Spine duct - 2 bore														
Spine duct - 3+ bore														
Manholes														
Joint Boxes														
Poles - multi-end-user attachment														
Poles - single-end-user attachment														
Pole top equipment														
Cable up a pole														
Other PI rentals (if applicable)														
Total														
Ancillary Charges (excl. network adjustments)														
Network adjustments above financial limit														
Other PI Charges (if applicable)														
Total Physical Infrastructure														

- 4.87 The table below shows what we propose the note on network adjustments above and below the limit to look like.⁶⁰

⁵⁸ For example, all network adjustments below the financial limit are capitalised in the PI market, while external network adjustments above the limit will be expensed in the PI market and internal network adjustments above the limit could be expensed or capitalised in downstream markets.

⁵⁹ Where we have included “if applicable” after a service this is only needed where this row item is necessary to completely report financial information related to the market. For all service level schedules BT can also add rows associated with IFRS15 where applicable.

⁶⁰ We note that some entries in this table could be blank (e.g. if network adjustments above the limit are expensed) but the appendix (see below) will present these on a comparable basis.

Table 4.5: Proposal for note on network adjustments

	Internal opex	External opex	Internal MCE	External MCE
Gross network adjustments				
Less network adjustments above financial limit				
Network adjustments below the limit				
- of which, included in downstream services				
- of which included in PI rentals				

4.88 The table below shows what we propose the appendix on network adjustments to look like.

Table 4.6: Proposed appendix on network adjustments restated on an MCE basis

	MCE £m		
	Internal	External	Total
Above the financial limit			
Below the financial limit			

Wholesale local access

4.89 In the 2018 WLA Statement we set out reporting requirements for the existing WLA market. BT is currently required to publish revenue, price, volume and FAC information on services subject to charge controls, including GEA FTTC 40/10 and MPF rentals, connections and ancillaries.

4.90 In the January 2020 WFTMR Consultation we proposed to find SMP for two geographic WLA markets (Area 2 and Area 3). We proposed to impose the following controls in these markets:

- **MPF and FTTC in Area 2:** Charge control on MPF SML1 rentals and FTTC 40/10 rentals, inflation-adjusted from 2021 levels. Once ultrafast coverage exceeds 75% of an exchange area BT, will no longer be required to offer new copper services (a 'stop sell') at those premises where fibre is available and a control on FTTP 40/10 rentals will be introduced.⁶¹ Once ultrafast coverage in an exchange area is complete and after a minimum of two years has passed since the introduction of the 'stop sell', the controls on MPF and FTTC 40/10 will be removed at those premises where fibre is available.⁶²
- **MPF and FTTC in Area 3.** Cost-based charge controls on MPF SML1 rentals and a basket consisting of all bandwidths of FTTC rentals. Once ultrafast coverage exceeds 75% of an exchange area BT will be allowed to stop-sell new copper services at those premises

⁶¹ Paragraph 2.11, Volume 2, January 2020 WFTMR Consultation.

⁶² Paragraph 2.14, Volume 2, January 2020 WFTMR Consultation.

where fibre is available and a cost-based control on FTTP 40/10 rentals will be introduced. Once ultrafast coverage is complete and a minimum of two years after the stop sell, the controls on MPF SML1 and FTTC rentals will be removed at those premises where fibre is available.⁶³

- **FTTP controls where FTTC is not available:** Where an FTTC 40/10 service is not available in either Area 2 or Area 3, we proposed a charge control on i) the Fibre Voice Access (FVA) and FTTP 40/10 rental services and ii) 40/10 GEA-FTTP Transition service plus an underlying copper service (WLR or MPF). The control on these combinations would be equal to the charge controlled MPF plus GEA FTTC 40/10 level price including the 40/10 fibre premium.⁶⁴
- **A RAB ('regulatory asset base') charge control in Area 3 to support Openreach's investment in fibre networks.** MPF SML1 controlled charges are marked-up by a 'K' factor to allow the recovery of BT's fibre investment costs where pre-specified investment targets are met.⁶⁵
- **WLA-specific ancillaries.** Single product or basket controls of CPI-0% on around 25 WLA-specific ancillaries across Area 2 and Area 3. Several ancillary charges capped at £0 (MPF soft ceases, GEA (FTTC and FTTP) ceases, GEA cablelink rentals (1Gbit/s and 10Gbit/s) and, in some circumstances, FTTP connections for all bandwidths in Area 3 or FTTP 40/10 connections in Area 2).⁶⁶
- **Fair and reasonable charges on SOGEA (single order GEA):** Where the copper bearer is not provided via MPF, but SOGEA, we proposed that any charges related to the copper bearer must be fair and reasonable. We said that the charge controlled MPF service provides a reasonable starting point for considering the cost-based charges for the copper bearer.⁶⁷
- **Other fair and reasonable charges:** All other WLA services are subject to a fair and reasonable charging condition. We said that we would interpret this obligation to mean that BT should not set prices that would equate to a margin squeeze under ex-post competition law for existing and new forms of network access.⁶⁸

4.91 We also proposed to impose a no undue discrimination obligation on BT in relation to services in each of these markets.⁶⁹

4.92 In the rest of this section we propose service level reporting for each WLA market.

WLA - Area 2

⁶³ In Volume 4 of the January 2020 WFTMR Consultation we said that if Openreach comes forward with firm fibre rollout plans in Area 3 we may consider a forecast approach to setting prices. We note that if we adopt a forecast approach to setting prices in Area 3 in the statement this could affect our reporting proposals.

⁶⁴ Paragraph 3.106, Volume 4, January 2020 WFTMR Consultation.

⁶⁵ See Condition 12B (LLU charge control) in Volume 5 of the January 2020 WFTMR Consultation.

⁶⁶ See Table 6.1, Volume 4, January 2020 WFTMR Consultation. See paragraphs 6.44 to 6.47 on FTTP connection proposals.

⁶⁷ Paragraph 3.98, January 2020 WFTMR Consultation.

⁶⁸ See for example footnotes 1 and 44, Volume 4, January 2020 WFTMR Consultation.

⁶⁹ Paragraph 1.43, Volume 3, January 2020 WFTMR Consultation.

- 4.93 We propose that BT must publish revenue, volume, average price, and cost information for the following services, split between internal and external customers:
- MPF SML1 rentals (charge controlled only)
 - FTTC 40/10 rentals (charge controlled only)⁷⁰
 - FTTC other rentals
 - FTTP 40/10 rentals (split between charge controlled and non-charge controlled where applicable)
 - FTTP other bandwidth rentals
 - Fibre Voice Access (where charge controlled)
 - GEA-FTTP Transition (where charge controlled)
 - WLA – specific ancillaries (CPI – 0%) – separately list each controlled ancillary where total revenue exceeds £5m
 - WLA specific ancillaries (£0 cap) – aggregate of all zero capped ancillaries
 - Other ancillaries (all other ancillaries, including those capped at CPI-0% where total revenues less than £5m).
 - Other WLA Area 2 (if applicable)
- 4.94 We consider that publishing information on these services would be consistent with the proposed level that prices are regulated (e.g. individual controls on MPF and FTTC 40/10 rentals). We set out in more detail below the justification for the different types of information. We propose to require BT to publish information on all FTTC rentals (split between charge controlled FTTC 40/10 rentals and FTTC other rentals) to enable a comparison of all FTTC rental services across Area 2 and Area 3, e.g. to assess the outcome of BT's cost attributions between FTTC products between these areas. Given the large number of WLA ancillaries we consider it would be proportionate to only require BT to disclose those capped at CPI-0% where total revenue exceeds £5m.⁷¹
- 4.95 FTTP 40/10 rentals may not initially be subject to a charge control (except where FTTC is not available). However, our review focuses on the 40/10 product and take-up of these services is an important test of the effectiveness of all our SMP regulation, including our price controls. We therefore propose to require them to be separately reported throughout the review period.
- 4.96 More broadly, publishing information on the above services promotes confidence in the market, which in turn creates the conditions for effective competition. For example, it will provide assurance to stakeholders that BT is complying with its obligations and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation, in particular:

⁷⁰ FTTC includes G.fast.

⁷¹ For example, based on the 2018/19 RFS we would expect this to include items like MPF New Provides, MPF Single Migrations and Hard Ceases.

- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices).
- Publishing internal and external prices allows stakeholders to see how these compare to price caps where relevant and enables effective monitoring for enforcement purposes.
- Publishing cost information will help stakeholders assess the impact of the proposed remedies.⁷² Since we propose to publish similar service level cost information in each of the WLA markets, it would help stakeholders understand the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with WLA services between geographic markets).
- Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers and indicates how take up of these services is developing. This helps stakeholders assess the effectiveness of the remedies proposed.

4.97 The table below shows what we expect the service level information in the published RFS to look like from 2021/22. For each service a breakdown of operating costs and MCE will also need to be provided as per our proposals above (see 'Breakdown of service level costs' section).

Table 4.7 Proposed service schedule for WLA – Area 2

Detailed service analysis	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume	Measure	Internal Average Price	External Average Price	Internal opex	External opex	Internal MCE	External MCE	Internal ROCE	External ROCE
Service	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
MPF Rentals (SML1) charge controlled														
FTTC 40/10 Rentals charge controlled														
FTTC other rentals														
FTTP 40/10 rentals charge controlled (if applicable)														
FTTP 40/10 rentals non-charge controlled														
FTTP other bandwidth rentals														
Fibre Voice Access charge controlled														
GEA-FTTP 40/10 Transition charge controlled														
Ancillaries (CPI-0%, list where revenue > £5m)														
Ancillaries (£0 cap)														
Other ancillaries														
Other WLA Area 2														
Rounding														
Total WLA Area 2														

WLA – Area 3

4.98 We propose that BT must publish revenue, volume, average price, and cost information for the following services, split between internal and external customers:

- MPF SML1 rentals (charge controlled only)
- FTTC rentals basket

⁷² Including our estimate of Openreach's cost recovery for MPF and FTTC products in WLA Area 2 set out in Annex 16 of the January 2020 WFTMR Consultation.

- FTTC 40/10 rentals (charge controlled only)
- FTTC other bandwidth rentals (charge controlled only)
- Other FTTC rentals
- FTTP 40/10 rentals (split between charge controlled and non-charge controlled where applicable)
- FTTP other bandwidth rentals
- Fibre Voice Access (where charge controlled)
- GEA-FTTP Transition (where charge controlled)
- WLA – specific ancillaries (CPI – 0%) – separately list each controlled ancillary where total revenue exceeds £5m
- WLA specific ancillaries (£0 cap) – aggregate of all zero capped ancillaries
- Other ancillaries (all other ancillaries, including those capped at CPI-0% where total revenues less than £5m)
- Other WLA Area 3 (if applicable)

4.99 We consider that publishing information on these services would be consistent with the proposed level that prices are regulated (e.g. individual controls on MPF and a basket control on FTTC rentals). Given the number of WLA ancillaries we consider it would be proportionate to only require BT to disclose those capped at CPI-0% where total revenue exceeds £5m.

4.100 Although the proposed charge control on FTTC applies to a basket of all bandwidths, we propose to require BT to separately report FTTC 40/10 rentals. This will mean FTTC 40/10 rentals are reported in both Area 2 and Area 3 and enable stakeholders to compare trends across geographic WLA markets. We propose to require BT to publish information on all FTTC rentals (split between the charge controlled basket and other FTTC rentals) to enable a comparison of all FTTC rental services across Area 2 and Area 3, e.g. to assess the outcome of BT's cost attributions between FTTC products between these areas.

4.101 As with Area 2, although FTTP 40/10 rentals may not initially be subject to a charge control (except where FTTC is not available) we propose to require them to be separately reported throughout the review period because the remedies proposed in the WFTMR focused on the 40/10 product and it will allow stakeholders to assess the impact and effectiveness of our proposals, e.g. in terms of take up of FTTP and the outcome of BT's cost attributions between FTTP and FTTC across Areas 2 and 3.

4.102 More broadly, publishing information on the above services promotes confidence in the market, which in turn creates the conditions for effective competition. For example it will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation, in particular:

- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices) and allows stakeholders to see how these compare to price caps.

- Revenue is used to weight price changes in the FTTC all bandwidths basket so publishing this information helps demonstrate to stakeholders that the information used by BT to demonstrate compliance is reliable.
- Publishing cost information will help stakeholders assess the effectiveness of the cost-based charge controls on MPF and FTTC rental products (and FTTP products once ultrafast rollout thresholds are reached), e.g. by comparing prices to actual costs over the control period.⁷³
- Since we propose to publish similar service level cost information in each of the WLA markets, it would help stakeholders assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with WLA services between geographic markets).
- Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers and indicates how take up of these services is developing. This helps stakeholders assess the effectiveness of the remedies proposed.

4.103 The table below shows what we expect the service level information in the published RFS to look like from 2021/22. For each service a breakdown of operating costs and MCE will also need to be provided as per our proposals above.

Table 4.8 Proposed service schedule for WLA – Area 3

Detailed service analysis							Internal Average Price	External Average Price	Internal opex	External opex	Internal MCE	External MCE	Internal ROCE	External ROCE
Service	Internal Revenue £m	External Revenue £m	Total Revenue £m	Internal Volume	External Volume	Measure	£	£	£m	£m	£m	£m	%	%
MPF Rentals (SML1) charge controlled														
FTTC rentals basket														
FTTC 40/10 Rentals charge controlled														
FTTC other bandwidth rentals - charge controlled														
Total FTTC rentals basket														
Other FTTC rentals														
FTTP 40/10 rentals charge controlled (if applicable)														
FTTP 40/10 rentals non-charge controlled														
FTTP other bandwidth rentals														
Fibre Voice Access charge controlled														
GEA-FTTP 40/10 Transition charge controlled														
Ancillaries (CPI-0%, list where revenue > £5m)														
Ancillaries (EO cap)														
Other ancillaries														
Other WLA Area 3														
Rounding														
Total WLA Area 3														

Additional reporting on the RAB in Area 3

4.104 In the January 2020 WFTMR Consultation we proposed a RAB charge control in Area 3 to support Openreach's investment in ultrafast fibre networks. This would see charge controlled MPF rental charge in Area 3 marked-up by a 'K factor' to allow the recovery of BT's fibre investment costs where investment targets are met (based on the number of premises passed with FTTP as at 31 October in the prior year).

⁷³ Including our estimate of Openreach's cost recovery in WLA Area 3 set out in Annex 16 of the January 2020 WFTMR Consultation

4.105 We propose to require BT to publish in the RFS a note to WLA Area 3 containing a summary of the qualifying number of homes passed and the revenue generated from the mark-up on charge controlled MPF rentals. This will help stakeholders assess the impact and effectiveness of the remedies imposed (in terms of funding provided by the mark up on copper products and how the roll out of FTTP develops in Area 3).

4.106 The table below illustrates what we propose this note to look like.

Table 4.9: Note on FTTP rollout in Area 3

	Measure	Cumulative total as at 31 October 20XX
Qualifying homes passed with FTTP	000s	
	Measure	Year to 31 March 20XX
Mark up	£	
Total relevant MPF volumes	rentals	
- <i>of which internal</i>	rentals	
- <i>of which external</i>	rentals	
Total allowed mark-up	£m	

Special Fault Investigations

4.107 BT currently reports information on special fault investigations (SFIs) in the WLA market. This shows the cost per SFI module.⁷⁴ We propose to remove this requirement since SFIs are subject to a proposed CPI-0% price cap and total costs will be reported in the WLA market schedules where SFI revenue is above £5m (which is currently the case).⁷⁵

Leased lines access and inter-exchange connectivity services

Current requirements

4.108 In the July 2019 RFR Statement we set out reporting requirements for the existing leased lines access and inter-exchange connectivity markets.

4.109 We said that BT must publish revenue, volume, average price and cost information for rentals and connections for each basket and sub-basket in leased lines access markets. We also decided BT should provide information on Ethernet Access Direct (EAD) rentals to monitor discriminatory behaviour.⁷⁶ Where a dark fibre remedy was imposed for interexchange connectivity we said BT must publish information on each dark fibre service.

⁷⁴ See page 117 of the 2018/19 RFS.

⁷⁵ In section 6 we propose to require BT to provide this information to us privately.

⁷⁶ Paragraph 5.64, July 2019 RFR Statement.

- 4.110 BT will report on the requirements set out in the July RFR Statement in the 2019/20 and 2020/21 RFS.

Proposals in the January 2020 WFTMR Consultation

- 4.111 In the January 2020 WFTMR Consultation we proposed to find SMP for three geographic leased lines access markets (Area 2, Area 3 and HNR) and two geographic IEC markets (BT only exchanges and BT+1 exchanges).
- 4.112 We proposed to impose the following controls in these markets:
- **Dark fibre:** Cost based charge control on rentals, connections and dark fibre ancillaries in Leased Lines Access Area 3 and IEC BT only markets. The dark fibre prices were derived from the costs associated with EAD 1Gbit/s services and EAD LA 1Gbit/s services;⁷⁷
 - **Active leased lines basket:** A basket subject to a cap of CPI-0% consisting of Ethernet and WDM services (across all bandwidths including rentals, connections and main link) across the Leased Lines Access Area 2, Leased Lines Access Area 3, IEC BT only and IEC BT+1 market. Main link is subject to a sub-cap of CPI-0% within this basket;
 - **Excess Construction Charges (ECCs):** ECC basket subject to a CPI-0% cap, and a sub-cap of CPI+5% on individual charges across Leased Lines access Area 2, Leased Lines Access Area 3, IEC BT only and IEC BT+1 markets. There is also a basis of charges obligation on contractor ECCs;⁷⁸
 - **Ethernet Time Related Charges (TRCs):** cap of CPI-0% on each Ethernet TRC across the Leased Lines access Area 2, Leased Lines Access Area 3, IEC BT only and IEC BT+1 markets;
 - **Other ancillaries:** cap of CPI-0% for each charge across Leased Lines access Area 2, Leased Lines Access Area 3, IEC BT only and IEC BT+1 markets.
 - **Fair and reasonable charging:** applies to services in the Leased Lines Access – HNR market and any other services that are not charge controlled or subject to a basis of charges obligation. We said this would help protect customers against margin squeezes.⁷⁹
- 4.113 We also proposed to impose a no undue discrimination obligation on BT in relation to services in each of these markets.
- 4.114 In the rest of this section we propose service level reporting for each leased lines access and IEC market.

Leased lines access – Area 2

⁷⁷ See paragraph A19.20, Annex 19, January 2020 WFTMR Consultation

⁷⁸ See Table 6.1, Volume 4, January 2020 WFTMR Consultation. In relation to ECC contractor charges, we note BT is required to provide us with information to demonstrate compliance with the basis of charges obligation under proposed condition 12G in Volume 5 of the January 2020 WFTMR Consultation.

⁷⁹ Paragraph 1.34, Volume 3, January 2020 WFTMR Consultation.

4.115 We propose that BT must publish revenue, volume, average price and cost information for the following services, split between internal and external customers:

- Ethernet and WDM basket
 - Connections
 - Rentals, split by EAD 1 Gbit/s, other EAD, EAD LA 1Gbit/s, Other EAD LA and Other rentals
 - Mainlink
 - Other services
- ECC basket
- Time related charges
- Other ancillaries - separately list each controlled ancillary where total revenue exceeds £5m.

4.116 We consider that publishing information on these services would be consistent with the level of the proposed regulation (i.e. each charge controlled basket or product). For rentals within the Ethernet and WDM basket, we propose to require BT to separately report EAD, EAD LA and Other rentals. This is consistent with our July 2019 RFR Statement where we considered this information could provide assurance to stakeholders that they were not subject to undue discrimination.⁸⁰ Within EAD and EAD LA, we propose to require BT to separately report 1 Gbit/s rentals versus other rentals. This is because the EAD and EAD LA 1 Gbit/s variants were used as reference services for our proposed dark fibre rental prices.⁸¹ We consider it would be proportionate to only require BT to disclose ancillaries capped at CPI-0% where total revenue exceeds £5m.

4.117 Publishing this information will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation, in particular:

- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (e.g. by showing differences between internal and external prices) and allows stakeholders to see how these compare to basket and individual service price caps.
- Revenue is used to weight price changes in the Ethernet and WDM basket so publishing this information helps show that the information used by BT to demonstrate compliance is reliable.
- Publishing cost information will help stakeholders assess the effectiveness of the cost-based charge controls on ECCs, TRCs and other ancillaries. While the Ethernet and WDM basket is not cost based, we consider that publishing cost information will help stakeholders assess the impact of the proposed remedies⁸² and allow them to identify

⁸⁰ Paragraph 5.64, July 2019 RFR Statement.

⁸¹ Paragraph A19.19, Annex 19 of the January 2020 WFTMR Consultation.

⁸² Including our estimate of Openreach's cost recovery on leased lines access Area 2 set out in Annex 16 of the January 2020 WFTMR Consultation.

cost and margin differentials between EAD variants (which could help assess if they were subject to undue discrimination).

- Since we propose to publish similar service level cost information in each of the Leased Lines Access and IEC markets, it would help stakeholders assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations for the purposes of allocating costs associated with Ethernet and WDM rental services between geographic markets).
- Publishing internal and external revenues and volumes provides transparency about trends and relative usage of these services by BT and external telecoms providers and indicates how take up of these services is developing (e.g. dark fibre vs active services). This helps stakeholders assess the effectiveness of the remedies proposed.

4.118 The table below shows what we expect the service level information in the published RFS to look like from 2021/22. For each service a breakdown of operating costs and MCE will also need to be provided as per our proposals in Section 4.

Table 4.10: Proposed service schedule for Leased lines access – Area 2

Detailed service analysis							Internal	External						
	Internal	External	Total	Internal	External		Average	Average	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume	Measure	Price	Price	opex	opex	MCE	MCE	ROCE	ROCE
Service	£m	£m	£m				£	£	£m	£m	£m	£m	%	%
Ethernet and WDM basket														
Connections														
EAD 1Gbit/s rentals														
Other EAD rentals														
EAD LA 1Gbit/s rentals														
Other EAD LA rentals														
Other rentals														
Main link														
Other services														
Total basket														
ECC basket														
Time related charges														
Ancillaries (list where revenue > £5m)														
Other ancillaries														
Other services (where applicable)														
Total Leased Lines Access - Area 2														

Leased lines access – Area 3

4.119 We propose that BT must publish revenue, volume, average price and cost information for the following services, split between internal and external customers:

- Dark fibre access
 - Connections, split by single and dual fibre
 - Rentals, split by single and dual fibre
 - Mainlink
 - Patch panels – customer premises
 - Patch panels – exchanges
 - Initial testing
 - Cessation charges
 - Right when tested charges
- Ethernet and WDM basket
 - Connections

- Rentals, split by EAD 1 Gbit/s, other EAD, EAD LA 1Gbit/s, Other EAD LA and Other rentals
 - Mainlink
 - Other services
 - ECC basket
 - Time related charges
 - Other ancillaries - separately list each controlled ancillary where total revenue exceeds £5m.
- 4.120 We consider that publishing information on these services would be consistent with the level of the proposed regulation (i.e. each charge- controlled basket or product). As above we propose to require BT to separately report EAD, EAD LA and Other rentals within the Ethernet and WDM basket, with EAD and EAD LA split between 1 Gbit/s and other rentals. We consider it would be proportionate to only require BT to disclose ancillaries capped at CPI-0% where total revenue exceeds £5m.
- 4.121 For the Ethernet and WDM basket, ECC basket, TRCs and other ancillaries, we consider that publishing this information will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation for the same reasons given for Leased Lines Access Area 2.
- 4.122 For dark fibre services we consider publishing this information is justified because:
- Publishing internal and external prices helps demonstrate compliance with non-discrimination obligations (i.e. by showing differences between internal and external prices) and allows stakeholders to see how these compare to individual service price caps.
 - Publishing cost information will help stakeholders assess the effectiveness of the cost-based charge controls on dark fibre services.
 - Since we propose to publish information on dark fibre in each of the Leased Lines Access Area 3 and IEC BT only markets, it would help stakeholders assess the impact of BT's cost attribution decisions (e.g. how it has implemented its cost accounting obligations when allocating costs of dark fibre between geographic markets).
 - Publishing internal and external revenues and volumes provides transparency about trends and relative usage of dark fibre services by BT and external telecoms providers and indicates how take up of these services is developing (e.g. dark fibre vs active services). This helps stakeholders assess the effectiveness of the remedies proposed.
- 4.123 The table below shows what we expect the service level information in the published RFS to look like. For each service a breakdown of operating costs and MCE will also need to be provided as per our proposals in Section 4.

Table 4.11: Proposed service schedule for Leased Lines Access – Area 3

Detailed service analysis							Internal	External			Internal	External	Internal	External
	Internal	External	Total	Internal	External		Average	Average			Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume	Measure	Price	Price			opex	opex	MCE	MCE
Service	£m	£m	£m				£	£			£m	£m	£m	£m
Dark fibre access														
Connections - single fibre														
Connections - dual fibre														
Rentals - single fibre														
Rentals - dual fibre														
Main link														
Patch panels - customer premises														
Patch panels - exchanges														
Initial testing														
Cessation charges														
Right when tested charges														
Ethernet and WDM basket														
Connections														
EAD 1Gbit/s rentals														
Other EAD rentals														
EAD LA 1Gbit/s rentals														
Other EAD LA rentals														
Other rentals														
Main link														
Other services														
Total basket														
ECC basket														
Time related charges														
Ancillaries (list where revenue > £5m)														
Other ancillaries														
Other services (where applicable)														
Total Leased Lines Access - Area 3														

Leased lines access – HNR

- 4.124 Since services in the Leased Lines Access – HNR market are not charge controlled but subject to no-undue discrimination and fair and reasonable charging obligations (compliance with which will be assessed by reference to whether a margin squeeze has occurred), we do not propose to require BT to publish service level cost information for this market.
- 4.125 We propose to require BT to publish service level information on internal and external prices, volumes and revenues to help provide assurance that BT is complying with its no-undue discrimination obligations (e.g. by showing differences between internal and external prices, with revenue reconciling to the performance summary by market schedule). Publishing internal and external revenues and volumes provides transparency about trends and relative usage of leased lines services by BT and external telecoms providers and indicates how take up of these services is developing. This helps stakeholders assess the effectiveness of the remedies proposed.
- 4.126 We consider it makes sense for BT to publish information on similar services in each of the Leased Lines Access and therefore propose to require BT to publish revenue, volume and average price information for the following services, split between internal and external customers:
- Ethernet and WDM services
 - Connections
 - Rentals, split by EAD 1 Gbit/s, other EAD, EAD LA 1Gbit/s, Other EAD LA and Other rentals

- Mainlink
- Other services
- ECCs
- Time related charges
- Other ancillaries - separately list each controlled ancillary where total revenue exceeds £5m.

4.127 The table below shows what we propose the service level information in the published RFS to look like.

Table 4.12: Proposed service schedule for Leased Lines Access – HNR

Detailed service analysis						Internal	External
	Internal	External	Total	Internal	External	Average	Average
Service	Revenue	Revenue	Revenue	Volume	Volume Measure	Price	Price
	£m	£m	£m			£	£
Ethernet and WDM services							
Connections							
EAD 1Gbit/s rentals							
Other EAD rentals							
EAD LA 1Gbit/s rentals							
Other EAD LA rentals							
Other rentals							
Main link							
Other services							
ECCs							
Time related charges							
Ancillaries (list where revenue > £5m)							
Other ancillaries							
Other services (if applicable)							

Total Leased lines access - HNR

IEC – BT only exchanges

4.128 We propose that BT must publish revenue, volume, average price and cost information for the following services, split between internal and external customers:

- Dark fibre access
 - Connections, split by single and dual fibre
 - Rentals, split by single and dual fibre
 - Mainlink
 - Patch panels – customer premises
 - Patch panels – exchanges
 - Initial testing
 - Cessation charges
 - Right when tested charges
- Ethernet and WDM basket
 - Connections

- Rentals, split by EAD 1 Gbit/s, other EAD, EAD LA 1Gbit/s, Other EAD LA and Other rentals (if applicable)
 - Mainlink
 - Other services
 - ECC basket
 - Time related charges
 - Other ancillaries - separately list each controlled ancillary where total revenue exceeds £5m.
 - Other services (if applicable)
- 4.129 We consider that publishing information on these services would be consistent with the level of the proposed regulation (i.e. each charge-controlled basket or product). As above we propose to require BT to separately report EAD, EAD LA and Other rentals within the Ethernet and WDM basket, with EAD and EAD LA split between 1 Gbit/s and other rentals (if applicable).⁸³ We consider it would be proportionate to require BT to disclose ancillaries capped at CPI-0% only where total revenue exceeds £5m.
- 4.130 For the Ethernet and WDM basket, ECC basket, TRCs and other ancillaries, we consider that publishing this information will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation for the same reasons given for Leased Lines Access Area 2.
- 4.131 For dark fibre, we consider that publishing this information will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation for the same reasons given for Leased Lines Access Area 3.
- 4.132 We propose that the service level information in the published RFS would have the same format as Table 4.11 above (that for Leased Lines Access – Area 3).

IEC – BT+1

- 4.133 We propose that BT must publish revenue, volume, average price and cost information for the following services, split between internal and external customers:
- Ethernet and WDM basket
 - Connections
 - Rentals, split by EAD 1 Gbit/s, other EAD, EAD LA 1Gbit/s, Other EAD LA and Other rentals (if applicable)
 - Mainlink
 - Other services
 - ECC basket
 - Time related charges

⁸³ For example, EAD LA may not be relevant to IEC markets.

- Other ancillaries - separately list each controlled ancillary where total revenue exceeds £5m.

4.134 We consider that publishing information on these services would be consistent with the level of the proposed regulation (i.e. each charge-controlled basket or product). As above we propose to require BT to separately report EAD, EAD LA and Other rentals within the Ethernet and WDM basket, with EAD and EAD LA split between 1 Gbit/s and other rentals. We consider it would be proportionate to only require BT to disclose ancillaries capped at CPI-0% where total revenue exceeds £5m.

4.135 For the Ethernet and WDM basket, ECC basket, TRCs and other ancillaries, we consider that publishing this information will help stakeholders assess compliance and demonstrate the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation for the same reasons given for Leased Lines Access Area 2.

4.136 We propose that the service level information in the published RFS would have the same format as Table 4.10 above (that for Leased Lines Access – Area 2).

Time related charges

4.137 BT currently reports information on time related charges (TRCs) for Ethernet services. This shows total TRC hours and the direct cost per hour.⁸⁴ We propose to remove this requirement as TRCs are subject to a proposed CPI-0% price cap and will be separately reported in the leased lines and IEC market schedules.⁸⁵

ECCs

4.138 In section 5 we propose to require BT to identify all costs associated with excess construction charges which have been capitalised in the year and write these off as an expense in Leased Lines Access and IEC markets. We propose to require BT to include a note under each of the Leased Lines Access and IEC market summary schedules of the ECC costs expensed in the year.

Shared ancillaries

4.139 In section 6 of volume 4 of the January 2020 WFTMR Consultation we set out the following proposed controls on shared ancillaries:

⁸⁴ See page 116 of the 2018/19 RFS.

⁸⁵ BT also currently reports TRC information for WFAEL. This would no longer be the case if we adopt our proposal to deregulate the WFAEL market.

Table 4.13: Proposals for ancillary services

Ancillary	Services	Control
Cablelink ⁸⁶	<ul style="list-style-type: none"> External cablelink Internal cablelink 	CPI-0%
Accommodation	<ul style="list-style-type: none"> Co-location and co-mingling for PI, MPF, VULA and leased lines 	CPI-0%
Electricity charge		Basis of charges

- 4.140 The Accommodation control relates to products such as Access Locate, LLU Co-mingling and PI Co-mingling. The Cablelink control applies to cablelink services previously considered Ethernet ancillary services. In the January 2020 WFTMR Consultation we considered these products are likely to be used as an interconnection service in several markets and not exclusively for Ethernet.⁸⁷
- 4.141 Where we have proposed to keep prices constant in real terms, such as for Accommodation and Cablelink, we said that we expected this to allow BT to recover its costs over time and prevent excessive pricing.⁸⁸
- 4.142 The electricity charge refers to the charge on a usage per kWh basis that telecommunication providers pay BT to provide power for their equipment. The proposed basis of charges obligation requires BT to set electricity charges that are derived from its relevant electricity purchase costs plus a small mark up to reflect its own internal costs relating to purchasing and administering electricity activities.
- 4.143 We propose that BT must publish revenue, volume, average price and cost information for shared ancillaries, split between internal and external customers, at the level that they are regulated (e.g. at the basket level).
- 4.144 We consider that this information will help stakeholders assess the impact and effectiveness of the remedies proposed in the January 2020 WFTMR Consultation. In particular it will show how average prices compare to the price cap and allow a comparison of revenues to costs to understand if BT is recovering its costs. Publishing internal and external information will also help assess the relative usage of these ancillaries, how important they are in supporting network access and demonstrate compliance with non-discrimination obligations where these apply.
- 4.145 The table below shows what we expect the service level information in the published RFS to look like. For each service a breakdown of operating costs and MCE will also need to be provided as per our proposals in Section 4.

⁸⁶ Note that this excludes GEA cablelink.

⁸⁷ Paragraph 6.32, Volume 4, January 2020 WFTMR Consultation

⁸⁸ Paragraphs 6.8 to 6.10, Volume 4, January 2020 WFTMR Consultation

Table 4.14: Proposals for service level information for shared ancillaries

Detailed service analysis													
	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume	Measure	Internal Average Price	External Average Price	Internal opex	External opex	Internal MCE	External MCE	Internal ROCE
Service	£m	£m	£m				£	£	£m	£m	£m	£m	%
Cablelink													
Accommodation													
Electricity charges													
Total Shared Ancillaries													

Implementation

- 4.146 The proposed schedules for each proposed SMP market are included in the ‘form and content’ direction in Annex 5.

Consultation question

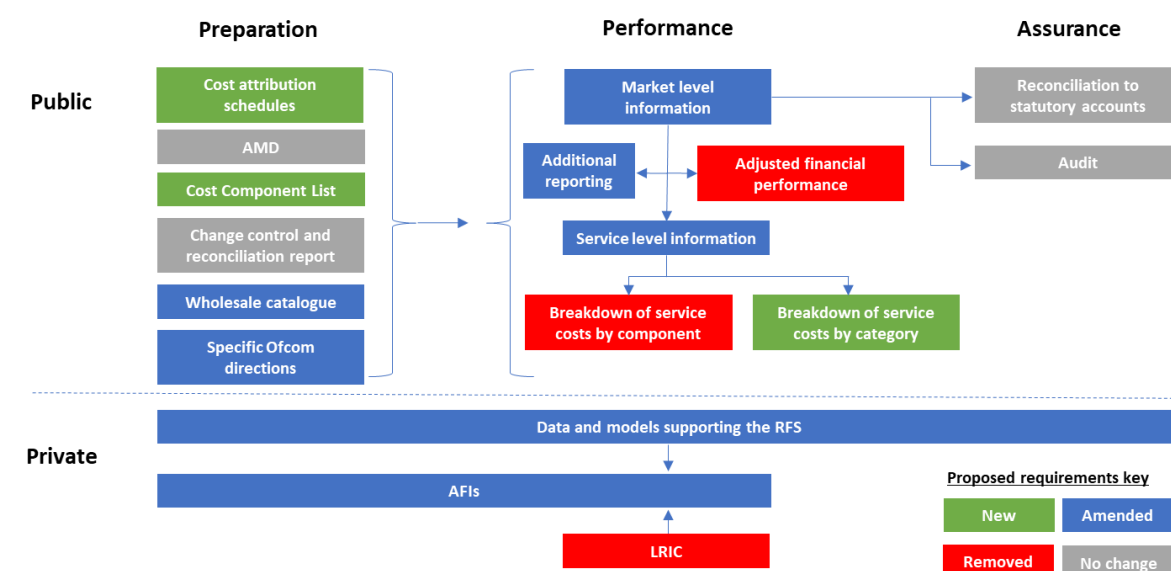
Question 4.1: Do you agree with our proposals in relation to the published performance schedules set out in Section 4? Please set out your reasons and supporting evidence for your response

5. Preparation and assurance requirements

Introduction

- 5.1 We require BT to disclose how it has prepared the RFS to help assess whether its regulatory accounting systems attribute costs, revenues, assets and liabilities to services in a fair, objective and transparent manner. We consider that requiring BT to publish information on the basis of preparation contributes to an effective regulatory regime because it allows Ofcom to benefit from stakeholders' insights in considering compliance, assessing the effectiveness of remedies and considering whether any adjustments may be needed to the basis of preparation to ensure BT's RFS are reliable.
- 5.2 Sometimes we direct BT to prepare the RFS in a particular way, e.g. the use of specific attribution rules to be consistent with how we have taken regulatory decisions. Some of these directions affect all markets while some are market-specific.⁸⁹
- 5.3 As well as publishing information on how BT has prepared the RFS, we also require it to obtain an audit opinion. This gives assurance that the RFS is free from material error and has been prepared following the documentation published by BT and relevant directions issued by Ofcom.
- 5.4 In this section we discuss the preparation and assurance requirements and schedules highlighted in the diagram below.

Figure 5.1 Illustration of current public and private requirements



⁸⁹ We have the power to impose consistency directions on BT under the SMP condition. BT is required to comply with the consistency direction while it is in force. Otherwise, BT is able to make changes to its attribution methods or policies, subject to compliance with the regulatory accounting principles, but must put those changes through the annual change control process. BT cannot propose a change that conflicts with a consistency direction.

5.5 In the rest of this section we set out proposals relating to:

- Publication requirements relating to preparation of the RFS
- Basis of preparation – directions applicable to all markets
- Basis of preparation – directions applicable to specific markets
- Assurance

5.6 We also propose some other small changes to the SMP condition.

Our main proposals

Publication requirements

- BT to publish schedules showing attribution rules applied to main cost categories
- BT to publish a Cost Component List describing components used to prepare the RFS. This would include improved components used to allocate fibre, but BT could make changes to this list through the CCN process
- Wholesale Catalogue to include a mapping to services in the price list

Basis of preparation – directions applicable to all markets

- BT to present costs in geographic markets using national unit costs
- BT to ensure it does not capitalise costs recovered from upfront revenues and costs should not be allocated to SMP markets where corresponding revenue is in residual
- BT to separately identify externally funded assets in its regulatory accounting system
- BT to ensure it does not attribute costs to SMP markets which are not relevant to those markets, or are not required to provide services in those markets

Basis of preparation – directions applicable to specific markets

- BT to improve the reporting of poles, including identifying and recording the cost of poles separately from other assets
- BT to attribute duct costs to PI services on a basis consistent with our proposed approach to setting prices (different attributions for pre- and post-March 2018 duct)
- BT to separately identify certain costs associated with dark fibre

Publication requirements relating to preparation of the RFS

5.7 We currently require BT to publish the following documents that set out the rules that are followed in the preparation of the RFS:

- **Wholesale Catalogue.** This describes the services reported in the RFS
- **Accounting Methodology Document (AMD).** This describes the attribution methods and policies BT has applied in its cost attribution system.

5.8 We also require BT to publish annual change control notification (CCN) and reconciliation reports. The CCN report sets out the methodology changes BT intends to make to the RFS,

including the estimated impact of these changes based on prior year figures.⁹⁰ The reconciliation report is published alongside the RFS and sets out the changes actually made, the impact of those changes and any material errors also corrected.

5.9 We propose that BT continues to publish these documents.

5.10 We also propose two additional requirements. The first is intended to increase the stakeholders' understanding of the impact of the attribution methods used by BT. The second supports our proposals to give BT more flexibility to change the components used in its cost accounting system and introduce new fibre components that better reflect the way the network is built.

5.11 We consider our proposals relating to these documents in turn, below.

Wholesale Catalogue

5.12 The Wholesale Catalogue identifies the services included in the markets for which BT has a regulatory financial reporting obligation.⁹¹ It includes descriptions of each published service and identifies whether services are internally or externally supplied.

5.13 The Wholesale Catalogue describes each service published in the RFS, arranged by the SMP market the service relates to. It also includes a mapping of services published in the RFS (and their service codes) to the services used in BT's regulatory accounting system. However, it does not include a mapping to price list services. We consider this additional mapping would provide transparency to stakeholders over where regulated services are reported in the RFS. We therefore propose to amend the SMP condition associated with the Wholesale Catalogue to ensure current practice continues and the additional mapping is included.

Implementation

5.14 Our proposed SMP condition reflects these proposals on the Wholesale Catalogue.

AMD

5.15 The AMD describes the attribution methods and policies BT has applied in its cost attribution system. We propose to direct that BT continues to publish the AMD as per the existing requirement. A description of the cost attribution system is required where a cost accounting obligation is imposed and we consider that requiring BT to publish the AMD contributes to an effective regulatory regime because it allows Ofcom to benefit from stakeholders' insights in considering compliance, assessing the effectiveness of remedies

⁹⁰ The purpose of the CCN is to provide Ofcom and stakeholders early sight of changes BT intends to make to the RFS, allow stakeholders to make representations to Ofcom and enable us to seek clarity from BT on those changes. If we are opposed to the changes BT is making, following a consultation process, we can 'veto' that change from going into the RFS.

⁹¹ It can be found on BT's website here:

<https://www.btplc.com/Thegroup/Policyandregulation/Governance/Financialstatements/index.htm>

and considering whether any adjustments may be needed to the basis of preparation to ensure BT's RFS are reliable.

- 5.16 We expect the AMD to include additional descriptions explaining BT's approach to some of the issues discussed below, including the new cost component list, attributions of PI costs to downstream markets, IFRS16 (treatment of leases), cost of capital used in cost attributions and how some costs of dark fibre have been estimated.

Implementation

- 5.17 The proposed requirement to produce the AMD is in the SMP condition in Annex 5.

Change control and reconciliation report

- 5.18 The annual change control notification (CCN) report sets out the methodology changes BT intends to make to the RFS, including the estimated impact of these changes based on prior year figures. The reconciliation report is published alongside the RFS and sets out the changes actually made, the impact of those changes and any material errors also corrected.
- 5.19 We propose to direct that BT continues to publish these documents to provide transparency of how BT has prepared the RFS, the methodology changes included in the RFS and the impact of these. In relation to the CCN process, we propose below that BT could make changes to the cost components used to prepare the RFS but that these changes must be included in the CCN report. There is not currently a materiality threshold for methodology changes that should be included in the CCN report, but we seek shareholder comments on whether this would be helpful.
- 5.20 The reconciliation report requires disclosure of all "material errors" or "material changes" affecting any figure within the RFS. These material errors and changes are defined as those exceeding the higher of £1m or 5%. Errors and changes below the threshold are also disclosed but are aggregated into a single figure. In the March 2019 RFR Statement we said that we may consider an increase to the materiality threshold in future if the volume and aggregated amount of these changes and errors remain at their current levels. At this stage we do not propose any changes to the materiality threshold but seek stakeholder comments on the scope of the reconciliation report.
- 5.21 We propose in particular that the contents of the reconciliation report should be specified in a direction and that it should continue to be audited, in order to secure that the RFS may be understood year, methodology changes appropriately implemented and errors appropriately corrected.

Implementation

- 5.22 The proposed requirement to produce the Change control reconciliation report is in the SMP condition and further requirements on its preparation and audit are in the proposed Reconciliation Report Direction, each in Annex 5.

Impact of attribution rules

- 5.23 While the AMD describes the attribution rules used by BT, stakeholders have said that it can be difficult to identify the most important attribution rules and the impact those rules have on the costs allocated to SMP markets. We have considered how to improve the transparency of the attribution rules applied to operating costs and MCE to enable stakeholders to better understand how BT has complied with its cost accounting obligations. We consider this would increase the reliability of the RFS and improve confidence in the regulatory regime. Our review of BT Group overhead costs (see box below) indicates it is important to increase the visibility of attribution methods used by BT.

Attribution of BT Group overheads

In the 2016 BCMR Statement we reviewed BT's overhead attribution methodology and in particular its increasing use of a 'pay and return on assets' (pay and ROA) methodology.⁹²

We concluded it was inappropriate to attribute overheads using the pay and ROA methodology for the purpose of setting prices in that control.⁹³ We identified causal attribution rules for some overheads but where these could not be identified we said that BT should attribute overheads based on a PAC ('previously allocated costs') methodology (e.g. BT Group PAC, Openreach PAC).⁹⁴ BT started using PAC in its 2015/16 RFS.

We noted that the proportion of overheads attributed using BT Group PAC methodology in 2014/15 being attributed to regulated markets was 33%. Since then, the total amount of overheads attributed by BT using the BT Group PAC methodology has increased by 50%. However, over the same period the proportion of overheads attributed using BT Group PAC methodology being attributed to regulated markets has reduced to 23%.⁹⁵

Given the increased use of BT Group PAC we investigated costs attributed using this rule and found some instances where costs were inappropriately attributed to Openreach SMP were as follows (noting that we made adjustments to remove these when setting prices in the January 2020 WFTMR Consultation).

⁹² See annex 28 of the [2016 BCMR Statement](#).

⁹³ Paragraph 2.78, Annex 28, 2016 BCMR Statement.

⁹⁴ A PAC attribution is driven by how much operating cost, depreciation and return on capital has already been attributed to relevant services in a previous stage of the allocation process.

⁹⁵ BT response dated 8 October 2019 to question 8 of the 4th FTMR s135 notice. This reduction could be due to BT's acquisition of EE in early 2016 which will attract a proportion of overheads.

⁹⁶ We expect BT to correct these issues in its 2019/20 RFS.

- Security costs (OUC V). BT told us that some of the teams in this OUC only carry out work for BT's Global Services and Enterprise Division.⁹⁷
- Technology Global Operations (OUC TNQ). BT told us that this team deals with the design, plan and build of BT's non-UK global network.⁹⁸
- Technology Voice team (OUC TLB). BT told us that the voice team is responsible for design, test, delivery and support of BT's global voice platforms and voice services.⁹⁹ It is not clear that these costs have any relevance to the proposed SMP markets in this review (e.g. WLA and leased lines).

Given these issues we have considered how to increase the visibility of the attribution methods used by BT to allocate costs. This would allow us and stakeholders to understand and challenge BT on how it is complying with its cost accounting obligations.

Operating costs

- 5.24 We propose to increase the visibility of the attribution rules applied to the most important operating costs by requiring BT to show the proportion of operating costs attributed to SMP markets by the main attribution rules. We consider that this will make it easier to understand which attribution rules are most important when allocating costs to services and will help ensure BT does not unfairly load costs onto SMP markets.¹⁰⁰
- 5.25 We also consider it would be helpful to distinguish between operating costs that can be directly allocated to products and those that are indirectly allocated using an attribution rule, e.g. a pay or PAC driver. This is because there may be more judgement required when attributing costs using an indirect method and more scope to allocate costs unfairly to SMP markets.
- 5.26 We propose to require BT to show the attribution rules applied to each of the Openreach and Rest of BT operating costs identified in Section 4 (e.g. for Openreach that would include Service and Network Delivery, Openreach Central Functions, Leaver costs, SLG payments and Other Operating Costs).
- 5.27 For each cost category, we propose that information on the following attribution rules is provided, alongside a brief description of each rule:
- **Direct to Openreach products.** For example, we might expect SLG payments to generally be directly associated with particular products or product groups.
 - **Direct to rest of BT.** This would capture costs that are directly allocated to residual markets or products outside of Openreach.

⁹⁷ BT response dated 8 October 2019 to question 12 of the s135 notice dated 17 September 2019.

⁹⁸ BT response dated 8 October 2019 to question 16a of the s135 notice dated 17 September 2019.

⁹⁹ BT response dated 8 October 2019 to question 15a of the s135 notice dated 17 September 2019.

¹⁰⁰ When we reviewed BT's allocation rules in the 2016 BCMR Statement we found that it had attributed an increasing amount of costs using rules which apportioned a relatively high proportion to SMP markets.

- **Pay driver.** A separate row should be provided for each pay driver used. The main pay drivers are Openreach Pay, BT Group Pay, Technology Pay and BT Group Factorised pay.¹⁰¹
- **PAC driver.** A separate row should be provided for each PAC driver. The main PAC drivers are Openreach PAC, Group PAC and Technology PAC.
- Additional rows for any attribution rule applied to 10% or more of the relevant cost category.

5.28 We propose for each cost category a table is published in the RFS showing for each attribution rule i) the amount of operating cost attributed; ii) the proportion of total operating cost attributed and iii) the percentage of costs that are attributed to Openreach SMP markets. For the proposed Openreach Central Functions cost category, for example, the published table could look like this:

Table 5.1: Example of attribution rule table – Openreach central functions

	Opex attributed £m	Opex attributed %	Attribution to Openreach SMP markets %
Direct to Openreach products	X	X%	X%
Direct to rest of BT	X	X%	X%
Openreach pay driver	X	X%	X%
Openreach PAC driver	X	X%	X%
Other rules*	X	X%	X%
Total	X	100%	X%

*Any attribution applied to more than 10% of total category costs would be separately shown.

Mean capital employed

- 5.29 Assets (and associated depreciation) are more typically attributed in a number of stages, and do not necessarily lend themselves to a table like the one proposed for operating costs.
- 5.30 Duct, for example, is initially split between duct carrying access, backhaul and core cables.¹⁰² Access duct is then split between fibre and copper cables¹⁰³, which in turn are apportioned to cost components and ultimately to services.
- 5.31 We propose to increase the visibility of the attribution rules applied to the most important assets. For each asset listed on the market summary schedule (duct, fibre, copper, etc) we

¹⁰¹ In annex 28 of the 2016 BCMR Statement we said that factorised pay takes account of average pay in each BT line of business. The effect of using factorised pay is to attribute costs to a line of business based on the number of employees in that line of business, and within that line of business costs are attributed on the basis of pay.

¹⁰² See for example the description for the PDTDUCT methodology in the 2018/19 AMD.

¹⁰³ See for example the entry for AG135 in the 2018/19 AMD.

propose to require BT to publish in the RFS a diagram showing the principal cost pools used in the cost attribution system alongside a description of the basis of allocation and the associated allocation percentages.

Implementation

- 5.32 We have included the proposed attribution schedules and requirements in the ‘form and content’ direction in Annex 5.

Cost components

- 5.33 Network cost components are intended to represent the building blocks of regulated services. As noted in BT’s AMD, they should represent discrete parts of the network.¹⁰⁴ In BT’s RFS, costs are attributed through various cost pools to cost components. These cost components are then attributed to regulated services by reference to volumes and usage factors.
- 5.34 We currently direct BT to use certain components in its cost attribution system since, to preserve the integrity and consistency of BT’s reporting, it is important that there is a single list of components used to attribute costs to services in regulated markets. However, over time some components can become obsolete and new components are required.
- 5.35 Given that the January 2020 WFTMR Consultation covers a five year review period for all Openreach SMP markets we have considered how to give BT more flexibility to change the components used in its cost accounting system while ensuring these changes are justified and visible to stakeholders.
- 5.36 One of the main objectives of the January 2020 WFTMR Consultation is to encourage investment in fibre networks. Components related to fibre networks have been introduced gradually over time and we do not consider they currently represent discrete parts of the fibre network. There is a risk that they will not provide a robust basis for future reporting in their current form.
- 5.37 We have therefore also considered how fibre components could be improved in the review period.
- 5.38 We set out our proposals on these two issues below.

Flexibility for BT to change components

- 5.39 We propose to require BT to publish an annual list of cost components used in its cost accounting system and allow changes to this via the annual CCN process.¹⁰⁵ This will give BT more flexibility to change components (subject to a proposed direction making power for Ofcom to direct BT to use specific components where, in Ofcom’s opinion, the components

¹⁰⁴ Section 11.1 of BT’s 2018/19 AMD.

¹⁰⁵ This component list could be published separately or part of the AMD.

used by BT are inappropriate, e.g. because they do not reflect discrete parts of the network, are obsolete or risk attributing costs to regulated markets that are not associated with those markets). It will also ensure the components used to prepare the RFS remain visible to stakeholders.

- 5.40 The published cost component list must include a list of components used to prepare the RFS, a description of each component and diagrams showing which part of the network, or which activity, each component represents. The descriptions and diagrams will help us and stakeholders understand which components represent discrete parts of the network (e.g. duct, fibre, copper, electronics) and which components relate to activities or other costs (e.g. provisioning, product management, SLG payments).
- 5.41 We also propose that the list of components on 1 April 2021 must consist of those directed by Ofcom. BT can make changes to this directed list through the CCN process. This initial list will be consistent with the existing component direction, except for the fibre components discussed below.

Fibre components

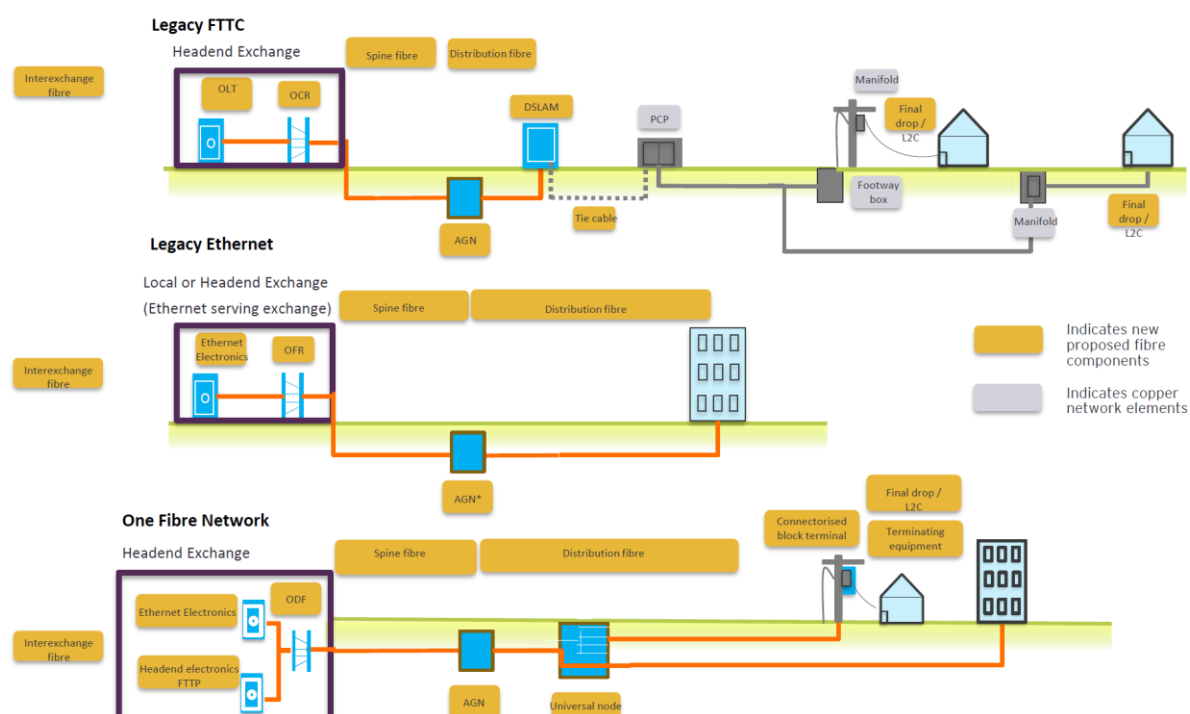
- 5.42 Fibre components have evolved over the years since fibre services were introduced in leased lines and WLA markets. Fibre components used in BT's cost accounting system vary considerably by services. For example, there are several fibre-related components making up TI services compared with one fibre-related component (EAD fibre) for EAD services which covers fibre associated with distribution, spine and final drop. There are currently around 40 components that capture costs associated with fibre assets.
- 5.43 We do not consider that the current fibre components reflect how the Openreach network is planned or built. For example:
- Many fibre components share the same name as fibre services rather than representing discrete parts of the network.
 - Although there are plant groups for distribution fibre and spine fibre, there are no components for distribution and spine fibre.¹⁰⁶
 - We understand that older fibre tends to be dedicated to specific services, but newer fibre can be shared across multiple services.¹⁰⁷
- 5.44 Improving fibre components will help ensure that costs are appropriately attributed to services – e.g. if fibre is only used to provide Ethernet services it should not be attributed to FTTC services. In turn this will increase the reliability of the RFS.

¹⁰⁶ "Plants groups" are the name of the cost pools in the attribution layer preceding cost components in BT's cost accounting system. Spine fibre and distribution fibre are the names for fibre in different parts of the network, usually either side of an aggregation node.

¹⁰⁷ For example, fibre used in 'legacy' TI, FTTC and Ethernet networks tends to be dedicated to TI, FTTC and Ethernet services respectively. However, Openreach's newer fibre network (referred to as its 'one fibre network') can be used to deliver multiple services such as FTTP and Ethernet.

- 5.45 Given the issues summarised above, we asked BT to consider how fibre components could be improved to better reflect the way fibre networks are planned and built by Openreach. BT commissioned a report from EY to consider new fibre components.
- 5.46 EY's report indicated that the three main fibre networks used to supply services in Openreach SMP markets were legacy FTTC, legacy ethernet and the new 'one fibre' network.¹⁰⁸ We understand that TI and ISDN are also largely discrete networks, though since TI was deregulated in the 2019 BCMR Statement and we proposed to deregulate ISDN30 in the January 2020 WFTMR Consultation we do not consider these further.¹⁰⁹
- 5.47 The diagram below, taken from EY's report, illustrates these three networks and potential components.

Figure 5.2: Fibre network diagrams and possible components



Source: EY report to BT dated 31 October 2019

- 5.48 Adopting this approach would mean that each network would have its own cost components meaning, for example, that there would be a spine fibre component for each of legacy FTTC, legacy ethernet and the 'one fibre' network.
- 5.49 However, EY noted that the way costs were currently captured and recorded in Openreach could make it difficult to associate costs with some of these components. EY suggested

¹⁰⁸ EY report dated 31 October 2019.

¹⁰⁹ However, costs associated these networks should not be attributed to Openreach SMP markets. We note that under our proposals BT could simplify the components associated with TI and ISDN30.

simplifying the components so that i) spine fibre components also include costs associated with racks and aggregation nodes and ii) distribution fibre components also include costs associated with connectorized block terminals.¹¹⁰

- 5.50 In our view taking a simpler view of possible fibre components would be a proportionate approach, while still capturing the significant elements of each network. The table below sets out our proposed components which are included in a direction in Annex 5. We consider this would mean fibre components reflected discrete parts of Openreach's network in future while ensuring the requirement was not unduly onerous on BT. We consider our proposal could simplify BT's cost accounting system as it could halve the number of fibre components.

Table 5.2: Proposed new fibre components

Legacy FTTC	Legacy ethernet	One fibre network	Inter-exchange
OLT	Ethernet electronics	Ethernet electronics	Inter-exchange fibre
Spine fibre	Spine fibre	Headend electronics FTTP	
Distribution fibre	Distribution fibre	Spine fibre	
DSLAM		Distribution fibre	
Tie cable		Final drop	
Final drop		Terminating equipment	

- 5.51 Our proposal to give BT more flexibility on changing costs components would also mean that, where additional information becomes available, BT could introduce new components to provide more detail on particular parts of the fibre network.

Implementation

- 5.52 The SMP condition and the network components direction in Annex 5 reflect our proposals.

Basis of preparation – all markets

- 5.53 We currently direct BT to prepare the RFS following a set of regulatory accounting principles and, in some circumstances, on a specific basis so that BT's reporting is, as far as possible, consistent with our regulatory decisions.¹¹¹ This allows us to assess the impact and effectiveness of our remedies and provides assurance to stakeholders that information

¹¹⁰ Page 6 of the EY report. For example, the spine fibre component in the legacy FTTC network would include costs associated with spine fibre, OCR (optical consolidation rack) and aggregation nodes.

¹¹¹ We do not consider that all regulatory decisions should be reflected in the RFS. For example, when we set prices, we may include adjustments to cost calculations that do not strictly reflect BT's costs (for reasons that we disclose and consult upon). Also, attempting to model the impact of some adjustments, such as steady state valuation adjustments, and how they might uplift costs in later years, would require BT to make difficult judgements about how we might approach these costs on an ongoing basis.

is being created and retained such that appropriate regulation can continue to be maintained in future.

5.54 In this section we discuss and set out proposals on the basis of preparation relating to all the proposed SMP markets in relation to the following:

- Regulatory Accounting Principles;
- Geographic markets;
- Cumulo;
- Asset valuation;
- Externally funded network build;
- IFRS16 (treatment of leases);
- SLGs
- Cost of capital.

Regulatory Accounting Principles

5.55 The current Regulatory Accounting Principles (RAP) were introduced in the 2014 Regulatory Financial Reporting Statement.¹¹² The RAP represent the fundamental principles with which BT's regulatory financial reporting must comply. In order of priority, we said that the RAP should be:

- a) **Completeness:** Regulatory Financial Reporting must encompass all revenues, costs, assets and liabilities of the Markets, together with residual activities (including wholesale and retail).
- b) **Accuracy:** Regulatory Financial Reporting must maintain an adequate degree of accuracy, such that the information included in the Regulatory Financial Statements is free from material errors and double-counting. Materiality must be determined in accordance with the definition set out below.
- c) **Objectivity:** Each element of Regulatory Financial Reporting, so far as is possible, must take account of all the available financial and operational data that is relevant to that element. Where an element of Regulatory Financial Reporting is based on assumptions, those assumptions must be justified and supported by all available relevant empirical data. The assumptions must not be formulated in a manner which unfairly benefits BT or any other operator or entity or creates undue bias towards any part of BT's or any other operator's business or product.
- d) **Consistency with regulatory decisions:** Regulatory financial reporting must be consistent with Ofcom's regulatory decisions as directed by Ofcom.
- e) **Causality:** Regulatory Financial Reporting must ensure that:;
 - i) revenues (including revenues resulting from transfer charges);

¹¹² Link to [2014 Regulatory Financial Reporting Statement](#)

- ii) costs (including costs resulting from transfer charges);
- iii) assets; and
- iv) liabilities

are attributed in accordance with the activities which cause the revenues to be earned, or costs to be incurred, or assets to be acquired, or liabilities to be incurred respectively.

- f) **Compliance with statutory accounting standards:** Regulatory Financial Reporting must comply with the accounting standards applied in BT's statutory accounts; with the exception of any departures as Ofcom may direct from time to time.
- g) **Consistency of the Regulatory Financial Statements as a whole and from one period to another:** Regulatory Financial Reporting must be applied consistently in all the Regulatory Financial Statements relating to the same period. Regulatory Financial Reporting must be applied consistently from one period to another. All the changes in Regulatory Financial Reporting from one period to another must be justified by reference to the Regulatory Accounting Principles. If there are material changes in Regulatory Financial Reporting from one period to another, BT must restate the previous period's Regulatory Financial Statements, applying the changes to the Regulatory Financial Statements for that period.

5.56 We propose to continue to require BT to prepare its RFS in accordance with the RAP to ensure an absence of bias, and consistency with regulatory decisions. We have considered whether the order of priority is still fit for purpose and whether any other amendments to the RAP are necessary.

Order of priority

5.57 BT is required to apply the RAP in the order of priority set out in the directions. We propose to amend the order so that the "Consistency with regulatory decisions" principle is the highest priority because it requires BT to comply with our directions in relation to consistency with regulatory decisions. This change would clarify that BT could not decline to comply with a consistency direction by reference to other principles.

5.58 We also propose a minor change to move the text relating to the order of the RAP to the front of the direction.

Objectivity principle

5.59 We propose to amend the objectivity principle to include a requirement for BT to take account of the way in which services are charged, and how service revenue has been recorded, when considering how to treat costs. In particular, where costs are recovered

from upfront revenues, these costs should not be capitalised in the RFS¹¹³ and where revenue is allocated to residual, associated costs must not be included within SMP markets.

- 5.60 There are two reasons for this proposal. First, in recent charge controls we have found BT was capitalising costs which had been recovered from upfront revenues.¹¹⁴ In the January 2020 WFTMR Consultation we proposed an adjustment to excess construction charges (ECCs) to address this issue for the purpose of setting prices.¹¹⁵
- 5.61 Second, in the January 2020 WFTMR Consultation we made an adjustment to remove costs from SMP markets relating to repayment works.¹¹⁶ This is because all revenues associated with these works are recorded in residual but SMP markets include an attribution of cost. The adjustment ensured that revenues were matched to costs in residual markets.
- 5.62 BT's current treatment could lead to double recovery if charge controls on rental products are i) set on costs which include depreciation charges in relation to capitalised assets and ii) those capitalised assets have already been recovered through upfront revenue (e.g. from connection charges or repayment works). Although we have addressed all the cases of this that we are aware of in previous reviews by imposing directions, we cannot know if we have identified all such cases. To ensure the RFS remains objective and reliable we consider it is proportionate to amend the direction to ensure that the RFS does not report costs on this basis in future.

Causality principle

- 5.63 We propose to amend the wording of the causality principle to ensure BT does not attribute costs to SMP markets which are not relevant to those markets or are not required to provide services in those markets. This will help avoid the issues identified in the box above in relation to overhead allocations.

Implementation

- 5.64 We propose to give the RAP Direction in Annex 5 which includes amendments to the text of the RAP direction currently in force to reflect our proposals relating to the order of priority, the objectivity principle and the causality principle.

¹¹³ In the March 2019 RFR Statement we said we would consider this issue as part of this review. See paragraph 3.12 of that document.

¹¹⁴ For example, in the 2018 WLA statement we found BT was capitalising costs associated with tie cables and comingling and in the 2019 BCMR we found BT was capitalising costs associated with ECCs (see 2018 WLA Statement, Annex 12, paragraphs A12.47-A12.80 and 2019 BCMR Statement, Annex 19, paragraphs A19.58 – A19.63).

¹¹⁵ See paragraphs A16.38 to A16.39, Annex 16, January 2020 WFTMR Consultation.

¹¹⁶ Annex 16, January 2020 WFTMR Consultation. Repayment works relate to repayment alterations (pre-planned jobs requested by external parties to alter the Openreach network due to projects like HS2) and repayment damages (repair of the Openreach network caused by third party damage).

Geographic markets

- 5.65 The January 2020 WFTMR Consultation proposed to find that BT had SMP in various separate geographic markets for wholesale local access, leased lines access and IEC product markets.
- 5.66 Where we proposed cost-based geographic prices in WLA Area 3 (for MPF and FTTC), leased lines access Area 3 (for dark fibre) and IEC BT Only (for dark fibre), we based charges on Openreach's national costs.¹¹⁷
- 5.67 Although costs could vary by geography, we propose to require BT to prepare costs in geographic markets on a national unit cost basis.¹¹⁸ This would allow us to monitor BT's performance in geographic markets on a basis consistent with how we propose to set prices. By national unit costs, we mean a unit cost per service that does not take account of any differences in circuit lengths – total costs in a geographic market would then be estimated by multiplying the national unit cost per service by the volume of services in the geographic market.
- 5.68 Having different geographic markets for WLA, leased lines access and IEC also means that BT will need to attribute PI costs between these downstream markets. We expect BT to clearly explain in its AMD how it has done this on a basis consistent with other PI remedies – e.g. national PI pricing and no undue discrimination requirements.

Implementation

- 5.69 We have included text in the proposed 'consistency' direction in Annex 5 which requires BT to prepare costs in geographic markets by reference to national unit costs.

Cumulo

- 5.70 Cumulo rates are the non-domestic rates BT pays on its rateable assets (primarily passive assets such as duct, fibre, copper and exchange buildings) in the UK.¹¹⁹
- 5.71 In the January 2020 WFTMR Consultation we proposed to forecast cumulo costs separately for the purpose of setting prices, and attribute these to services in a similar way to previous reviews.¹²⁰
- 5.72 While we propose that cumulo costs should be separately disclosed in the RFS (see section 4), unlike previous reviews we do not propose to direct BT to allocate cumulo to services in a specific way. This is because the appropriate approach to allocating cumulo costs could

¹¹⁷ See January 2020 WFTMR Consultation Annex 18 and 19.

¹¹⁸ For example, differences in cable size, cable length, network density and input costs (e.g. pay rates) could result in unit costs varying between geographic SMP markets.

¹¹⁹ See annex 16 of the January 2020 WFTMR Consultation.

¹²⁰ See paragraphs A16.108 to A16.116 of the January 2020 WFTMR Consultation.

change over the period, depending on, for example, domestic rates policy and assessments by rating authorities.

- 5.73 Instead, we expect BT to set out, through the annual CCN process described above, any changes to the treatment of cumulo costs in its RFS. We would expect these changes to reflect up to date information on how cumulo is calculated and factors which could affect allocations to services. This will ensure that changes to BT's cumulo methodology are visible, that stakeholders can challenge its proposals, and that we can veto proposals if necessary (subject to consultation via the CCN process).

Asset valuation

- 5.74 The RFS are prepared on a current cost accounting (CCA) basis, which means assets are valued using an estimate of their current replacement cost rather than historic cost. We propose to continue requiring BT to prepare the RFS on this basis since it is consistent with our approach to setting cost-based prices in the January 2020 WFTMR Consultation.¹²¹ Where BT revalues assets in the RFS, this is generally done by applying an inflation index to historical costs.¹²²
- 5.75 We currently direct BT how to value certain assets, for example duct must be valued on a RAV basis¹²³ and fibre held constant in nominal terms.¹²⁴
- 5.76 Duct, poles, fibre and copper represent the majority of assets in Openreach SMP markets.¹²⁵ In the January 2020 WFTMR Consultation, where we proposed to set prices by reference to BT's costs, we valued duct and fibre on the basis noted above and copper and poles were indexed using RPI.¹²⁶
- 5.77 For the purposes of preparing the RFS we propose to require BT to value these assets on this basis to ensure consistency with the way prices are set. This is generally consistent with BT's current approach in the RFS.

Implementation

- 5.78 We have included text in the proposed 'consistency' direction in Annex 5 which requires BT to value duct, poles, fibre on copper in line with our proposals

¹²¹ In Annex 16 of that consultation we said the use of current cost valuations give better signals for efficient investment and entry than historical costs.

¹²² In the past the current cost valuation of some assets was based on an 'absolute valuation' which could be volatile. The move to revaluing assets using indexation approaches has removed much of this fluctuation.

¹²³ The RAV refers to the value placed on duct used for access cables installed prior to 1 August 1997. These assets are indexed using RPI based on the historical cost value as at 1 April 2005. BT currently values all other duct by indexing historical spend by RPI.

¹²⁴ For fibre, see Table 5.4 of the July 2019 RFR Statement.

¹²⁵ The schedule on page 32 of the 2018/19 RFS indicates they represent 95% of non-current assets. Note that pole assets are included within copper in this schedule.

¹²⁶ See Annexes 16 and 20, January 2020 WFTMR Consultation.

Externally funded network build

- 5.79 Parts of BT's network are directly funded by external entities. Current examples include:
- **BDUK**: Building Digital UK – a DCMS scheme where Openreach was provided with 'gap' funding to deploy broadband (mainly FTTC) in areas that were not commercially viable.
 - **Network adjustments in the PI market** – where other telecoms operators are required to pay for certain activities to enable the deployment of FTTP utilising BT's duct. Other operators are required to pay where the cost of network adjustments exceeds £4,750 per km of spine duct.
 - **Excess construction charges** – where other telecoms operators request an EAD or EAD LA connection and the construction work in providing that connection is above £2,800, the other operator concerned is required to pay the additional amount.
- 5.80 There could be further examples in future. For example, we are currently consulting on how to fund BT's Broadband Universal Service Obligations, which could result in some network investment being financed from an industry fund. The UK and devolved governments are also actively working to design several schemes to help improve coverage of broadband.¹²⁷
- 5.81 While externally-funded assets can be attributed to relevant SMP markets, for the purposes of setting prices we also take account of the associated funding when assessing the cost base of regulated prices. For example, in the January 2020 WFTMR Consultation we took account of FTTC funding (reducing the asset base of FTTC) to take account of externally-funded assets.¹²⁸
- 5.82 We propose to require BT to separately identify externally funded assets and associated funding in its regulatory accounting system. This would be consistent with our proposed approach to setting prices in the January 2020 WFTMR Consultation. It would help ensure the RFS remains relevant and reliable by making it possible to separately identify assets which are externally funded and assets for which regulated prices have been set to recover costs.

Implementation

- 5.83 We propose to amend the wording of the SMP Condition in Annex 5 to capture this requirement. We will continue to monitor how BT accounts for and reports externally funded network build and will consider imposing additional directions where necessary.

¹²⁷ Page 5, Volume 1, January 2020 WFTMR Consultation.

¹²⁸ See Annex 16 of the January 2020 WFTMR Consultation.

IFRS16 – treatment of leases

- 5.84 A new lease accounting standard, IFRS16, became mandatory in the UK for accounting periods commencing on or after 1 January 2019. IFRS16 will see leases brought onto the balance sheet.
- 5.85 The effect of this in BT's statutory accounts will be that the operating lease expense will be replaced with i) a new lease asset and liability on the balance sheet and ii) a depreciation and finance charge in the profit and loss account.
- 5.86 IFRS16 changes how leases are presented in statutory accounts but it does not affect the underlying cash flows associated with leases. Where we have previously set regulated prices by reference to BT's costs, we have done so using operating lease expenses (principally in relation to property) and this is also the approach proposed in the January 2020 WFTMR Consultation.¹²⁹
- 5.87 Given the underlying nature of leases has not changed and our proposed approach to pricing is consistent with previous reviews, we consider that IFRS16 should be implemented in the RFS in a way that minimises the impact on reported returns.
- 5.88 We consider IFRS16 could be implemented in the RFS while having a minimal impact on reported returns if all P&L and balance sheet entries associated with IFRS16 were included in the RFS. This would mean that over the life of a leased asset, the P&L entries (depreciation plus finance charge) would be equal to the underlying lease expense, while the lease asset and liability will net off.¹³⁰ We expect BT to implement an approach in its 2019/20 RFS which minimises the impact of IFRS16 on reported returns and explain it in its AMD, so at this stage we do not propose to direct BT how to deal with IFRS16 in the RFS.

SLGs

- 5.89 When proposing cost-based charges in the January 2020 WFTMR Consultation we treated service level guarantee (SLG) payments as operating costs.¹³¹ In the March 2019 RFR Statement we noted that the introduction of the IFRS15 accounting standard (dealing with recognising revenue from contracts with customers) would mean that SLG payments would be recognised as a reduction to revenue rather than an operating cost in statutory accounts.¹³² In that document we decided that SLG payments should appear as operating costs for individual services.

¹²⁹ Annex 16, January 2020 WFTMR Consultation.

¹³⁰ There will be some timing differences – for example the lease asset and liability do not amortise in exactly the same way. However, we do not consider these timing differences will significantly impact the returns reported in the RFS.

¹³¹ See paragraphs A16.117 to A16.119, Annex 16, January 2020 WFTMR Consultation.

¹³² See paragraphs 3.72 to 3.81, March 2019 RFR Statement.

- 5.90 For consistency with our proposed approach to setting cost-based prices, and reflecting the current treatment in the RFS, we propose to require BT to present SLG payments as operating costs in the RFS.¹³³

Implementation

We have included text in the proposed ‘consistency’ direction in Annex 5 which requires BT to present SLG payments as operating costs in the RFS.

Cost of capital

- 5.91 In the January 2020 WFTMR Consultation we set out proposed costs of capital (WACCs) for BT Group, Openreach, ‘Other UK telecoms’ and rest of BT. We proposed to use the Openreach and Other UK telecoms WACCs to set allowed returns on capital employed for the purpose of setting regulated prices.
- 5.92 BT’s regulatory accounting system sometimes needs to use WACCs to attribute costs, e.g. when using PAC or cumulo methodologies. BT’s 2018/19 AMD sets out the WACC percentages BT has associated with different cost pools.¹³⁴
- 5.93 There is no current requirement for BT to use particular WACCs in its cost accounting system. Generally, BT has tended to use the WACCs determined in whichever market review statement was published prior to the start of the financial year or those published in statements relevant to particular markets.¹³⁵ We consider this approach is reasonable. Although BT has occasionally applied WACCs we considered inappropriate, we have understood this only to have had a very small effect on costs in regulated markets.¹³⁶
- 5.94 Where a WACC is required to attribute costs to a cost pool, we would expect a WACC to be used which reflects the part of BT to which that cost pool relates. In the January 2020 WFTMR Consultation we proposed to associate the Openreach, Other UK telecoms and rest of BT WACCs with the following services, markets and parts of BT:
- **Openreach:** PI, WLA (excluding FTTP), dark fibre used for leased lines access and IEC services.
 - **Other UK telecoms:** FTTP, active leased lines access and IEC services, all other SMP markets, wholesale markets, retail markets and parts of BT excluding those in Rest of BT.
 - **Rest of BT:** ICT services provided by Global Services and Technology divisions.

¹³³ We propose that BT can include reconciling items relating to IFRS15 such that the RFS can be reconciled to the BT Group statutory accounts.

¹³⁴ See pages 106 and 187 – 191 of the 2018/19 AMD.

¹³⁵ In its 2018/19 AMD BT references the WACCs published in the 2016 BCMR Statement and 2018 WLA Statement. See page 22.

¹³⁶ For example on page 106 of the 2018/19 AMD, BT notes it has used the 13.3% Rest of BT WACC from 2018 WLA Statement for some cost pools. We would not have expected this WACC rate to be used since it only applies to BT’s ICT operations in divisions such as Global Services.

- 5.95 In general, we would expect to see either the Openreach or Other UK telecoms WACCs used in BT's cost accounting system. It may also be reasonable to use the BT Group WACC when attributing costs early in the cost allocation process where it is not possible to associate these with particular parts of BT.
- 5.96 We expect BT to refer to our clarification of which services/markets each WACC relates to when deciding which WACC to use in its allocation system and to explain its approach in its AMD, as it does now. Therefore, at this stage we do not propose to direct BT to use specific WACCs when preparing the RFS.

Preparation of the RFS – market specific requirements

- 5.97 In this section we set out proposed requirements on BT in relation to specific markets in which we propose to find BT has SMP in the January 2020 WFTMR Consultation which we consider are required to maintain consistency with our regulatory decisions. These proposals are included in the 'consistency direction' in Annex 5. This direction ensures the RFS are prepared on a basis that allows us to assess the impact and effectiveness of our remedies and provides assurance to stakeholders that information is being created and retained such that appropriate regulation can continue to be maintained in future.

Physical infrastructure

Poles

- 5.98 We propose three requirements in relation to poles:
- Identification of pole costs;
 - Exclusion of cabling activities; and
 - Network adjustments not subject to a financial limit.

Identification of pole costs

- 5.99 In the January 2020 WFTMR Consultation we said that BT had historically recorded the cost of poles under several different classes of work (COWs), such as copper, fibre and dropwires.¹³⁷ To ensure that cost data for poles is available and robust we propose to require BT to separately account for pole assets in its RFS.
- 5.100 We expect this will mean that BT will have to identify and report pole assets separately from other assets in its regulatory reporting system, as opposed to estimating pole assets by way of models or calculations undertaken outside of its regulatory reporting system. This will include separately identifying the volume and costs of new poles that are installed and establishing an appropriate asset life of these assets.¹³⁸ While recording pole additions going forward should be straightforward, we appreciate that it could be more difficult to

¹³⁷ Paragraph A20.42, January 2020 WFTMR Consultation.

¹³⁸ For example, to the extent poles have previously recorded alongside copper assets, they will have been associated with an asset life of 18 years. However, we understand some poles are significantly older.

extract information on historical poles from existing asset bases (e.g. copper). Therefore, for the initial split of poles from other assets, we consider that the modelling work Openreach has carried out to establish the asset base for poles (referenced in the January 2020 WFTMR Consultation¹³⁹) would be an appropriate starting point.

- 5.101 During the control period we propose to require BT to engage its regulatory auditors to provide assurance, in the form of agreed upon procedures, that that it has properly separated pole assets from other assets and that the asset life is reasonable.

Exclusion of cabling activities

- 5.102 In the January 2020 WFTMR Consultation we proposed that the cost base (and hence price) of poles should exclude costs associated with cabling activities.¹⁴⁰ To ensure the costs presented in the RFS are consistent with this, BT should exclude costs associated with cabling from the poles cost base. We consider this is captured by our proposed change to the causality principle (i.e. that costs should only be attributed to services where they are relevant to the provision of this service) so we do not propose a separate consistency direction at this stage.

Network adjustments not subject to a financial limit

- 5.103 In the 2019 RFR Statement we imposed requirements on BT to:
- identify and record network adjustment costs (both above and below the financial limit);
 - capitalise internal and external network adjustments below the limit in the PI market;
 - expense internal and external network adjustments above the limit in the PI market (the '2019 PI requirements').¹⁴¹
- 5.104 We propose to re-impose these requirements to ensure that BT reports network adjustments on a basis consistent with the proposed PI charge control and non-discrimination obligations and to support the proposed reporting of network adjustments set out in Section 4.
- 5.105 In the January 2020 WFTMR Consultation we said network adjustments for making poles usable (which are currently not usable because damaged, decayed or defective) are not subject to a financial limit.¹⁴² This means that these network adjustments would be pooled and recorded against total pole assets costs (to be recovered across all users of the infrastructure).
- 5.106 To ensure BT reports costs on a consistent basis, in addition to the re-imposition of the 2019 PI requirements, we propose to include an additional consistency requirement for BT

¹³⁹ Paragraph A20.43, January 2020 WFTMR Consultation.

¹⁴⁰ Paragraph A20.44, January 2020 WFTMR Consultation. Re-cabling occurs when a pole needs to be replaced and cables removed from the old pole and attached to a new one.

¹⁴¹ See summary in Table 4.1, 2019 RFR Statement.

¹⁴² Paragraph 5.89, Volume 4, January 2020 WFTMR Consultation.

to attribute all network adjustments associated with poles to the pole asset and to ensure these network adjustments can be separately identified.

Table 5.3: Proposed requirements to be included in the consistency direction in relation to poles

Requirement	Proposal
Pole identification	BT must identify and record the capital cost of poles separately from other asset and infrastructure costs. BT must obtain an opinion in the form of agreed upon procedures from its Regulatory Auditor in relation to this.
Pole asset life	BT must ensure the accounting asset life of poles reflects their useful economic life. BT must obtain an opinion in the form of agreed upon procedures from its Regulatory Auditor in relation to this.
Network adjustments	In addition to the 2019 PI requirements, BT must attribute all network adjustments associated with poles to the pole asset and ensure these network adjustments can be separately identified

Duct

Lead-in duct identification

- 5.107 As noted in the January 2020 WFTMR Consultation¹⁴³, BT does not currently record costs for the different types of duct and in the case of lead-ins it does not have a physical record of lead-in duct, lead-in link and facility hosting assets beyond the distribution point.¹⁴⁴ This meant we were unable to use information from BT's regulatory accounting system to propose simplified lead-in charges and instead relied on sampling information provided by BT.¹⁴⁵
- 5.108 We appreciate that identifying existing lead-in assets in the RFS would be a difficult exercise and consider that Openreach's sampling approach set out in the WFTMR provides a reasonable estimate of the cost of existing assets. However, given that there could be significant spend on lead-in assets associated with FTTP over the control period, and to ensure we can assess the impact and effectiveness of our charge control, we propose to require BT to separately identify the volume (by length and connections) of new lead-in ducts and their associated costs.

Attribution of duct to PI services

- 5.109 To set PI charges in the January 2020 WFTMR Consultation we needed to attribute duct costs between PI services. The attribution of duct to PI services used in the 2018 WLA Statement was very different to the attribution of duct provided by Openreach for the

¹⁴³ Paragraphs 5.18 to 5.21, Volume 4, January 2020 WFTMR Consultation

¹⁴⁴ Paragraph 5.47, Volume 4, January 2020 WFTMR Consultation

¹⁴⁵ Paragraph 5.54, Volume 4, January 2020 WFTMR Consultation.

purposes of the January 2020 WFTMR Consultation (which we considered was based on more robust data).¹⁴⁶ We said that using Openreach's latest cost attribution would lead to significant changes in prices, notably for single bore and 3+ bore duct.¹⁴⁷ We said that such changes in prices would conflict with our general policy aim to support stable prices for users.

- 5.110 To set prices we proposed to use the 'old' methodology used to set charges in the 2018 WLA Statement to attribute costs associated with duct assets installed before 31 March 2018. We proposed to apply the 'new' methodology to attribute costs associated with duct assets installed after this date since we thought this provided a more robust view of forward-looking incremental costs.¹⁴⁸
- 5.111 To ensure the costs presented in the RFS are consistent with our approach to setting prices we propose to require BT to attribute duct costs to PI services on the same basis, meaning BT must:
- Separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018;
 - Attribute costs associated with pre-March 2018 duct to PI services on the same basis as the 2018 WLA Statement (the consistency direction includes the relevant percentages);
 - Attribute costs associated with post-March 2018 duct to PI services in proportion to the estimated standard cost of each PI service, where the standard cost is estimated by reference to unit costs and volumes. This analysis should be updated each year to take account of changes in the mix of jobs.¹⁴⁹

Mapping BT's physical infrastructure records and financial records

- 5.112 In the 2018 WLA Statement, we imposed a requirement on BT to map its physical infrastructure records to its financial records.¹⁵⁰ BT is required to complete the initial mapping exercise for the 2019/20 RFS.
- 5.113 The objective of this exercise is to ensure that the asset costs recorded against PI (from the fixed asset register) capture all relevant PI assets, and that those assets exist (from the physical infrastructure records).
- 5.114 We recognised in the 2018 WLA Statement that parts of BT's asset base will be easier to map to the financial records than others and that where there are significant gaps in the data, either physical or financial, BT could use surveys, sampling and/or bottom-up modelling to fill in gaps in the information. While we have worked with BT to understand the steps it is taking to comply with this requirement, we expect the exercise will be one of

¹⁴⁶ Paragraph 5.19, Volume 4, January 2020 WFTMR Consultation.

¹⁴⁷ Paragraph 5.19, Volume 4, January 2020 WFTMR Consultation.

¹⁴⁸ Paragraph 5.22, Volume 4, January 2020 WFTMR Consultation.

¹⁴⁹ For example differences in the surface mix each year (whether duct is installed under soft or hard surfaces, which can affect the cost).

¹⁵⁰ Paragraphs A8.93 to A8.107, [2018 WLA Statement](#)

continual improvement, particularly as PI evolves. We therefore propose to re-impose this requirement for the January 2020 WFTMR Consultation forward look period to ensure that BT appropriately captures the costs of PI assets in the market.

Table 5.4: Proposed requirements to be included in consistency direction in relation to duct

Requirement	Proposal
Lead-in duct identification	BT must identify and record the volume (by length in metres and by number of connections) and capital cost of lead-in duct installed after April 2021.
Attribution of duct	BT must: <ul style="list-style-type: none"> • Separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018; • Attribute costs associated with pre-March 2018 duct to PI services on the same basis as the 2018 WLA Statement (the consistency direction includes the relevant percentages); • Attribute costs associated with post-March 2018 duct to PI services in proportion to the estimated standard cost of each PI service, where the standard cost is estimated by reference to unit costs and volumes. This analysis should be updated each year to take account of changes in the mix of jobs.
Mapping BT's physical infrastructure records and financial records	BT must ensure that aggregated cost data within its Fixed Asset Register data is mapped on an annual basis to its physical asset inventory held within its PIPER system.

Leased lines access and inter-exchange connectivity services

ECCs

5.115 In the January 2020 WFTMR Consultation we noted that BT currently capitalises ECC costs associated with i) the fixed fee ECC cost recovered from connection services and ii) other ECC costs recovered against additional ECC charges.¹⁵¹ We said we did not agree with capitalising ECC costs and that these should instead be expensed in the same period revenue is recognised. We proposed to make an adjustment to this effect for the purpose of setting prices, which had the effect of adding around £35m of operating costs to relevant markets and removing around £90m of MCE.¹⁵²

¹⁵¹ Paragraph A16.38. Annex 16, January 2020 WFTMR Consultation.

¹⁵² Paragraph A16.39. Annex 16, January 2020 WFTMR Consultation. See Table A16.4 for the impact of the adjustment.

- 5.116 Our proposed amendment to the objectivity principle (discussed above) would explicitly require BT not to capitalise costs which have already been recovered through upfront charges (such as ECCs).
- 5.117 Given that this is a relatively large adjustment, and to ensure that all historically capitalised costs associated with ECCs are removed from MCE, we propose to require BT to identify all capitalised ECCs and to treat these as if they were expensed in the year they were incurred. We propose that BT separately discloses the ECC expense as a note alongside each of the leased lines access and IEC markets.

Table 5.5: Proposed requirements to be included in consistency direction in relation to ECCs

Cost	Proposal
ECCs	BT is to identify all capitalised ECCs costs within leased lines markets and write those costs off as a one-off expense in the year they were incurred. BT shall separately disclose this expense in the RFS.

Dark fibre

- 5.118 In the January 2020 WFTMR Consultation we proposed a cost-based charge control for dark fibre services in leased lines access and IEC markets.¹⁵³ Our dark fibre cost estimates were based on the passive component costs associated with providing an EAD circuit plus some costs specific to a dark fibre circuit. For each of these we have considered whether to direct BT to identify costs or prepare costs in a specific way to ensure the published RFS are consistent with our proposed control.

Dark fibre costs derived from EAD component costs

- 5.119 We made assumptions about how to treat EAD component costs when estimating dark fibre costs because BT does not currently attribute costs to dark fibre services in its RFS and data may not exist to identify the proportion of costs that relate to dark fibre. Our proposals in this section seek to ensure that, where possible, BT separately identifies costs associated with dark fibre and attributes costs to dark fibre services on a basis consistent with our proposed control.
- 5.120 In the January 2020 WFTMR Consultation we proposed treatments for seven EAD cost components when estimating dark fibre costs.¹⁵⁴ We consider below whether to impose consistency directions on each of these to allow us to assess the effectiveness of the proposed control. We only propose a consistency direction where set out below.

¹⁵³ Table 2.1, Volume 4, January 2020 WFTMR Consultation.

¹⁵⁴ See paragraph A19.38 to A19.59, Annex 19, January 2020 WFTMR Consultation. We also considered the Openreach Service Centre Assurance (Ethernet) component but noted there were no costs reported for this in the 2018/19 RFS.

Table 5.6: Proposed treatment of existing EAD costs when estimating dark fibre costs

Cost	Proposal
Openreach Systems and Development (Ethernet)	We estimated how much of these costs relate to dark fibre. We propose to require BT to separately identify systems and development costs for dark fibre services
Openreach Service Centre – Provision (Ethernet)	We did not consider that there would be material differences in the number of provisioning-related calls made per circuit to Openreach customer contact centres between active and dark fibre services. We do not propose a consistency direction.
SLG Ethernet Provision and SLG Ethernet Assurance	SLG payments are typically a function of rental payments. We estimated dark fibre SLG payments by adjusting Ethernet SLG payments to take account of the differences between proposed dark fibre prices and active Ethernet prices. We expect BT to be able to separately identify SLG provision and assurance payments by service type, but to ensure this is the case we propose to require BT to separately identify these payments in relation to dark fibre.
Openreach Sales and Product Management	In the RFS, sales and marketing activities are allocated to services based on revenue data and other activities, such as product management are attributed based on a survey of staff. ¹⁵⁵ We estimated the costs associated with dark fibre by reference to Openreach assumptions about the likely split of time between Ethernet and dark fibre services. ¹⁵⁶ We would expect BT to review the survey to ensure it captures new dark fibre services (and potentially other new services such as PI and FTTP). At this stage we do not propose a consistency direction but will discuss with BT how it could improve the survey to include dark fibre.
Ofcom Administration Fee and Revenue Receivables	These costs are attributed to services in the RFS based on revenue. We estimated dark fibre costs by adjusting the EAD amounts for these components to take account of the differences between proposed dark fibre prices and active Ethernet prices. Since we consider the RFS approach is reasonable we do not propose a consistency direction.

¹⁵⁵ See the entry under “CP502 – Openreach sales product management” in the 2018/19 AMD.

¹⁵⁶ Paragraph A19.55, Annex 19, January 2020 WFTMR Consultation.

Costs specific to a dark fibre circuit

- 5.121 In the January 2020 WFTMR Consultation we estimated the costs of patch panels (at BT exchanges and customer premises) and initial testing. These were estimated since Openreach does not currently incur these costs.¹⁵⁷
- 5.122 For patch panels we estimated the cost of the patch panel equipment and the labour cost associated with installing them at the exchange and customer premises. We capitalised this cost and depreciated it over 7 years¹⁵⁸ to estimate the patch panel charge.
- 5.123 For initial testing we estimated the unit labour cost and average time to complete testing. In relation to initial testing we said Openreach should be able to design processes so there is not a material difference in the time or cost required whether testing a single or dual fibre circuit.
- 5.124 Since these will be new activities we propose to require BT to separately record the costs associated with i) patch panel equipment, ii) labour to install patch panels and iii) labour to undertake initial testing of dark fibre circuits. The costs associated with labour should include the hourly engineering pay and the average time taken to complete the task, including any differences between testing single and dual fibre and installing patch panels at the exchange and customer premises. The capitalised cost of patch panels should be depreciated over 7 years. This will ensure that information is available to assess the effectiveness of our proposed charge control.¹⁵⁹

Table 5.7: Proposed requirements to be included in BT's RFS in respect of patch panels and initial testing

Cost	Proposal
Patch panels	BT to separately record the cost of patch panels equipment and labour to install patch panels. Labour costs should include the hourly engineering pay and the average time taken to install patch panels at exchanges and customer premises. The capitalised cost of patch panels should be depreciated over 7 years.
Initial testing	BT to separately record the cost of labour associated with initial testing of dark fibre circuits. Labour costs should include hourly engineering pay and the average time taken to test dark fibre circuits, including any differences between single and dual fibre.

¹⁵⁷ Paragraph A19.60, Annex 19, January 2020 WFTMR Consultation.

¹⁵⁸ Paragraph A19.70, Annex 19, January 2020 WFTMR Consultation. The asset life assumption came from Openreach response dated 14 September 2018 to question 18b of the 10th LLCC s135 notice.

¹⁵⁹ In Section 6 we propose that BT reports this information to us privately. BT should explain in its AMD how it has used this information to report the cost of patch panels and initial testing in the published RFS.

Assurance

- 5.125 In Figure 2.1 above we noted that some reporting requirements on BT exist to provide assurance to stakeholders that the RFS have been properly prepared.

Reconciliation to statutory accounts

- 5.126 We currently require BT to provide a reconciliation of the RFS to the audited BT Group statutory accounts.¹⁶⁰ We propose to maintain this requirement to help demonstrate that the RFS is complete and includes all relevant financial records. This requirement is included in the ‘form and content’ direction in Annex 5.¹⁶¹

Audit

- 5.127 The Audit Direction sets out the standard of audit review BT is required to obtain for the financial information contained in the RFS. Audit of the RFS gives confidence that the RFS is free from material error and has been prepared following the AMD published by BT and relevant directions issued by Ofcom. We propose to maintain this audit requirement and we do not propose any changes.
- 5.128 The current regulatory reporting SMP condition also requires BT to obtain an assurance statement in the form of “agreed upon procedures” when Ofcom requests.¹⁶² We propose to continue to require BT to commission work from an independent third party (such as the regulatory auditor), which could include ‘agreed upon procedures’, as and when required by us. This will give us flexibility to respond to specific issues over the control period. We propose to maintain this existing SMP condition but with a small change to the wording to remove an ambiguity as to whether this obligation arises under the SMP condition (as intended and as it has worked in practice to date) or whether a separate statutory direction is also required.
- 5.129 We do not propose any other changes to the audit requirements at this stage but we are interested in stakeholder views on whether there could be more effective ways to provide assurance than the current audit arrangements, including, for example, greater use of agreed upon procedures which could examine specific BT methodologies in more detail.

¹⁶⁰ This is also required under the 2005 EC recommendation which states “For consistency and data integrity, it is recommended that the financial reports of the regulatory accounts be consolidated into a profit and loss statement and a statement of capital employed for the undertaking as a whole. A reconciliation of the separate regulatory accounts to the statutory accounts of the operator is also required”.

¹⁶¹ We propose that the format of the reconciliation schedule includes minor changes consistent with its presentation in the 2018/19 RFS. We also propose that rows can be added or removed from this schedule with agreement from Ofcom.

¹⁶² Agreed upon procedures means an engagement carried out in accordance with international standard (ISRS 4400) under which an independent third party performs a set of audit procedures agreed by Ofcom and based on Ofcom’s specific requirements and reports the findings of that work to Ofcom.

- 5.130 Finally, we note that in the January 2020 WFTMR Consultation we proposed to require BT to provide assurance on its compliance with charge controls in the form of agreed upon procedures.¹⁶³ Under this proposal a third party such as the regulatory auditor (currently KPMG) will carry out tests agreed with Ofcom.¹⁶⁴ This was previously included as a regulatory reporting requirement but has been moved to the charge control SMP condition.

Implementation

- 5.131 The proposed requirement to audit the RFS is set out in the proposed SMP condition and Audit Direction in Annex 5.
- 5.132 The proposal to require BT to commission work from independent third parties when required by us is set out in the proposed SMP condition in Annex 5.

Other reporting requirements

- 5.133 We propose to make the following small changes to the regulatory reporting SMP condition and associated directions:
- Remove references to the 'Regulatory Accounting Guidelines' which are no longer required.¹⁶⁵
 - Remove the requirement for 'on demand' reporting. This currently requires BT to be capable of preparing regulatory financial statements in relation to any specified calendar month or months. We do not consider we require BT to maintain this capability in future.
 - Include an option for Ofcom to require BT to publish a report showing the impact of correcting any deficiencies in the RFS.
 - Clarify that BT can depart from providing prior year comparatives when this is consistent with statutory accounting standards or where agreed with Ofcom.
 - Simplify the condition requiring BT to maintain sufficient accounting records.
 - Simplify the condition requiring BT to demonstrate that its charges comply with EOI requirements, where applicable.
 - Add requirements to the SMP condition which replace, simplify and modify requirements previously captured in the Transparency Direction (which we propose to remove)¹⁶⁶. Since the wording of the existing requirement could apply to accounting records where there is neither an obligation to publish them nor any reason to believe that there will often be a need for third parties to be able to understand them, we propose to clarify that there is only a requirement under the SMP condition for the

¹⁶³ Paragraph 3.93, Volume 4, January 2020 WFTMR Consultation.

¹⁶⁴ These could include checking the volume and revenue information has been correctly extracted from BT's systems.

¹⁶⁵ We explained in Annex 28 of the 2016 BCMR Statement why we did not consider it necessary to impose this requirement.

¹⁶⁶ Requirements previously captured by the Transparency Direction are included at condition 11.9 and 11.22 in the proposed SMP condition in Annex 5.

RFS, AMD, reconciliation report and systems reconciliation reports to be drafted transparently.

- Clarify and simplify the drafting where possible.

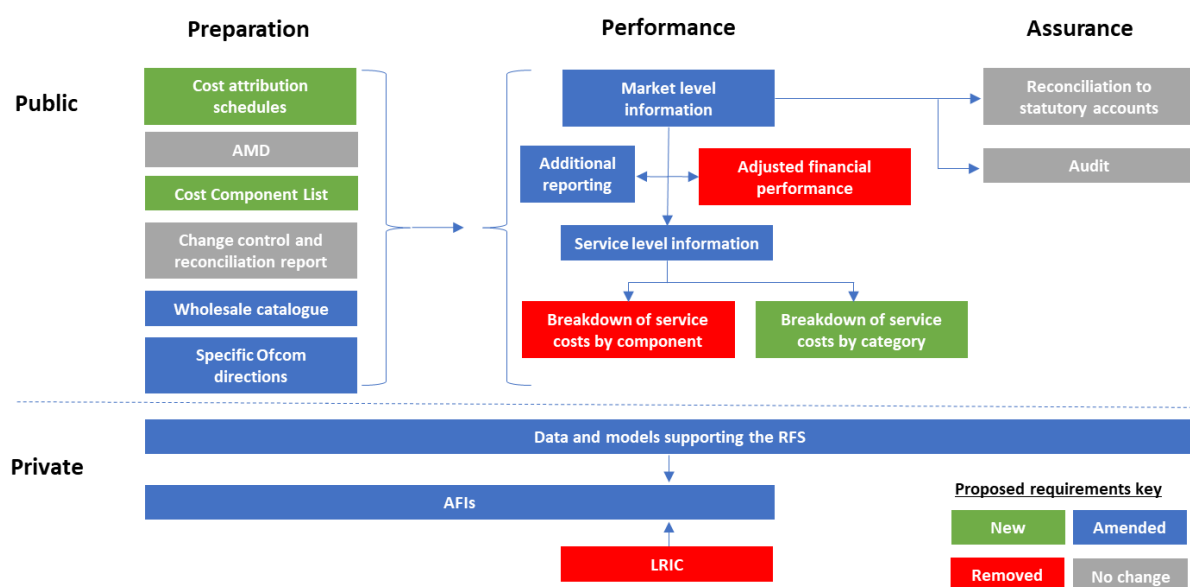
Consultation question

Question 5.1: Do you agree with our proposals in relation to the preparation and assurance of the RFS set out in Section 5? Please set out your reasons and supporting evidence for your response

6. Information provided to Ofcom

- 6.1 We require BT to provide us with some information privately. We require this information to make informed regulatory decisions, monitor compliance with SMP conditions and ensure that those SMP conditions continue to address the underlying competition issues.
- 6.2 In this section we discuss the private information requirements highlighted in the diagram below.

Figure 6.1 Illustration of current public and private requirements



- 6.3 The information provided privately by BT principally relates to LRIC information and further information on the RFS such as data and models supporting the RFS and 'additional financial information' (AFIs) relating to SMP markets. In this section we review each of these requirements.

Our main proposals

- **LRIC:** Remove requirement on BT to provide LRIC information
- **Data and models supporting the RFS:** BT to provide data and models supporting its cost accounting system so that Ofcom can run the same software (CostPerform) that BT uses to prepare the RFS
- **Information relating to all proposed SMP markets:** BT to provide the following schedules i) a breakdown of costs attributed using PAC methodologies ii) a mapping between the operating cost and MCE of each cost component and the operating cost and MCE cost categories from the market performance summary and iii) a breakdown of grant funding and associated expenditure by asset category.
- **Information relating to PI:** BT to provide information on the costs of lead-in duct and how it has attributed duct costs to PI services in the RFS
- **Information relating to WLA:** BT to provide information on FTTP investment in Area 2 and Area 3.
- **Information relating to dark fibre:** BT to provide information on patch panels and initial testing for dark fibre circuits
- **Removal of information no longer required:** Remove requirement to provide most other existing schedules with minor adjustments to the remaining schedules.

LRIC

- 6.4 We currently require BT to maintain a LRIC model capability and to provide us with LRIC by component and LRIC, DLRIC and DSAC by service. The BT LRIC model is not audited.
- 6.5 The introduction of the PI market means BT's current LRIC model would need significant restructuring if we were to require BT to continue providing us with estimates of LRIC.¹⁶⁷ We have therefore considered if it is necessary and proportionate to retain this requirement.
- 6.6 One of the previous justifications for this requirement was the imposition of basis of charges obligations where BT was required to demonstrate that charges were reasonably derived from forward looking LRIC plus a mark-up for common costs and a return on capital employed. As the January 2020 WFTMR only proposed to apply these obligations in limited circumstances¹⁶⁸, we do not consider this justifies continuing to require BT to maintain a LRIC model. Further, as explained below, while we have recently used information provided by the LRIC model to inform cost modelling and situations may arise in future where LRIC data may be useful, we consider that future information requirements

¹⁶⁷ There may also need to be a review of other cost categories and the associated cost volume relationships to ensure these are fit for purpose.

¹⁶⁸ For example in the case of 'PIA Adjustment' services. See Condition 12A.4 of Volume 5 of the January 2020 WFTMR Consultation. See also Condition 6 of Volume 5.

can be met without the need for BT to develop and maintain a LRIC model on an ongoing basis.

- 6.7 For example, in the January 2020 WFTMR Consultation we used BT LRIC data in our top down models to inform cost and asset volume elasticities (AVEs and CVEs) which are used to forecast changes in costs in response to changes in volumes.¹⁶⁹ However, if we use AVEs and CVEs in the future, we consider that there are alternative ways to provide the necessary information (e.g. from bottom-up models or from an analysis of the data supporting the cost accounting system).¹⁷⁰
- 6.8 Given the limited uses of the LRIC model at present, alternative ways to estimate AVEs /CVEs if required and the work required to update the LRIC model, we consider it would not be proportionate at this stage, to continue to require BT to maintain a LRIC model capability beyond 2021/22. We therefore propose to remove this requirement from the ‘form and content’ direction, although we note that BT may choose to do so for its own purposes.

Further information on the RFS

- 6.9 In this section we review the additional information BT provides to us relating to all markets in the RFS. We have considered:
- The data and models supporting BT’s cost accounting system; and
 - Additional Financial Information (AFIs) relating to all SMP markets

Data and models supporting BT’s cost accounting system

- 6.10 We currently require BT to provide us with a ‘data file’ including all the accounting records in its cost attribution system which we upload into our own software. We propose to continue to require BT to provide this type of information to allow us to interrogate the information used to prepare the RFS and better understand how BT is complying with its cost accounting obligations.
- 6.11 There are some disadvantages to the current format of the data file, e.g.
- The information does not include all the attribution layers BT uses to produce the RFS. This makes it difficult to understand how costs end up in each SMP market.
 - The data file only includes the outputs from BT’s cost attribution system. This means that we are unable to do any scenario analysis (e.g. understanding the impact of different attribution rules).

¹⁶⁹ Annex 16, January 2020 WFTMR Consultation. AVEs and CVEs were not required in our bottom-up models.

¹⁷⁰ We note that alternative estimates of AVEs/CVEs could also impact other top-down model inputs such as efficiency, where this is an estimate of cost savings after taking account of the impact of inflation and volumes.

- The file is very large and the structure can change from year to year. This means it takes time to ensure the file is loaded correctly onto our software and we have the correct mappings to regulated services.
 - Given the size of the file, BT applies a filter to remove very small transactions which reduces the size to a manageable level. This means the results we obtain can be slightly different from the RFS and Ofcom spends a lot of time reconciling the data to the RFS.
- 6.12 In 2018/19, BT replaced its previous cost accounting system ('Refine') with CostPerform.¹⁷¹ We understand that this software is more flexible than BT's previous system and has the ability to run scenario analysis.
- 6.13 BT has offered to provide us with the data and models it uses to run CostPerform so that, if we had access to the same software, we could effectively generate the RFS. We consider that there would be several benefits to us and BT if we had this capability:
- **Focused information requests.** It could reduce the number of information requests we send BT and make the ones we send more focused, as we would have the ability to obtain information directly from CostPerform e.g. questions relating to attribution rules and cost breakdowns.
 - **Time saving.** Since CostPerform runs off a much smaller data set it could save BT time producing the current large data file and save us time loading and reconciling the data file with our current systems.
 - **Better understanding of BT's cost accounting system.** Having access to all layers of BT's attribution system and an ability to run scenario analysis will allow us to develop a better understanding of how BT is complying with its regulatory financial reporting obligations, including the impact of using the chosen attribution rules.
 - **Reduce other data requirements.** Where CostPerform can directly generate the information we require BT to provide in AFI schedules there is no need for BT to separately provide these.
- 6.14 Requiring provision of the data and models BT uses to run CostPerform appears to us to be a less onerous means of providing the information Ofcom needs than the current obligations. To ensure that we continue to receive this information from 2021/22 we therefore propose to require BT to provide us with the data and models used to run its cost attribution system (currently CostPerform) in current and prior years. We propose that BT should provide this at the same time as the RFS is published.¹⁷² We have included text in the SMP Condition and form and content direction to reflect this proposal.

¹⁷¹ CostPerform is used by various global regulators and regulated companies. See <https://www.costperform.com/markets>.

¹⁷² Currently, the data file is provided two weeks after the RFS have been published. Given the CostPerform data can be provided on a smaller file and should not require additional processing by BT, we propose it should be provided at the same time as the RFS is published.

AFIs relating to all markets

6.15 We currently require several AFIs in relation to all markets. These are set out in the ‘form and content’ direction.¹⁷³ We propose to amend these as follows:

Table 6.1: Requirements applicable to all markets

Requirement	Proposal
LRIC schedules	Remove as explained above
Data file	Amend text to require data and models supporting the cost attribution system (as explained above)
CCA fixed asset movement statement	Maintain requirement but clarify that this should clearly show capex and annual changes to assets in the course of construction for each asset category to enable us to fully understand the information used to prepare the RFS.
Graphs over time of indices used to revalue assets	Maintain requirement but require data rather than graphs.
Asset lives and depreciation	Maintain requirement
RAV model (showing duct valuation)	Maintain requirement but clarify that this must include the adjustment made to the duct valuation, all annual changes to the gross and net book value of duct (e.g. including capex, disposals and assets in the course of construction), all calculations and an explanation of how this information has been used to allocate duct costs to PI services. This will allow us to assess BT’s compliance with the requirements of the RAV direction and fully understand how this has been used in the RFS.
Price controls in wholesale markets (confidential statements)	Remove since now included in the charge control condition. ¹⁷⁴
Adjusted financial performance by market	Remove, as explained in Section 4

6.16 We propose to require BT to provide additional AFIs on the following:

- **PAC breakdown:** provide a breakdown of costs attributed using PAC methodologies (e.g. BT Group PAC, Openreach PAC, Technology PAC) by two-digit OUC along with a description of the activities undertaken by each OUC. This will enable us to monitor

¹⁷³ Page 71 of the Annex to the July RFR Statement.

¹⁷⁴ See Volume 5, January 2020 WFTMR Consultation.

BT's use of the PAC methodology over time and help ensure that costs are attributed using causal cost drivers where possible.

- **Cost component mapping:** Provide a mapping between the operating cost and MCE of each cost component and the operating cost and MCE cost categories from the market performance summary. This will help us understand how the results of BT's cost accounting system (constructed using cost components) translates to the information presented in the RFS (given our proposals in Section 4).
- **Grant funded assets:** see explanation in Table 6.3.

- 6.17 For all AFIs we propose that if the required information can be obtained from CostPerform (using data and models provided by BT), BT does not need to provide separate schedules to comply with its obligations.

Market specific information

- 6.18 We propose to require BT to provide us with AFI schedules specific to the proposed SMP markets and shared ancillaries. These proposals are set out below and the requirements are in the form and content direction in Annex 5.

Physical infrastructure market

Lead-in duct

- 6.19 Lead-in duct links customer premises to the main, shared, duct network. In the January 2020 WFTMR Consultation we proposed prices for a simplified lead in product comprising lead-in duct, lead-in link duct (one bore spine duct) and associated facility hosting. These prices were informed by unit cost estimates for each of these elements, derived from information provided by BT.
- 6.20 BT does not currently separately record costs for the different types of duct. In the case of leads-ins, BT does not routinely keep records of the infrastructure beyond the distribution point (though as per our proposal in Section 5, BT should separately record assets and costs associated with lead-in duct after April 2021). To estimate the unit cost of each type of duct in the January 2020 WFTMR Consultation, total duct costs needed to be attributed. This attribution was based on the unit cost estimates provided by BT. For lead-in duct, BT assumed that the unit cost was the same as that calculated for single bore spine duct.¹⁷⁵
- 6.21 To assess the effectiveness of our control we propose to require BT to provide information on the costs of lead-in duct and single bore spine duct. Where BT does not separately record assets and costs associated with lead-in duct and single bore spine duct (as is the case at present), it could provide the results of sampling along the lines of that provided as

¹⁷⁵ Openreach response dated 30 October 2019 to the s135 notice dated 17 October 2019, question 3

part of the WFTMR.¹⁷⁶ This will help us assess how these costs compare over the control period.

Attribution of duct to PI services

- 6.22 In Section 5 we proposed to require BT to attribute duct costs to PI services on a basis consistent with the proposed approach to setting prices, where duct installed pre and post-March 2018 is allocated on different bases.
- 6.23 We propose to require BT to provide a schedule demonstrating how it has attributed duct costs to PI services to comply with the consistency direction and explain any assumptions it has made. Since duct assets are also subject to the RAV adjustment (see Table 6.1) we also propose that BT should show how the duct attribution schedule reconciles to the RAV schedule.

PI utilisation metrics

- 6.24 In the January 2020 WFTMR Consultation we proposed to estimate PI charges based on measures of relative utilisation.¹⁷⁷ We propose to require BT to provide information on these metrics to allow us to assess the ongoing effectiveness of the charge control.
- 6.25 The required metrics are:
- Kilometres of lead-in duct
 - Average occupancy (per 25mm sub-duct equivalent) for spine duct single bore, 2 bores and 3+ bores
 - Average number of sub-ducts crossing i) a joint box and ii) a manhole
 - Number of pure and mixed DP and feeder poles and number of cable poles
 - The number of single and multi-premise attachments for cable poles and pure and mixed DP and feeder poles
 - The average number of cables up a pole and number of manifold attachments for all poles
- 6.26 To ensure that these metrics can be compared to costs each year, we propose to require BT to report these metrics as at 30 September (i.e. the mid-point of the financial year).

Review of requirements imposed in the 2019 RFR Statement

- 6.27 In the July 2019 RFR Statement we said BT must provide three AFIs in relation to PI. We propose to remove the requirement to provide these as noted in the table below.

¹⁷⁶ See paragraph 5.54, Volume 4, January 2020 WFTMR Consultation.

¹⁷⁷ See Annex 20, January 2020 WFTMR Consultation

Table 6.2: Requirements applicable to PI from the 2019 RFR Statement

Requirement	Proposal
Additional detailed service reporting for PI services where revenue > £1m	Remove since all PI services will be included in the published RFS
Updated inputs for calculation of the maximum PI rental charges. This provides various inputs used to set prices in the previous PI pricing model	Remove since not required for calculation of charges in the January 2020 WFTMR Consultation
Network adjustments associated with services where revenue > £1m	Remove since information on network adjustments will be included in the published RFS

Wholesale local access markets

RAB in Area 3

- 6.28 In the January 2020 WFTMR Consultation we proposed a RAB charge control in Area 3 to support Openreach's investment in ultrafast fibre networks. This would see MPF charges in Area 3 marked-up by a 'K factor' to allow the recovery of BT's fibre investment costs where investment targets are met (based on the number of premises passed with FTTP).
- 6.29 In Section 4 we proposed to require BT to publish in the RFS a summary of the qualifying number of homes passed with FTTP and the revenue generated from the mark-up on MPF services. We propose to require BT to provide us with the full details behind these calculations. This would show, for example, total homes passed with FTTP less those passed using government subsidies (which are excluded from qualifying homes passed) and how cumulative mark-up revenue is calculated by reference to K factors and homes passed. This will help us monitor that the information published in the RFS is reliable.
- 6.30 We also propose to require BT to provide us with a schedule setting out how much it has directly invested in FTTP networks across WLA Area 2 and WLA Area 3 in each year and on a cumulative basis.¹⁷⁸ We also propose to require it to provide a breakdown of revenues from ultrafast fibre services in Area 2 and Area 3 on an annual and cumulative basis.¹⁷⁹ This information will help us understand the level of investment that is taking place, how this compares across geographic markets and assess the effectiveness of the remedies imposed in Area 2 and Area 3.

TRCs and special fault investigations

- 6.31 We currently receive some cost information on TRCs in relation to the hourly rate for direct and overhead costs. We propose to require BT to provide us with this information for TRCs

¹⁷⁸ For example, we would expect this to show incremental spend relating to each type of PIA asset (single bore spine duct, lead in duct, poles, etc), fibre assets, other assets (by asset type) and operating costs.

¹⁷⁹ The January 2020 WFTMR Consultation proposes that the mark up is estimated net of FTTP revenues.

provided in all WLA, leased lines access and IEC markets. This will help us assess trends in hourly costs against BT's hourly charges and understand differences between rates charged in these markets.

- 6.32 In Section 4 we proposed to remove the requirement on BT to publish information on SFI module costs. To help assess trends in hourly and module costs against SFI charges, we propose to require BT to provide information on the costs per SFI module and the hourly cost these are based on.¹⁸⁰

Review of current requirements

- 6.33 BT is currently required to provide six AFIs for the WLA market. We comment below on whether we propose to maintain, amend or remove these requirements.

Table 6.3: Existing WLA requirements

Requirement	Proposal
BDUK funding and associated expenditure: for each BDUK cost component this shows the funding and costs by finance type.	Replace with a requirement to provide us with information on all grant funded investments (not just BDUK) to include the following on each grant:
BDUK cost/revenue reattribution: the impact of reattributing BDUK cost/revenue to other components	<ul style="list-style-type: none"> • Total expenditure funded by grant, both in the year and on a cumulative basis, split by asset type, and a reconciliation to where this information is reported in the RFS • Total grant funding in the year and on a cumulative basis, split by the asset types to which the funding has been allocated and a reconciliation to where this information is reported in the RFS • Explanation of the grant funding arrangements <p>This is consistent with our proposal in Section 5 for BT to separately identify externally funded network build and will make it possible to separately identify grant-funded assets from assets for which regulated prices have been set to recover costs.¹⁸¹</p>

¹⁸⁰ The draft legal directions in the January 2020 WFTMR Consultation say the hourly charge for SFIs in year one of the control period will be £43.28, with total costs for most SFIs being equal to engineering time x hourly charge.

¹⁸¹ This proposal relates to all SMP markets, not just WLA and we have reflected this in the form and content direction.

Electricity charges: this shows the calculation of electricity charges, including BT's mark-up on its purchase of electricity	Maintain requirement but move to 'shared ancillary' requirements (since this is where electricity will be reported).
Detailed WLA service volumes, volumes and cost. This provides details on each service with revenue above £5m that are not publicly disclosed	Remove since information will be in the published RFS.
Detailed WLA service component FACs. This provides the component breakdown for each service with revenue above £5m that is not publicly disclosed	Remove since no longer requiring FAC information by service to be reported.

Leased lines and inter-exchange connectivity markets

6.34 BT is currently required to provide three AFIs for leased lines markets. We propose to remove these requirements as noted below.

Table 6.4: Existing leased lines requirements

Requirement	Proposal
Detailed service revenues, volumes and costs. This provides information on each leased line service not publicly disclosed where revenue is above £5m	Remove since we expect information on all services to be provided by CostPerform.
Detailed BCMR Service component FACs. This provides the component breakdown for each service with revenue above £5m that is not publicly disclosed	Remove since we expect component information to be provided by CostPerform.
Information on dark fibre services revenues and costs.	Remove since information on dark fibre services with either be in the published RFS or provided by CostPerform.

Dark fibre

Patch panels and initial testing

- 6.35 In section 5 we proposed to require BT to separately record the costs associated with i) patch panel equipment, ii) labour to install patch panels and iii) labour to undertake initial testing of dark fibre circuits, because these were important inputs to our proposed charge control.
- 6.36 To help us assess the effectiveness of our proposed charge control on patch panels and initial testing, we propose that BT must report to us the following:
- the costs of patch panel equipment at the exchange and customer premises; and

- labour costs associated with installing patch panels and undertaking initial testing of dark fibre circuits. The labour cost must include hourly engineering pay and the average time taken to complete the task, including any differences between testing single and dual fibre and installing patch panels at the exchange and customer premises.

TRCs and special fault investigations

- 6.37 As noted above, we propose to require BT to provide us with this information for TRCs provided in all WLA, leased lines access and IEC markets. This will help us assess trends in hourly costs against BT's hourly charges and understand differences between rates charged in these markets.

Shared ancillaries

- 6.38 As noted above, we propose to require BT to provide us with the calculation of electricity charges, including BT's mark-up on its purchase of electricity. This will help us assess BT's compliance with the proposed basis of charges obligation.

Consultation question

Question 6.1: Do you agree with our proposals in relation to information provided to Ofcom set out in Section 6? Please set out your reasons and supporting evidence for your response.

7. Proposed SMP condition, directions and legal tests

Introduction

- 7.1 We are proposing to impose an SMP condition regarding regulatory financial reporting on BT in relation to each of the markets in which we have proposed to make an SMP finding in the January WFTMR Consultation. The SMP condition would be Condition 11 of the suite of SMP conditions we have proposed to impose on BT in these markets.¹⁸²
- 7.2 We remain of the view that there are significant advantages to BT and stakeholders of BT in applying one set of accounting rules across all markets. We consider it would be onerous and disproportionate for BT to be required to implement different approaches in different markets due to the amount of shared costs. We consider that accounting separation including where appropriate some cost accounting rules provide us with the information necessary to help us make informed regulatory decisions, for example cost information to support price controls on an ongoing basis, and information necessary to assess the impact and effectiveness of our decisions, for example, trends in the usage and returns associated with regulated services. They also enable us to monitor and, if necessary, enforce no undue discrimination and some price control regulations.
- 7.3 Publication of some information helps inform stakeholders so they can have confidence that BT is complying with its obligations and that regulation is effective and appropriate to achieve its purpose. It enables them to identify and bring issues to our attention and effectively contribute to the regulatory regime. This promotes confidence in the market, which in turn creates the conditions for effective competition.
- 7.4 We consider that our proposal to impose an accounting separation obligation, together with a cost accounting obligation (see below), will help to ensure that these objectives are met.
- 7.5 Under the “Regulatory Financial Reporting” SMP condition we are proposing to impose on BT in each regulated market, Ofcom may from time to time make such directions as they consider appropriate in relation to BT’s reporting obligations.
- 7.6 To give effect to our proposals we also intend to give six directions under section 49 of the Act and the “Regulatory Financial Reporting” SMP condition we are imposing in relation to each of the proposed SMP markets. In this section we summarise the proposed directions, which are set out in full in Annex 5.¹⁸³ The directions are:

¹⁸² See Volume 5 of the January 2020 WFTMR Consultation.

¹⁸³ We have slightly reordered these by comparison with the current directions, to make them easier to read in a logical order.

- a) Regulatory Accounting Principles Direction
 - b) Preparation, Delivery, Publication, Form and Content Direction
 - c) Consistency with Regulatory Decisions and Regulatory Asset Value Direction
 - d) Audit of the RFS Direction
 - e) Reconciliation Report Direction
 - f) Network Components Direction
- 7.7 Since we propose to remove the requirement on BT to provide an Adjusted Financial Performance Schedule we are not proposing to give a direction in this regard.
- 7.8 We have already proposed (in the January 2020 WFTMR Consultation) to revoke the existing Regulatory Financial Reporting conditions imposed in each of the proposed SMP markets with the effect that the current associated directions will also fall away.

SMP condition

- 7.9 In order to carry out our duties it is essential that robust financial information is available on the services and markets that we regulate. The availability of this information helps us understand the volumes, revenues, costs and returns of services and in markets, which allows us to monitor the impact and effectiveness of, and (for certain remedies) compliance with, the remedies imposed as part of a market review.

Accounting separation

- 7.10 Paragraph 1 of the 2005 EC Recommendation states that:
- “The purpose of imposing an obligation regarding accounting separation is to provide a higher level of detail of information than that derived from the statutory financial statements of the notified operator, to reflect as closely as possible the performance of parts of the notified operator’s business as if they had operated as separate businesses, and in the case of vertically integrated undertakings, to prevent discrimination in favour of their own activities and to prevent unfair cross-subsidy”
- 7.11 Our proposed accounting separation obligation requires BT to account separately where appropriate for internal and external sales which allows us and stakeholders to monitor the activities of BT to ensure that, where relevant, it does not discriminate unduly in favour of its own downstream business and to monitor BT’s activities in respect of the non-discrimination and EOI obligations. This, combined with the cost accounting obligation (see below), helps us to ensure that costs are not inappropriately loaded onto one set of regulated services to the benefit of BT, where BT uses primarily another set of regulated services.
- 7.12 Under sections 87(7) and 87(8) of the Act the dominant provider may be required to maintain a separation for accounting purposes between different matters relating to

network access or the availability of relevant facilities. We believe this obligation is required to monitor the overall impact and effectiveness of the remedies proposed, and especially to monitor BT's activities with regard to its non-discrimination and EOI obligations.

- 7.13 Section 87(6)(b) of the Act provides for a dominant provider to publish information for the purpose of securing transparency in relation to matters connected with network access to or with the availability of relevant facilities. Article 9(1) of the Access Directive specifies that such information can include accounting information. The proposed obligation is also necessary to support transparency. It provides a greater detail of information on the relevant markets than could be derived from BT's statutory financial statements and gives visibility, and thus reassurance, to stakeholders that BT has complied with its SMP conditions.
- 7.14 The specific accounting separation requirements we are proposing to impose on BT in these markets are set out in Annex 5.

Cost accounting

- 7.15 Recital 2 of the 2005 EC Recommendation states that the purpose of imposing the accounting separation and cost accounting obligations is "to make transactions between operators more transparent and/or to determine the actual costs of services provided". Paragraph 2 of Point 1 of the 2005 Recommendation states that:
- "The purpose of imposing an obligation to implement a cost accounting system is to ensure that fair, objective and transparent criteria are followed by notified operators in allocating their costs to services in situations where they are subject to obligations for price controls or cost-oriented prices."
- 7.16 The imposition of a cost accounting obligation ensures that BT has in place a system of rules that support the attribution of revenues and costs to individual markets and services. It therefore supports the accounting separation obligation, which requires BT to prepare and report financial information relating to individual markets and services, by ensuring that the rules attributing revenues and costs to individual markets and services are fair, objective and transparent. The cost accounting obligation is an important means of ensuring that:
- a) Ofcom and stakeholders can have confidence in the financial information prepared and provided by BT since the attribution processes and rules supporting that financial information are fair, objective and transparent. Where we do not consider that the attribution process and rules are fair and objective, transparency (via publication of the processes and rules followed by BT) allows us to effectively challenge them.
 - b) Revenues and costs are attributed to individual markets and services in a consistent manner. This mitigates the risk of double recovery of costs or that costs might be unfairly loaded onto particular services or markets.

- c) BT records all information necessary for the purposes listed above at the time that relevant transactions occur, on an ongoing basis. Absent such a requirement, there is a strong possibility that the necessary information would not be available when it is required, and in the necessary form and manner.
- 7.17 Section 87(9)(c) authorises conditions imposing such rules as we may make for the purposes of matters connected with the provision of network access to the relevant network, or with the availability of relevant facilities about the use of cost accounting systems. These would include conditions enabling Ofcom to require the dominant provider to explain what assumptions it has used in determining costs and charges, for the purposes of setting price controls, rules and obligations imposed in relation to price controls, cost recovery and cost orientation, cost accounting systems and adjusting of prices in accordance with Directions from Ofcom (section 87(10)). Where such conditions are imposed, section 87(11) imposes a duty on us to also set an SMP condition which imposes an obligation:
- to make arrangements for a description to be made available to the public of the cost accounting system used in pursuance of that condition; and
 - to include in that description details of:
 - the main categories under which costs are brought into account for the purposes of that system; and
 - the rules applied for the purposes of that system with respect to the allocation of costs.
- 7.18 We consider that the proposed condition would fulfil our duty under section 87(11) in that the cost accounting conditions require the publication of a description of the cost accounting system used and the main categories of cost and the cost allocation rules applied.
- 7.19 We believe the cost accounting obligation is necessary to ensure the processes and rules used by BT to attribute revenues and costs to individual markets and services are fair, objective and transparent. Therefore, we have decided to impose a cost accounting requirement on BT in the WLA market in the UK excluding the Hull Area.
- 7.20 The specific cost accounting requirements we are proposing to impose on BT in these markets are set out in Annex 5.

Legal tests

- 7.21 For the reasons set out below, we are satisfied that the accounting separation and cost accounting SMP conditions for BT in respect of the proposed SMP markets would meet the various tests set out in the Act and that they are appropriate to address the competition concerns identified, in line with section 87(1) of the Act.
- 7.22 When imposing SMP obligations, we need to demonstrate that the obligations in question are based on the nature of the problem identified, proportionate and justified in light of

the policy objectives as set out in Article 8 of the Framework Directive. For the draft accounting separation and cost accounting SMP conditions set out in this consultation, we consider that each of the conditions we are proposing to impose satisfy the tests set out in section 47 of the Act, namely that each obligation is:

- a) objectively justifiable in relation to the networks, services or facilities to which it relates;
- b) not such as to discriminate unduly against particular persons or against a particular description of persons;
- c) proportionate to what the condition or modification is intended to achieve; and
- d) transparent in relation to what it is intended to achieve.

Objectively justified

7.23 We consider that each of the draft SMP conditions we are proposing is objectively justifiable. The remedies that we are proposing are designed to address the competition concerns that we have identified in our market analysis (see the January 2020 WFTMR consultation Volume 2). As explained in Section 1 of that Volume, our provisional market analysis has found that Openreach has the ability and incentive:

- a) to refuse to supply access and thus restrict competition in the provision of products and services in the relevant downstream markets;
- b) to favour its downstream retail businesses to the detriment of its competitors in the relevant retail markets, by both price and non-price discrimination;
- c) not to invest in new networks or do so more slowly than would occur in a competitive market;
- d) to target price reductions or adopt other commercial terms that distort competition in the rollout of new networks; and
- e) to not maintain an adequate level of service quality in the provision and repair of wholesale services or to discriminate in the quality of provision.

7.24 Therefore, in the absence of a requirement to provide network access, supported by associated obligations, Openreach could refuse or impede access, or it could provide access on less favourable terms and conditions compared to those obtained by its own downstream businesses. The accounting separation and cost accounting obligations we are proposing form part of a package of remedies to address these competition concerns. In particular:

- a) The proposed accounting separation requirement allows us and stakeholders to monitor the activities of BT to ensure that, where relevant, it does not discriminate unduly in favour of its own downstream business and to monitor BT's activities in respect of the non-discrimination and EOI obligations. This, combined with the cost accounting obligation, helps us to ensure that costs are not inappropriately loaded

onto one set of regulated services to the benefit of BT, where BT uses primarily another set of regulated services.

- b) The proposed cost accounting obligation is necessary to ensure the appropriate maintenance and provision of accounts in order to monitor BT's activities with regard to the pricing remedies we are implementing and monitor their effectiveness at addressing the competition concerns. It is also necessary to secure that information continues to be created and captured so as to secure, and to give stakeholders confidence, that pricing can continue to be appropriately regulated in future, creating the conditions for the price controls we are now proposing to impose to be effective. It also relates to the need to ensure competition develops fairly, to the benefit of consumers, by providing transparency of BT's compliance with rules set to address the risk of exploitative or anti-competitive pricing.

Not such as to discriminate unduly

- 7.25 We consider that each of the draft conditions does not discriminate unduly against BT. We are proposing that it is the only telecoms provider to hold SMP in the markets that we have identified and the draft conditions seek to address that market position.

Proportionate

- 7.26 We consider that each of the draft conditions we are consulting on is proportionate to what that condition is intended to achieve. In each case, we are imposing an obligation on BT that: is effective to achieve our aim; is no more onerous than is required to achieve that aim; and does not produce adverse effects which are disproportionate to our aim. We explain why we consider the draft SMP conditions are proportionate in the context of the markets we are reviewing in sections 4 to 6 above.

Transparent

- 7.27 We consider that each of the draft conditions is transparent in relation to what is intended to be achieved. The text of the draft conditions is published in Annex 5 for consultation, and the operation of those conditions is aided by our explanations in this document. Our final statement will set out our analysis of responses to this consultation and the basis for any final decision that we take.

Section 88

- 7.28 In setting cost accounting conditions, we must also ensure that the network access pricing conditions set out in section 88 are also satisfied.
- 7.29 We consider that imposing a cost accounting obligation would be consistent with section 88. We also consider that imposing a cost accounting obligation is necessary for price controls to be effective.

Directions

- 7.30 Section 49(2) of the Act further requires that Ofcom must be satisfied that any direction satisfies the test in that section, which requires directions to be objectively justifiable, non-discriminatory, proportionate and transparent.

Regulatory Accounting Principles Direction

- 7.31 The RAP are a set of guiding principles with which BT's Regulatory Financial Reporting must comply. To preserve the integrity and consistency of the RFS we consider that the RAP should be implemented across all regulated markets as there are significant advantages to BT and other stakeholders of BT applying one set of principles across all markets.
- 7.32 We propose to give the Regulatory Accounting Principles Direction in relation to BT in each of the proposed SMP markets as set out in annex 5. This direction reflects the changes discussed in Section 5.

Legal tests

- 7.33 We consider that the proposed Regulatory Accounting Principles Direction would meet the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because by specifying the Regulatory Accounting Principles we will establish the attributes for BT's regulatory financial reporting;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - c) proportionate because our direction requires no more than what is required to ensure an absence of bias and consistency with regulatory decisions. While we have established the Regulatory Accounting Principles, BT retains an important role in determining the basis of preparation of the RFS, and can continue to put through methodology changes where this is in line with the RAP and such changes have been notified to Ofcom; and
 - d) transparent because the intention of our direction is to ensure we take a role in the basis of preparation of the RFS to ensure an absence of bias and consistency with regulatory decisions.

Preparation, Delivery, Publication, Form and Content of the RFS Direction

- 7.34 This direction provides details of the financial information to be included in the published RFS and to be provided to Ofcom privately. It therefore plays an important role in ensuring the RFS provide relevant information to stakeholders and Ofcom. Some elements of the

published RFS relate to all of BT while others are specific to particular markets. To preserve the integrity and consistency of the RFS, we consider that all proposed SMP markets should be subject to appropriate reporting requirements.

- 7.35 We propose to give the Preparation, Delivery, Publication, Form and Content of the RFS Direction in relation to BT in each of the proposed SMP markets as set out in annex 5. This direction reflects our proposals set out in sections 4 and 6 above. All other requirements of this direction remain unchanged from those included in the July RFR Statement.

Legal tests

- 7.36 We consider that the Preparation, Delivery, Publication, Form and Content of the RFS Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because the information to be provided, both in public and in private, seeks to ensure that stakeholders have sufficient information about the products and services they purchase to provide them with reasonable confidence about BT's compliance with its SMP conditions and that we have sufficient information necessary to carry out our functions. This direction will ensure visibility of financial information for each proposed SMP market;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned. We have explained in this document the reasons for requiring relevant additional information from BT both publicly and privately;
 - c) proportionate because the direction will be no more than is required to ensure the effectiveness of our proposals in this market review and will ensure that Ofcom and stakeholders are provided with a sufficient level of information; and
 - d) transparent because the intention of the direction is to make sure that the RFS remain fit for purpose and that Ofcom and stakeholders are provided with a sufficient level of information.

Consistency with Regulatory Decisions and Regulatory Asset Value Direction

- 7.37 This direction specifies how BT should prepare the RFS to be consistent with our regulatory decisions. This ensures that the RFS are prepared on a basis that allows us to assess the impact and effectiveness of our remedies and provides assurance to stakeholders that information is being created and retained such that appropriate regulation can continue to be maintained in future.
- 7.38 We propose to give the Consistency with Regulatory Decisions and Regulatory Asset Value Direction in relation to BT in each of the proposed SMP markets as set out in annex 5.

Legal tests

- 7.39 We consider that the proposed Consistency with Regulatory Decisions and Regulatory Asset Value Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because it is necessary for us to give a direction which specifies the accounting treatment of various costs across the proposed SMP markets in order that the RFS fulfils its purpose in enabling the monitoring of our SMP conditions, securing the effectiveness of our price controls and stakeholder confidence in the market. For example, in the physical infrastructure market we need to specify the accounting treatment of the physical infrastructure costs so that the RFS is consistent with our regulatory proposal to set maximum charges on PIA; in the Leased Lines Access – Area 3 and IEC – BT only markets we need to specify the accounting treatment of dark fibre costs so that the RFS is consistent with our regulatory proposal to set prices for dark fibre at cost; in other markets where we have proposed some form of price regulation it is necessary to specify the accounting treatment of various costs to ensure consistency with our regulatory proposals to set price controls. Furthermore, the direction is objectively justifiable in that the requirements specifying the RAV methodology establish further detail and provide BT with clarity as to the requirements which BT will need to follow to ensure that the RFS are prepared on the RAV current cost basis;
 - b) not unduly discriminatory, in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - c) proportionate because our proposal is no more than would be required to ensure consistency with our decisions. Further, BT retains a key role in determining the basis of preparation of the RFS; and
 - d) transparent because it is clear that the intention of our proposal is to ensure that BT's RFS are consistent with our decisions in relation to the price controls proposed in the proposed SMP markets, and the wider pricing obligations in other markets.

Audit of the RFS Direction

- 7.40 Audit of the RFS gives users confidence that the information provides a fair reflection of financial performance, is free from error and has been prepared following the accounting methodology statements published by BT and relevant directions issued by Ofcom. To preserve the integrity and consistency of the RFS we consider that all markets should be subject to the same audit direction.
- 7.41 We propose to give the Audit of the RFS Direction in relation to BT in each of the proposed SMP markets as set out in annex 5. The audit direction is similar to that imposed in the March 2019 BT RFR Statement and July 2019 RFR Statement. It requires BT to secure PPIA ("properly prepared in accordance with") opinions on the RFS.

Legal tests

- 7.42 We consider that the proposed Audit of the RFS Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because it is important for both stakeholders and Ofcom that an appropriate level of assurance is provided on the RFS;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - c) proportionate because the audit requirements are no more than is necessary to ensure that an appropriate level of assurance is provided on the RFS; and
 - d) transparent because the intention of our changes is to ensure that an appropriate level of assurance is provided on the RFS.

Reconciliation Report Direction

- 7.43 The Reconciliation Report Direction requires BT to publish the impact of all material changes and errors each year with an accompanying assurance report from its regulatory auditors.
- 7.44 Changes to attribution methods or the correction of errors can affect all markets reported in the RFS. As a result, to preserve the integrity and consistency of the RFS, we consider that all markets should be subject to the same direction to produce a reconciliation report. Therefore, we propose to give the Reconciliation Report Direction in relation to BT in each of the proposed SMP markets as set out in annex 5.

Legal tests

- 7.45 We consider that the proposed Reconciliation Reporting Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because in all markets it is necessary that there is visibility in relation to error corrections and methodology changes made in RFS, both for us and other stakeholders, and it is therefore necessary for us to specify the requirements in relation to the content of the reconciliation report and the accompanying audit opinion;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - c) proportionate because our proposals are no more than is required to provide visibility in relation to error corrections and methodology changes for us and other stakeholders; and

- d) transparent because our proposals seek to provide visibility in relation to error corrections and methodology changes for us and other stakeholders and to provide BT with clarity about the requirements specifying the content of the reconciliation report and the accompanying audit opinion.

Network Components Direction

- 7.46 To preserve the integrity and consistency of BT's Regulatory Financial Reporting it is important that there is a single list of components used to attribute costs to services in regulated markets. As discussed in Section 4, we propose to amend the SMP condition to provide BT with more flexibility to change the components used to prepare the RFS, subject to appropriate controls. The SMP condition requires BT to do the following:
- To publish an annual list of cost components used to prepare the RFS (Cost Component List).
 - The Cost Component List must include a list of components used to prepare the RFS, a description of each component, and diagrams showing which part of the network, or which activity, each component represents.
 - Changes to the Cost Component List must be put through the annual Change Control Notification process.
 - The list of components to be included in the Cost Component List on 1 April 2021 must consist of those directed by Ofcom.
- 7.47 This direction specifies the cost components to be used by BT to prepare the RFS as at 1 April 2021, i.e. the components that must appear in the Cost Component List as at this date. This list includes the new fibre components discussed in section 5. Changes to this component list can be made by BT through the CCN process.
- 7.48 We propose to give the Network Components Direction in relation to BT in each of the proposed SMP markets as set out in annex 5.

Legal tests

- 7.49 We consider that the Network Components Direction meets the tests set out in section 49(2) of the Act in that it is:
- a) objectively justifiable because it is necessary to ensure there is a single list of components used to attribute costs to the proposed SMP markets;
 - b) not unduly discriminatory in that BT is the only telecoms provider on which we propose to impose specific pricing and financial reporting remedies, as the only telecoms provider which we propose to find holds SMP in the markets concerned;
 - c) proportionate because our proposal is no more than is required to specify an appropriate initial list of network components; and

- d) transparent because it is clear that our proposal seeks to specify relevant network components in the light of our charge controls and to ensure that these network components are fit for purpose.

Legal duties

- 7.50 For the reasons set out in Volume 1 of the January 2020 WFTMR consultation, we consider that the proposed accounting separation and cost accounting draft SMP conditions, and associated draft directions, both individually and together with the package of remedies proposed in the January 2020 WFTMR consultation would meet our duties in sections 3 and 4 of the Act.
- A1.2 In proposing the draft SMP conditions and draft directions, we have taken due account of all applicable recommendations issued by the European Commission under Article 19(1) of the Framework Directive, in particular the 2005 EC Recommendation¹⁸⁴ in accordance with our duties under section 4A of the Act. Pursuant to Article 3(3) of BEREC Regulation, we have also taken the utmost account of any relevant opinion, recommendation, guidelines, advice or regulatory practices adopted by BEREC relevant to the matters under consideration in this review.
- A1.3 As required by section 2B (2) of the Communications Act 2003, we have also had regard to the UK Government's Statement of Strategic Priorities (SSP) for telecoms, management of radio spectrum and postal services. In particular, we have had regard to the following priority areas covered by the SSP: world-class digital infrastructure, furthering the interests of telecoms consumers and ensuring secure and resilient telecoms infrastructure.

Consultation question

Question 7.1: Do you agree with our proposed SMP conditions and directions? Please set out your reasons and supporting evidence for your response.

¹⁸⁴ European Commission, *Commission Recommendation of 19 September 2005 on accounting separation and cost accounting systems under the regulatory framework for electronic communications*, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32005H0698&from=EN>

A1. Responding to this consultation

How to respond

- A1.1 Ofcom would like to receive views and comments on the issues raised in this document, by 5pm on 1 April 2020.
- A1.2 You can download a response form from <https://www.ofcom.org.uk/consultations-and-statements/category-1/bt-financial-reporting>. You can return this by email or post to the address provided in the response form.
- A1.3 If your response is a large file, or has supporting charts, tables or other data, please email it to wftmr@ofcom.org.uk, as an attachment in Microsoft Word format, together with the [cover sheet](#). This email address is for this consultation only, and will not be valid after 1 April 2020.
- A1.4 Responses may alternatively be posted to the address below, marked with the title of the consultation:
- Financial Economics
Ofcom
Riverside House
2A Southwark Bridge Road
London SE1 9HA
- A1.5 We welcome responses in formats other than print, for example an audio recording or a British Sign Language video. To respond in BSL:
- Send us a recording of you signing your response. This should be no longer than 5 minutes. Suitable file formats are DVDs, wmv or QuickTime files. Or
 - Upload a video of you signing your response directly to YouTube (or another hosting site) and send us the link.
- A1.6 We will publish a transcript of any audio or video responses we receive (unless your response is confidential)
- A1.7 We do not need a paper copy of your response as well as an electronic version. We will acknowledge receipt if your response is submitted via the online web form, but not otherwise.
- A1.8 You do not have to answer all the questions in the consultation if you do not have a view; a short response on just one point is fine. We also welcome joint responses.
- A1.9 It would be helpful if your response could include direct answers to the questions asked in the consultation document. The questions are listed at Annex 4. It would also help if you could explain why you hold your views, and what you think the effect of Ofcom's proposals would be.

- A1.10 If you want to discuss the issues and questions raised in this consultation, please contact Andy Causby by email at andy.causby@ofcom.org.uk.

Confidentiality

- A1.11 Consultations are more effective if we publish the responses before the consultation period closes. In particular, this can help people and organisations with limited resources or familiarity with the issues to respond in a more informed way. So, in the interests of transparency and good regulatory practice, and because we believe it is important that everyone who is interested in an issue can see other respondents' views, we usually publish all responses on [our website](#) as soon as we receive them.
- A1.12 If you think your response should be kept confidential, please specify which part(s) this applies to, and explain why. Please send any confidential sections as a separate annex. If you want your name, address, other contact details or job title to remain confidential, please provide them only in the cover sheet, so that we don't have to edit your response.
- A1.13 If someone asks us to keep part or all of a response confidential, we will treat this request seriously and try to respect it. But sometimes we will need to publish all responses, including those that are marked as confidential, in order to meet legal obligations.
- A1.14 Please also note that copyright and all other intellectual property in responses will be assumed to be licensed to Ofcom to use. Ofcom's intellectual property rights are explained further in our [Terms of Use](#).

Next steps

- A1.15 Following this consultation period, Ofcom plans to set out full details of our regulatory decisions in the wholesale fixed telecoms market in Q4 2020/21.
- A1.16 If you wish, you [can register to receive mail updates](#) alerting you to new Ofcom publications.

Ofcom's consultation processes

- A1.17 Ofcom aims to make responding to a consultation as easy as possible. For more information, please see our consultation principles in Annex x.
- A1.18 If you have any comments or suggestions on how we manage our consultations, please email us at consult@ofcom.org.uk. We particularly welcome ideas on how Ofcom could more effectively seek the views of groups or individuals, such as small businesses and residential consumers, who are less likely to give their opinions through a formal consultation.
- A1.19 If you would like to discuss these issues, or Ofcom's consultation processes more generally, please contact the corporation secretary:

Corporation Secretary
Ofcom
Riverside House
2a Southwark Bridge Road
London SE1 9HA
Email: corporationsecretary@ofcom.org.uk

A2. Ofcom's consultation principles

Ofcom has seven principles that it follows for every public written consultation:

Before the consultation

- A2.1 Wherever possible, we will hold informal talks with people and organisations before announcing a big consultation, to find out whether we are thinking along the right lines. If we do not have enough time to do this, we will hold an open meeting to explain our proposals, shortly after announcing the consultation.

During the consultation

- A2.2 We will be clear about whom we are consulting, why, on what questions and for how long.
- A2.3 We will make the consultation document as short and simple as possible, with a summary of no more than two pages. We will try to make it as easy as possible for people to give us a written response. If the consultation is complicated, we may provide a short Plain English / Cymraeg Clir guide, to help smaller organisations or individuals who would not otherwise be able to spare the time to share their views.
- A2.4 We will consult for up to ten weeks, depending on the potential impact of our proposals.
- A2.5 A person within Ofcom will be in charge of making sure we follow our own guidelines and aim to reach the largest possible number of people and organisations who may be interested in the outcome of our decisions. Ofcom's Consultation Champion is the main person to contact if you have views on the way we run our consultations.
- A2.6 If we are not able to follow any of these seven principles, we will explain why.

After the consultation

- A2.7 We think it is important that everyone who is interested in an issue can see other people's views, so we usually publish all the responses on our website as soon as we receive them. After the consultation we will make our decisions and publish a statement explaining what we are going to do, and why, showing how respondents' views helped to shape these decisions.

A3. Consultation coversheet

BASIC DETAILS

Consultation title:

To (Ofcom contact):

Name of respondent:

Representing (self or organisation/s):

Address (if not received by email):

CONFIDENTIALITY

Please tick below what part of your response you consider is confidential, giving your reasons why

Nothing ☐

Name/contact details/job title ☐

Whole response ☐

Organisation ☐

Part of the response ☐

If there is no separate annex, which parts? _____

If you want part of your response, your name or your organisation not to be published, can Ofcom still publish a reference to the contents of your response (including, for any confidential parts, a general summary that does not disclose the specific information or enable you to be identified)?

DECLARATION

I confirm that the correspondence supplied with this cover sheet is a formal consultation response that Ofcom can publish. However, in supplying this response, I understand that Ofcom may need to publish all responses, including those which are marked as confidential, in order to meet legal obligations. If I have sent my response by email, Ofcom can disregard any standard e-mail text about not disclosing email contents and attachments.

Ofcom seeks to publish responses on receipt. If your response is non-confidential (in whole or in part), and you would prefer us to publish your response only once the consultation has ended, please tick here.

Name

Signed (if hard copy)

A4. Consultation questions

Question 3.1: Do you agree with our proposal to impose accounting separation and cost accounting remedies on each of the proposed SMP markets? Please set out your reasons and supporting evidence for your response.

Question 4.1: Do you agree with our proposals in relation to the published performance schedules set out in Section 4? Please set out your reasons and supporting evidence for your response.

Question 5.1: Do you agree with our proposals in relation to the preparation and assurance of the RFS set out in Section 5? Please set out your reasons and supporting evidence for your response.

Question 6.1: Do you agree with our proposals in relation to information provided to Ofcom set out in Section 6? Please set out your reasons and supporting evidence for your response.

Question 7.1: Do you agree with our proposed SMP conditions and directions? Please set out your reasons and supporting evidence for your response.

A5. Draft legal instruments

The [legal instruments](#) are available separately.