

A5. Draft legal instruments

This Annex contains a notification of proposed SMP conditions and a notification of proposed directions.

NOTIFICATION OF PROPOSALS UNDER SECTION 45A OF THE COMMUNICATIONS ACT 2003

Proposals for setting SMP services conditions in relation to BT under sections 45 and 87 of the Communications Act 2003

1. On 8 January 2020, Ofcom published a consultation document entitled “Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-2026” (the “Main Document”). In it, Ofcom consulted on proposals to identify markets, make market power determinations and set SMP conditions with respect to BT. It gave notice of proposals for a suite of SMP conditions to be imposed on BT but left a placeholder at Condition 11 for Regulatory Accounting Conditions. It also proposed to revoke the suite of SMP conditions currently applicable to BT, including all the existing regulatory accounting conditions.
2. Ofcom is today publishing a consultation document entitled “Promoting competition and investment in fibre networks: BT Regulatory Financial Reporting requirements covering wholesale fixed telecoms markets 2021-2026” (the “Consultation”). In this document, Ofcom is consulting on new proposals to set SMP conditions with respect to BT, specifically, Regulatory Accounting Conditions to be inserted as Condition 11 as a part of the suite of SMP conditions proposed in the Main Document.

Proposals to set and apply SMP services conditions

3. In the notice of proposals contained in Volume 5 (Draft legal instruments) of the Main Document, Ofcom proposed to identify the markets and make the SMP determinations set out in Table A of that document.
4. Ofcom is proposing to set, in relation to the markets (i) to (iii) and (v) to (ix) identified in that Table A, the SMP conditions as set out in **Schedule 1** to this notification to be applied to BT

to the extent specified in that Schedule, which SMP conditions shall, unless otherwise stated in that Schedule, take effect from [*the date of the notification published under section 48(1) of the Act*] or such other date specified in any notification under section 48(1) of the Act adopting the proposals set out in this notification.

5. The effect of, and Ofcom's reasons for making, the proposals in relation to the SMP conditions referred to in this notification are set out in the Consultation which accompanies this notification.

Ofcom's duties and legal tests

6. Ofcom considers that the proposed SMP conditions comply with the requirements of sections 45 to 47, 87 and 88 of the Act, as appropriate and relevant to each such SMP condition.
7. In making all of the proposals referred to in this notification, Ofcom has considered and acted in accordance with its general duties set out in section 3 of the Act and the six Community requirements in section 4 of the Act. In accordance with section 4A of the Act, Ofcom has also taken due account of all applicable recommendations issued by the European Commission under Article 19(1) of the Framework Directive. Pursuant to Article 3(3) of Regulation (EC) No 1211/2009, Ofcom has also taken the utmost account of any relevant opinion, recommendation, guidelines, advice or regulatory practice adopted by BEREC.
8. Ofcom has also had regard to the Statement of Strategic Priorities in making the proposals referred to in this notification.

Making representations

9. Representations may be made to Ofcom about any of the proposals set out in this notification and the accompanying Consultation by no later than 1 April 2020.
10. Copies of this notification and the accompanying Consultation have been sent to the Secretary of State in accordance with sections 48C(1) of the Act.

Interpretation

11. For the purpose of interpreting this notification —

- (a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in paragraph 12 below,
- (b) save where otherwise defined in this notification, and except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in the notification on proposals for SMP services conditions contained in Volume 5 (Draft legal instruments) of the Main Document;
- (c) otherwise any word or expression shall have the same meaning as it has in the Act;
- (d) headings and titles shall be disregarded;
- (e) expressions cognate with those referred to in this notification shall be construed accordingly; and
- (f) the Interpretation Act 1978 (c. 30) shall apply as if this notification were an Act of Parliament.

12. In this notification—

- (a) “**Consultation**” has the meaning given to it in paragraph 2;
- (b) “**Main Document**” has the meaning it is given in paragraph 1;
- (c) “**Relevant Markets**” means each of the markets in which BT is proposed to have SMP in Table A of the notification contained in Volume 5 (Draft legal instruments) on Proposals for SMP services conditions of the Main Document;

21. The Schedule to this notification shall form part of this notification.

Signed



David Clarkson

Competition Policy Director, Ofcom

A person duly authorised in accordance with paragraph 18 of the Schedule to the Office of Communications Act 2002

6 February 2020

Schedule 1: SMP conditions

Part 1: Application

1. The SMP conditions in Part 2 of this Schedule 1, apply to the Dominant Provider in each of the Relevant Markets. The condition will enter into force on the date of publication of a notification under sections 48(1) and 79(4) of the Act and shall have effect until the publication of a notification under section 48(1) of the Act revoking it.

Table 1: Relevant markets for the purposes of this Schedule

Column 1: Relevant Market(s)	Column 2: Applicable SMP conditions as set out in Part 2 of this Schedule 1
The supply of wholesale access to Telecoms Physical Infrastructure for deploying a telecoms network in the United Kingdom excluding the Hull Area (PI)	Condition 11
The supply of wholesale local access at a fixed location in WLA Area 2 (WLA Area 2)	Condition 11
The supply of wholesale local access at a fixed location in WLA Area 3 (WLA Area 3)	Condition 11
The supply of leased line access in HNR Areas (LLA HNR)	Condition 11
The supply of leased line access in LLA Area 2 (LLA Area 2)	Condition 11
The supply of leased line access in LLA Area 3 (LLA Area 3)	Condition 11
The supply of interexchange connectivity in BT Only exchanges (IEC)	Condition 11
Supply of interexchange connectivity in BT+1 exchanges (IEC BT+1)	Condition 11

2. The Conditions referred to in paragraph 1 above are entitled as follows—

Part 2: Application

Condition 11 – Regulatory Financial Reporting

Interpretation

11.1 In these conditions the following terms shall have the following meanings:

- a) **“Accounting Methodology Documents”** means the documentation maintained by the Dominant Provider setting out in detail the rules, policies, methods, allocations, calculations, assumptions, procedures and Processes used by the Dominant Provider for the purpose of preparing Regulatory Financial Statements in accordance with the Regulatory Accounting Principles;
- b) **“Accounting Policies”** means the manner in which the Dominant Provider applies the requirements of the Regulatory Accounting Principles in each of the Regulatory Financial Statements;
- c) **“Alternative Regulatory Auditor”** means any auditor not for the time being appointed as the Dominant Provider’s Regulatory Auditor;
- d) **“Additional Procedures”** means an engagement under which the Regulatory Auditor or another independent third party performs a set of procedures required by Ofcom and based on Ofcom’s specific requirements in relation to the Regulatory Financial Statements, and reports the findings of that work to Ofcom;
- e) **“Attribution Methods”** means the practices used by the Dominant Provider to attribute revenue (including appropriate Transfer Charges), costs (including appropriate Transfer Charges), assets and liabilities to activities or other attribution layers and on to SMP Wholesale Services, Non-SMP Wholesale Services, and Retail Services;
- f) **“Basket”** means any group of SMP Wholesale services (described as a basket) on which the Dominant Provider is required by a direction given under this SMP condition to report;
- g) **“Change Control Notification”** has the meaning given to it Condition 11.29;
- h) **“Current Year Figures”** means, in relation to any set of Regulatory Financial Statements, the amounts relating to the Financial Year to which the statements relate;

- i) **“External Wholesale Services”** means Wholesale Services available for use by communications providers other than the Dominant Provider (which for the avoidance of doubt may also be available for use by the Dominant Provider);
- j) **“Financial Year”** means a financial year of the Dominant Provider in respect of which the Statutory Financial Statements are required to be (or to have been) prepared and audited in accordance with the requirements of the Companies Act 2006;
- k) **“ICAEW Guidance”** means the most recent guidance issued by the Institute of Chartered Accountants in England & Wales regarding reporting to regulators on regulated accounts;
- l) **“Internal Wholesale Services”** means Wholesale Services available for use by the Dominant Provider only;
- m) **“Market”** means the markets to which these Conditions apply;
- n) **“Material Error”** means a deviation from accuracy or correctness which meets the materiality threshold directed by Ofcom from time to time for the purpose of these Conditions;
- o) **“Material Difference”** means a difference identified in a systems reconciliation report which meets the materiality threshold directed by Ofcom from time to time for the purpose of these Conditions;
- p) **“Network Component”** means an element of the network that is used to provide Wholesale Services, as specified in the Network Component List or in any direction given by Ofcom from time to time for the purposes of these Conditions;
- q) **“Network Component List”** means the document published from time to time by the Dominant Provider in accordance with these Conditions, which contains the information specified in Condition 11.24;
- r) **“Network Diagram”** means a schematic or illustration of the networks operated by BT showing how Network Components representing physical parts of the network logically relate to each other, such as exchanges, duct, poles, cables, cabinets, nodes, equipment, and connections to customer premises;
- s) **“Non-SMP Wholesale Services”** means Wholesale Services that are not comprised in a market in which the Dominant Provider has SMP;

- t) **“Prior Year Comparatives”** means, in relation to any set of Regulatory Financial Statements, the amounts relating to the Financial Year immediately preceding the Financial Year to which the Regulatory Financial Statements relate, re-evaluated if necessary to ensure that such figures are comparable to the Current Year Figures;
- u) **“Process”** means the series of inter-related activities or actions to obtain, record or hold data or information or to carry out any operation or set of operations on the data or information, including:
- i. organisation, storage, adaptation, or alteration of the data or information;
 - ii. retrieval, consultation, computation or use of the data or information;
 - iii. disclosure of the data or information by transmission, dissemination, or otherwise making available; or
 - iv. alignment, combination, blocking, erasing or destruction of the data or information;
- v) **“Regulatory Accounting Methodology”** means the rules, policies, methods, allocations, calculations, assumptions and procedures used by the Dominant Provider for the purpose of preparing Regulatory Financial Statements;
- w) **“Regulatory Accounting Principles”** means the principles directed by Ofcom and given that name from time to time for the purpose of these Conditions;
- x) **“Regulatory Accounting System”** means the set of computerised and manual accounting methods, procedures, processes and controls established to determine and attribute the costs, revenues, assets and liabilities and summarise, interpret, and present the resultant financial data in an accurate and timely manner;
- y) **“Regulatory Auditor”** means the auditor for the time being appointed by the Dominant Provider in accordance with these Conditions;
- z) **“Regulatory Financial Statement”** means any financial statement in respect of a Financial Year prepared or required to be prepared by the Dominant Provider in accordance with these Conditions;

- aa) **“Retail Services”** means services used by or offered to any end users (including the Dominant Provider);
- bb) **“SMP Wholesale Services”** means Wholesale Services that are comprised in a market in which the Dominant Provider has SMP;
- cc) **“Statutory Accounting Standards”** means the accounting standards, including the requirements of the Companies Act 2006, by reference to which the Dominant Provider is required to prepare the Statutory Financial Statements;
- dd) **“Statutory Auditor”** means the auditor for the time being appointed by the Dominant Provider in accordance with the requirements of the Companies Act 2006;
- ee) **“Statutory Financial Statements”** means any annual account required to be prepared by the Dominant Provider in accordance with the requirements of the Companies Act 2006;
- ff) **“Transfer Charge”** means the charge or price that is applied, or deemed to be applied, within the Dominant Provider by one division or business unit of the Dominant Provider to another for the use or provision of an activity or group of activities. For the avoidance of doubt, such activities or group of activities include, amongst other things, Wholesale Services provided from, to or within the Market and the use of Network Components in the Market;
- gg) **“Transfer Charge System Methodology”** means the methodology of the system employed by the Dominant Provider which enables an activity to use a service or good from another activity and to account for it as though it had purchased that service or good from an unrelated party (including accounting for it at an appropriate amount);
- hh) **“Wholesale Catalogue”** means the documentation required to be produced by the Dominant Provider under Condition 11.41;
- ii) **“Wholesale Services”** means services related to network access on the Dominant Provider’s network used by or offered to any communications provider (including the Dominant Provider), including services comprised in a Market in relation to which the Dominant Provider has SMP and services that are not comprised in a Market in relation to which the Dominant Provider has SMP.

General requirements

- 11.2 The Dominant Provider must maintain a separation for accounting purposes between such different matters relating to network access to the relevant network or the availability of the relevant facilities, as required by Conditions 11.4 to 11.43 including as Ofcom may from time to time direct under those Conditions 11.4 to 11.43.
- 11.3 The Dominant Provider must comply with such rules made by Ofcom about the use of cost accounting systems as required by Conditions 11.4 to 11.43 and must comply with such requirements about the description to be made available to the public of the cost accounting system as required by Conditions 11.4 to 11.43 in each case including as Ofcom may from time to time direct under Conditions 11.4 to 11.43.
- 11.4 Except in so far as Ofcom may consent otherwise in writing, the Dominant Provider shall act in the manner set out in these Conditions.
- 11.5 Ofcom may from time to time make such directions as they consider appropriate in relation to the Dominant Provider's obligations under these Conditions.
- 11.6 The Dominant Provider shall comply with any direction Ofcom may make from time to time under these Conditions.
- 11.7 Where the Dominant Provider is required to comply with:
- i) these Conditions; and
 - ii) the Regulatory Accounting Principles,
- and it appears to the Dominant Provider that any of these requirements conflict with each other in a particular case, the Dominant Provider must resolve such conflict by giving priority to them in the order in which they are set out above.
- 11.8 For the purpose of these Conditions, publication shall be effected by:
- i) placing a copy of the relevant information on any relevant publicly available website operated or controlled by the Dominant Provider; and
 - ii) sending a copy of the relevant information to any person at that person's written request.
- 11.9 The Accounting Methodology Documents, Regulatory Financial Statements, reconciliation report and any systems reconciliation report shall be prepared such that it is reasonable to consider that a person with an understanding of regulatory accounting principles has sufficient information, clearly enough presented, to understand them.

Requirements relating to the preparation, audit, delivery and publication of the Regulatory Financial Statements

- 11.10 The Dominant Provider shall, for each Financial Year:
- i) prepare Regulatory Financial Statements in accordance with these Conditions, the Regulatory Accounting Principles, the Accounting Methodology Documents (the relevant Accounting Methodology Documents to be identified in the Regulatory

Financial Statements by reference to their date) and any relevant directions given by Ofcom from time to time pursuant to these Conditions;

- ii) prepare a reconciliation report as set out in Condition 11.31;
- iii) secure the expression of an audit opinion upon the Regulatory Financial Statements;
- iv) secure the expression of an audit opinion on the reconciliation report as set out in Condition 11.32;
- v) secure the approval of the Regulatory Financial Statements by the board of directors of the Dominant Provider and secure the signature of the Regulatory Financial Statements by a director of the Dominant Provider for and on behalf of the board of directors;
- vi) deliver to Ofcom copies of the Regulatory Financial Statements, the reconciliation report and all corresponding audit opinions, each and all of which shall be in the form in which they are ultimately to be published, at least two weeks before they are required to be published;
- vii) publish the Regulatory Financial Statements, the reconciliation report and all corresponding audit opinion(s), within four months after the end of the Financial Year to which they relate;
- viii) ensure that any Regulatory Financial Statement and corresponding audit opinion that it delivers to Ofcom and/or publishes are fit for such purpose (or purposes), if any, as notified by Ofcom in writing; and
- ix) publish with the Regulatory Financial Statements any written statement made by Ofcom and provided to the Dominant Provider commenting on the figures in, the notes to or the presentation of any or all of the Regulatory Financial Statements, the reconciliation report and/or the Accounting Methodology Documents.

11.11 The Dominant Provider shall make such amendments to the form and content of the Regulatory Financial Statements as are necessary to give effect fully to the requirements of these Conditions. The Dominant Provider shall provide to Ofcom particulars of any such amendment, the reasons for it and its effect, when it delivers the Regulatory Financial Statements to Ofcom.

11.12 The Dominant Provider shall prepare all Regulatory Financial Statements, explanations or other information required by virtue of these Conditions on a regulatory asset value adjusted current cost basis as directed by Ofcom from time to time and shall be capable of doing so in relation to any period. Such Regulatory Financial Statements, explanations or other information shall be, in the opinion of Ofcom, meaningfully reconcilable to the Statutory Financial Statements.

11.13 Each Regulatory Financial Statement (with the exception of the reconciliation report required under Condition 11.10) shall include Prior Year Comparatives.

11.14 The Prior Year Comparatives shall be prepared on a basis consistent with Current Year Figures. The Dominant Provider may depart from this requirement in preparing the

Regulatory Financial Statements for a Financial Year if this would be consistent with Statutory Accounting Standards or where agreed with Ofcom. The reasons for the departure shall be disclosed in the Regulatory Financial Statements.

Requirements relating to audit of the Regulatory Financial Statements

- 11.15 The Regulatory Auditor that the Dominant Provider from time to time appoints shall at all times be satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. The Dominant Provider shall notify Ofcom in writing of the Regulatory Auditor appointed to secure compliance with these Conditions before the Regulatory Auditor carries out any work for that purpose. The Dominant Provider shall notify Ofcom of any proposed change of Regulatory Auditor 28 days before effect is given to that change.
- 11.16 In the event that the Regulatory Auditor is in the opinion of Ofcom unsatisfactory, the Dominant Provider shall appoint and instruct an Alternative Regulatory Auditor that is at all times satisfactory to Ofcom having regard to such matters as Ofcom consider appropriate. The Dominant Provider shall ensure that the Alternative Regulatory Auditor:
- i) carries out such on-going duties as are required to secure compliance with these Conditions;
 - ii) carries out work or further work, in addition to that performed by the Statutory Auditor and/or by the former Regulatory Auditor, in relation to such matters connected to compliance with these Conditions as are of concern to Ofcom and notified to the Dominant Provider in writing;
 - iii) re-performs work previously performed by the Statutory Auditor and/or by the former Regulatory Auditor in relation to such matters connected to compliance with this Condition as are of concern to Ofcom and notified to the Dominant Provider in writing.
- 11.17 The Dominant Provider shall extend to the Alternative Regulatory Auditor such assistance and co-operation as it would extend to the Statutory Auditor and/or to the Regulatory Auditor and, to the extent similar assistance and co-operation may be required from the Statutory Auditor and/or from the former Regulatory Auditor, the Dominant Provider shall use its best endeavours to secure such assistance and co-operation.
- 11.18 The Dominant Provider's letter of engagement appointing the Regulatory Auditor or Alternative Regulatory Auditor shall include such provisions acknowledging the acceptance by the Regulatory Auditor or Alternative Regulatory Auditor of duties and responsibilities to Ofcom in respect of its audit work, audit report and audit opinion as are consistent with the ICAEW Guidance.
- 11.19 The Dominant Provider shall use its best endeavours to obtain from the Regulatory Auditor or Alternative Regulatory Auditor any further explanation and clarification of any audit opinion required under these Conditions and any other information in respect of the matters which are the subject of that audit opinion as Ofcom shall require.

Requirements relating to Additional Procedures on to the Regulatory Financial Statements

11.20 The Dominant Provider shall commission Additional Procedures when requested to do by Ofcom.

Requirements relating to the Accounting Methodology Documents

11.21 The Dominant Provider must prepare, maintain and keep up-to-date the Accounting Methodology Documents in accordance with these Conditions and with the Regulatory Accounting Principles.

11.22 The Dominant Provider must include in the Accounting Methodology Documents documentation setting out a description of each of:

- i) its Attribution Methods;
- ii) its Transfer Charge System Methodology;
- iii) its Accounting Policies;
- iv) the valuation principles used to value assets; and
- v) the Regulatory Accounting System.

11.23 The Dominant Provider must deliver an up-to-date version of the Accounting Methodology Documents to Ofcom when it delivers the Regulatory Financial Statements to Ofcom in accordance with Condition 11.10 and publish such up-to-date version on or before the day of publication of the Regulatory Financial Statements which have been prepared in accordance with such version.

Requirements relating to Network Components

11.24 The Dominant Provider must publish a Network Component List within four months of the end of the Financial Year,

- a) listing each of the Network Components used in the Regulatory Accounting System;
- b) providing a description of each such Network Component; and
- c) providing one or more diagrams showing to which part of the network, or to which activity, each of the Network Components relates (including Network Diagrams where the Network Components relate to physical parts of the network).

11.25 As at 1 April 2021 the Network Component List must consist of the initial network components directed by Ofcom.

11.26 Any changes to the Network Component List proposed by the Dominant Provider must be made following the Change Control Notification in accordance with Condition 11.29.

11.27 Ofcom may direct the Dominant Provider to modify the Network Component List and to use those, (and only those), Network Components in its Regulatory Accounting System.

11.28 Requirements relating to changes to the Regulatory Accounting Methodology and the correction of Material Errors

- 11.29 The Dominant Provider must publish and deliver to Ofcom a list of each and every change to the Regulatory Accounting Methodology including any changes to the Network Component List, by 31 March of the Financial Year in which the change to the Regulatory Accounting Methodology is to be made (the “Change Control Notification”). The Change Control Notification must be accompanied by a clear description of each of the changes, the reason for making each of the changes (including by reference to their compliance with the Regulatory Accounting Principles), and the impact of each of the changes on the figures at the level of the Markets by setting out the figures which were presented in the previous Financial Year alongside the figures that would have been presented had such changes been made in the previous Financial Year.
- 11.30 Where in Ofcom’s opinion any change referred to in Condition 11.29 does not comply with these Conditions or the Regulatory Accounting Principles, the Dominant Provider shall not make such change, if so directed by Ofcom.
- 11.31 The Dominant Provider must prepare a reconciliation report as referred to in Condition 11.10 and as directed by Ofcom from time to time, which sets out changes to the Regulatory Accounting Methodology, the impact of such changes on the Regulatory Financial Statements, Material Errors corrected in the Regulatory Financial Statements and the impact of such Material Errors on the Regulatory Financial Statements.

Requirements relating to audit of the reconciliation report

- 11.32 The Dominant Provider must obtain an audit opinion on the reconciliation report when requested to do so by Ofcom.

Requirements relating to the Regulatory Accounting System

- 11.33 The Dominant Provider’s Regulatory Accounting System must be able to produce the Regulatory Financial Statements in accordance with these Conditions, the Regulatory Accounting Principles and the Accounting Methodology Documents and all applicable directions.
- 11.34 Where the Dominant Provider replaces the whole or part of its Regulatory Accounting System, or substantially modifies such Regulatory Accounting System, the Dominant Provider must:
- i) notify Ofcom in a timely manner of the replacement or modification, and, where so requested by Ofcom, inform Ofcom of progress towards completion and such other information as Ofcom may reasonably request;
 - ii) ensure, to the best of its ability, that the replacement or modification does not cause the figures contained in the Regulatory Financial Statements to be different from the figures that would have been contained in the Regulatory Financial Statements had such Regulatory Financial Statements been prepared using the old or unmodified Regulatory Accounting System;
 - iii) in relation to the final Financial Year for which the Regulatory Financial Statements are prepared using the old or unmodified Regulatory Accounting System, prepare a systems reconciliation report, which must:

- a. set out the difference between the Current Year Figures presented in the Regulatory Financial Statements and the Current Year Figures had such Regulatory Financial Statements been prepared on the basis of the new or modified Regulatory Accounting System, expressed as a percentage change; and
- b. explain each and every Material Difference between the Current Year Figures presented in the Regulatory Financial Statements and the Current Year Figures had such Regulatory Financial Statements been prepared on the basis of the new or modified Regulatory Accounting System;
- iv) publish and deliver the systems reconciliation report to Ofcom by 31 December of the Financial Year for which the figures will be prepared using the new or modified Regulatory Accounting System for the first time;
- v) undertake Additional Procedures on the systems reconciliation report, which must report:
 - a. whether the figures in the systems reconciliation report referred to in Condition 11.34(iii)(a) have been properly extracted from the old or unmodified Regulatory Accounting System and the new or modified Regulatory Accounting System respectively;
 - b. whether each and every difference in the systems reconciliation report referred to in Condition 11.34(iii)(a) has been correctly calculated; and
 - c. whether the explanation of each and every Material Difference in the systems reconciliation report referred to in Condition 11.34(iii)(b) is an accurate representation of the cause of each such Material Difference.
- vi) deliver the report required by (v) to Ofcom when it delivers the systems reconciliation report to Ofcom in accordance with Condition 11.34(iv).
- vii) where the systems reconciliation report referred to in Condition 11.34(iii) indicates that the replacement or modification causes the Current Year Figures contained in the Regulatory Financial Statements to be significantly different, either individually or in aggregate, from the Current Year Figures that would have been contained in the Regulatory Financial Statements had such Regulatory Financial Statements been prepared using the new or modified Regulatory Accounting System, prepare, if so requested by Ofcom, the Regulatory Financial Statements on a basis consistent with the old or unmodified Regulatory Accounting System.

Requirement for provision of data supporting the Regulatory Financial System

- 11.35 The Dominant Provider must provide to Ofcom all data and models used in the Regulatory Accounting System within four months after the end of the Financial Year to which the Regulatory Financial Statements relate, as directed by Ofcom from time to time. The data and models provided to Ofcom must enable Ofcom to replicate the outputs of the Regulatory Financial System at all attribution levels.

Requirements relating to deficiencies in the Regulatory Financial Statements and the Accounting Methodology Documents

- 11.36 Where Ofcom have reasonable grounds to believe that any or all of the Regulatory Financial Statements and/or Accounting Methodology Documents are deficient, the Dominant Provider shall, where notified by Ofcom, do one or more of the following as specified by Ofcom in the notification:
- i) Publish each correction, and reasons for each correction, as necessary to resolve the deficiencies identified by Ofcom;
 - ii) amend the Accounting Methodology Documents in order to remedy the deficiencies identified by Ofcom;
 - iii) restate the Regulatory Financial Statements identified by Ofcom as requiring restatement in accordance with the Accounting Methodology Documents which have, where necessary, been amended pursuant to Condition 11.36(ii);
 - iv) prepare a reconciliation report as set out in Condition 11.31, whereby any reference to the Regulatory Financial Statements should be understood as a reference to the restated Regulatory Financial Statements;
 - v) secure in accordance with any relevant notification of Ofcom under this Condition the expression of an audit opinion on the restated Regulatory Financial Statements;
 - vi) deliver to Ofcom the restated Regulatory Financial Statements, the reconciliation report and corresponding audit opinion;
 - vii) publish the restated Regulatory Financial Statements, the reconciliation report and corresponding audit opinion.

Requirements relating to the maintenance of sufficient accounting records

- 11.37 The Dominant Provider shall maintain accounting records for a period of six years from the date on which each Regulatory Financial Statement is delivered to Ofcom.
- 11.38 The Dominant Provider shall maintain the accounting records in accordance with these Conditions, the Regulatory Accounting Principles and the Accounting Methodology Documents.
- 11.39 The Dominant Provider shall maintain accounting records that show and fully justify, for each of the Markets, Network Components used to provide SMP Wholesale Services, and - SMP Wholesale Services,
- i) the attribution of costs, revenues, assets and liabilities; and
 - ii) the transactions underlying the costs, revenues, assets and liabilities.
- 11.40 The Dominant Provider shall maintain the accounting records so that they are sufficient:
- i) to provide an adequate explanation of each Regulatory Financial Statement;
 - ii) to show that any charges in relation to which the Dominant Provider is subject to Condition 4 are not unduly discriminatory; and

- iii) to show that any charges in relation to which the Dominant Provider is subject to Conditions 6, 12A.4 or 12G.9 comply with the obligations in that condition.

Requirements relating to the preparation and maintenance of a Wholesale Catalogue

- 11.41 The Dominant Provider must prepare, maintain and keep up-to-date a Wholesale Catalogue. Such Wholesale Catalogue should separately identify and describe:
- i) Each SMP Wholesale Service or Basket published in the Regulatory Financial Statements, arranged by the Market in which each service or Basket appears in the Regulatory Financial Statements;
 - ii) Whether each SMP Wholesale Service published in the Regulatory Financial Statements is internally and/or externally supplied;
 - iii) A mapping between each SMP Wholesale Service and/or Basket published in the Regulatory Financial Statements and the Wholesale Services included in the Regulatory Accounting System, including their service codes; and
 - iv) A mapping between each SMP Wholesale Service and/or Basket published in the Regulatory Financial Statements and the services in all price lists relating to SMP Wholesale Services that are published by the Dominant Provider.
- 11.42 The Dominant Provider must deliver an up-to-date version of the Wholesale Catalogue to Ofcom when it delivers the Regulatory Financial Statements to Ofcom in accordance with Condition 11.10 and publish such up-to-date version on or before the day of publication of the Regulatory Financial Statements which have been prepared by reference to such version.

Requirements relating to the demonstration of equivalence of inputs

- 11.43 In relation to each Market where Condition 5 applies, the Dominant Provider shall ensure it is able to demonstrate that at any point in time: the amount applied and incorporated in the Transfer Charge for the Internal Wholesale Service is equivalent to the amount applied and incorporated in the charge payable for an equivalent External Wholesale Service.

2. Directions

NOTIFICATION OF PROPOSALS UNDER SECTION 49A OF THE COMMUNICATIONS ACT 2003

Proposals for directions in relation to BT under section 49 of the Communications Act 2003 and given under SMP conditions

1. On 8 January 2020, Ofcom published a consultation document entitled “Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-2026” (the “Main Document”). In it, Ofcom consulted on proposals to identify markets, make market power determinations and set SMP conditions with respect to BT. It gave notice of proposals for a suite of SMP conditions to be imposed on BT but left a placeholder at Condition 11 for Regulatory Accounting Conditions. It also proposed to revoke the suite of SMP conditions currently applicable to BT, including all the existing regulatory accounting conditions.
2. Ofcom is today publishing a consultation document entitled “Promoting competition and investment in fibre networks: BT Regulatory Financial Reporting requirements covering wholesale fixed telecoms markets 2021-2026” (the “Consultation”). That document contains a notification of proposals to impose SMP conditions on BT relating to regulatory financial reporting.
3. Pursuant to the proposed SMP Conditions, Ofcom may give certain directions relating to them.
4. Ofcom is today consulting on proposed regulatory financial reporting directions to BT in respect of the markets in which Ofcom has either found or proposed that BT has SMP in the Main Document and in relation to which it is today notifying proposals to imposing SMP conditions relating to regulatory financial reporting. This notification contains its proposals for those directions.

Proposals to give directions

5. Ofcom is proposing to give the directions set out in the Schedule to this notification under section 49 of the Act and the SMP conditions set out below.

6. Pursuant to proposed Condition 11.5, Ofcom may make directions in relation to BT's obligations under the proposed conditions.
7. Pursuant to proposed Condition 11.1, certain definitions have the meaning Ofcom may direct.
8. Pursuant to proposed Condition 11.2, the Dominant Provider must maintain a separation for accounting purposes between such different matters relating to network access to the relevant network or the availability of the relevant facilities as is required by the regulatory accounting SMP conditions including as Ofcom may from time to time direct.
9. Pursuant to proposed condition 11.3, the Dominant Provider must comply with such rules made by Ofcom about the use of cost accounting systems as required by the regulatory accounting SMP conditions and must comply with such requirements about the description to be made available to the public of the cost accounting system as required by the regulatory accounting SMP conditions in each case including as Ofcom may from time to time direct.
10. Pursuant to proposed condition 11.12, the Dominant Provider shall prepare all Regulatory Financial Statements, explanations or other information required by virtue of the regulatory accounting SMP conditions on a regulatory asset value adjusted current cost basis as directed by Ofcom from time to time.
11. Pursuant to proposed condition 11.25, as at 1 April 2021 the Network Component List must consist of the initial network components directed by Ofcom.
12. Pursuant to proposed condition 11.35, the Dominant Provider must provide to Ofcom all data and models used in the Regulatory Accounting System within four months after the end of the Financial Year to which the Regulatory Financial Statements relate, as directed by Ofcom from time to time.
13. The proposed directions set out in the Schedule to this notification shall apply in relation to the markets specified in each proposed Direction.

14. The proposed directions set out in the Schedule to this notification shall take effect on the date of a subsequent notification under section 49 of the Act adopting the proposals set out in this notification.

Ofcom's legal duties and tests

13. The effect of these proposed directions, and Ofcom's reasons for giving them, are set out in the consultation document accompanying this notification and, for the reasons therein, Ofcom provisionally considers that the directions would comply with the requirements of section 49(2) of the Act. Ofcom has considered and acted in accordance with its general duties set out in section 3 of the Act, the six community requirements in section 4 of the Act and the duty to take account of European Commission recommendations for harmonisation in section 4A of the Act. Pursuant to Article 3(3) of Regulation (EC) No 1211/2009, Ofcom has also taken the utmost account of any relevant opinion, recommendation, guidelines, advice or regulatory practice adopted by BEREC.
15. Ofcom has also had regard to the Statement of Strategic Priorities in making the proposals referred to in this notification.

Making representations

16. Representations may be made to Ofcom about any of the proposals set out in this notification and the accompanying consultation document by no later than 1 April 2020.
17. In accordance with section 49C(1)(a) of the Act, a copy of the notification, together with the Schedules, has been sent to the Secretary of State.

Interpretation

18. For the purpose of interpreting this notification -
 - (a) save where otherwise defined in this notification, and except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in the notification on proposals for SMP services conditions contained in Volume 5 (Draft legal instruments) of the Main Document;
 - (b) save where otherwise defined in this notification, and except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in the notification of proposed SMP conditions relating to regulatory reporting, given on the same date as this notification;

- (c) otherwise any word or expression shall have the same meaning as it has in the Act;
- (d) headings and titles shall be disregarded;
- (e) expressions cognate with those referred to in this notification shall be construed accordingly; and
- (f) the Interpretation Act 1978 (c. 30) shall apply as if this notification were an Act of Parliament.

19. The following terms shall have the following meanings:

- (a) **“Gross Replacement Cost” or “GRC”** means the cost of replacing an existing tangible fixed asset with an identical or substantially similar new asset having a similar production or service capacity;
- (b) **“Mean Capital Employed (MCE)”** means total assets less current liabilities, excluding corporate taxes and dividends payable, and provisions other than those for deferred taxation. The mean is computed from the start and end values for the period, except in the case of short-term investments and borrowings, where daily averages are used in their place; and
- (c) **“Net Replacement Cost” or “NRC”** means the Gross Replacement Cost less accumulated depreciation based on Gross Replacement Cost.

SCHEDULE

Direction 1: Direction specifying the Regulatory Accounting Principles

Background

1. This Direction is made under:
 - (a) Section 49 of the Act; and
 - (b) SMP condition 11.5.
2. This Direction applies with respect to the following markets unless otherwise specified:
 - (a) PI
 - (a) WLA Area 2
 - (b) WLA Area 3
 - (c) LLA HNR
 - (d) LLA Area 2
 - (e) LLA Area 3
 - (f) IEC; and
 - (g) IEC BT+1

Direction

3. Ofcom hereby directs BT that the Regulatory Accounting Principles for the purposes of SMP Condition 11 shall be those principles specified in the Annex to this Direction.
4. The Annex to this Direction forms part of the Direction.

Annex - The Regulatory Accounting Principles

The Regulatory Accounting Principles which apply for the purposes of preparing and maintaining the Regulatory Financial Statements, the Accounting Methodology Documents, the accounting records and the Regulatory Accounting System are set out below.

Where it appears to BT that any of the Regulatory Accounting Principles set out above conflict with each other in a particular case, BT must resolve such conflict by giving priority to them in the order in which they are set out, with a previous principle taking precedence over a later principle.

The Regulatory Accounting Principles must be applied to all material items of revenue, costs, assets and liabilities in the Regulatory Financial Statements, or material changes in those items. A material item of revenue, costs, assets or liabilities, or a material change in those items, is one which is reasonably expected by virtue of its magnitude or nature, to affect the views of any user of the Regulatory Financial Statements.

1. Consistency with regulatory decisions

Regulatory Financial Reporting must be consistent with Ofcom's regulatory decisions as directed by Ofcom.

2. Completeness

Regulatory Financial Reporting must encompass all revenues, costs, assets and liabilities of the Markets, together with residual activities (including wholesale and retail).

3. 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.

4. 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.

The Dominant Provider must take account of the way in which services are charged when considering how to attribute costs. In particular, where costs are recovered from upfront revenues, they must not be capitalised and attributed to rental services. Where revenue is allocated to residual, associated costs must not be included in SMP markets.

5. Causality

Regulatory Financial Reporting must ensure that:

- (a) revenues (including revenues resulting from transfer charges);
- (b) costs (including costs resulting from transfer charges);
- (c) assets; and
- (d) 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. Costs attributed to Markets must be relevant to and required by the services provided in those Markets.

6. Compliance with the statutory accounting standards

Regulatory Financial Reporting must comply with the accounting standards applied in BT's statutory financial statements; with the exception of any departures as Ofcom may direct from time to time.

7. 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.

Direction 2: Direction setting requirements in relation to preparation, delivery, publication, form and content of the Regulatory Financial Statements

Background

1. This Direction is made under:
 - (a) Section 49 of the Act;
 - (b) SMP Condition 11.2;
 - (c) SMP Condition 11.3;
 - (d) SMP Condition 11.5; and
 - (e) SMP Condition 11.35.

2. This Direction applies with respect to the following markets unless otherwise specified:
 - (a) PI
 - (b) WLA Area 2
 - (c) WLA Area 3
 - (d) LLA HNR
 - (e) LLA Area 2
 - (f) LLA Area 3
 - (g) IEC; and
 - (h) IEC BT + 1

Interpretation

3. In this Direction, the following terms have the following meanings:
 - (a) “**Market**” means:
 - (i) each of the SMP markets identified in the [*insert reference to SMP notification*]; and
 - (ii) Shared Ancillaries.

 - (b) “**Shared Ancillaries**” means ancillaries that are used in any of the SMP markets identified in the [*insert reference to SMP notification*].

 - (c) “**PAC**” means a 'previously allocated cost' methodology whereby costs are attributed pro-rata to each cost category which has received an allocation of operating costs,

depreciation and return on mean capital employed at the preceding level of the Regulatory Accounting System.

Direction

4. Ofcom hereby directs BT as follows.
5. BT shall prepare and deliver to Ofcom two weeks before they are published the following final statements, in accordance with the obligations in paragraph 6 and 7 below:
 - (a) Introduction to the Regulatory Financial Statements;
 - (b) Basis of Preparation;
 - (c) Statement of Responsibility;
 - (d) Performance Summary by Market;
 - (e) Attribution of Wholesale Current Costs;
 - (f) Attribution of Wholesale Current Cost Mean Capital Employed;
 - (g) Reconciliation Statement – Income Statement;
 - (h) Reconciliation Statement – Mean Capital Employed;
 - (i) Attribution rules applied to Wholesale Current Costs;
 - (j) Attribution diagrams for Wholesale Current Cost Mean Capital Employed;
 - (k) Market Summaries;
 - (l) Analysis of Service Wholesale Current Costs and Mean Capital Employed; and
 - (m) Appendix for Physical Infrastructure Market.
 - (n) Glossary
6. BT shall publish the statements set out in paragraph 5 of this Direction, and in addition the following statements:
 - (a) Statement by Ofcom; and
 - (b) Report of the Regulatory Auditor,within four months after the end of the Financial Year to which they relate.
7. Except where BT is entitled to amend the form and content of the Regulatory Financial Statements, BT shall prepare the statements described in paragraphs 5 and 6 in the form provided for and containing the content specified in Annex A to this Direction.
8. BT shall publish the Regulatory Financial Statements in Excel spreadsheet format as well as in portable document format (“PDF”).

9. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of each Market in the form and content described in Annex B:
 - (i) Data supporting the cost attribution system;
 - (ii) CCA fixed asset movement statement;
 - (iii) Data supporting CCA valuations;
 - (iv) Asset values and depreciation;
 - (v) Regulatory Asset Value (RAV) adjustment applied to Access Duct;
 - (vi) PAC breakdown
 - (vii) Cost component mapping
 - (viii) Grant funded assets
10. BT shall prepare and deliver to Ofcom at the same time as it delivers its Regulatory Financial Statements the following additional financial information in respect of the PI Market in the form and content described in Annex B
 - (i) Costs of lead-in duct and single bore spine duct;
 - (ii) Attributions of duct costs to PI services;
 - (iii) PI utilisation metrics
11. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of the WLA - Area 2 and WLA – Area 3 Markets in the form and content as described in Annex B:
 - (i) FTTP investment in Area 2 and Area 3
 - (ii) FTTP roll-out and mark-up on MPF rentals
 - (iii) Time related charges
 - (iv) Special fault investigations
12. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of Leased Lines Access and IEC Markets in the form and content as described in Annex B
 - (i) Time related charges
13. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of Leased Lines Access – Area 3 and IEC – BT only in the form and content as described in Annex B
 - (i) Dark fibre patch panels and initial testing

14. BT shall prepare and deliver to Ofcom at the same time it delivers its Regulatory Financial Statements the following additional financial information in respect of Shared Ancillaries in the form and content as described in Annex B
 - (i) Electricity Charges
15. Where the additional financial information can be extracted from the data provided in paragraph 9(i), BT is not required to provide separate schedules.
16. The Annexes to this direction form part of the Direction.

Annex A

Statement by Ofcom

The statement provided by Ofcom commenting on the figures in, the notes to, or the presentation of any or all of the Regulatory Financial Statements, in relation to each of the Markets.

Introduction to the Regulatory Financial Statements

The Introduction to the Regulatory Financial Statements (RFS) shall be included in the RFS as a separate statement.

The Introduction must include a summary of the Dominant Provider's financial performance in a way which helps the reader to understand the RFS. The summary must include a brief but complete commentary on its financial performance in relation to each Market separately, prepared on an objective basis.

The Introduction should also set out an analysis of the changes and developments affecting each Market, including changes in market conditions, the introduction or announcement of new services, new and discontinued activities and relevant acquisitions and disposals.

Basis of Preparation

The Regulatory Financial Statements (RFS) shall contain, as a separate statement, notes, modelled on generally accepted accounting principles, to assist the user in the interpretation of the RFS.

The notes must address issues necessary to ensure the proper preparation of the RFS (in accordance with the requirement to obtain an audit to “properly prepared in accordance with” standard). They should set out to the extent necessary the basis of accounting, accounting policies, changes for restatement, non-compliance with the International Accounting Standards and any other information that will enable users to properly understand the RFS.

The notes should make clear issues of comparability that assist the reader’s understanding of the RFS and highlight accounting policies that are key to the understanding of performance, focusing on those which have required the particular exercise of judgement in their application and those accounting policies which have changed in the year.

Statement of Responsibility

The statement provided by the board of directors of BT shall set out the basis of preparation of the Regulatory Financial Statements and confirm the approval of the Regulatory Financial Statements by BT's board of directors.

Report of the Regulatory Auditor

The statement by the Regulatory Auditor shall set out the duties and responsibilities of BT and of the Regulatory Auditor, the basis of audit opinion in accordance with current auditing standards, to whom a duty of care is owed and their opinion in respect of each Regulatory Financial Statement.

Performance Summary by Market

The Performance Summary by Market schedule shall be in the form specified below, and contain the information required by the column and row headings.

Performance Summary by Market 20XX
For the year ended 31 March 20XX

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 %	%											

Note on specific items:

Below the Performance Summary by Market schedule BT must include a schedule showing which specific items reported in the BT Group statutory financial statements have been attributed to SMP markets

Notes for completing the Performance Summary by Market schedule

- PI revenues: these rows should only be completed for the PI market
- Other revenues: these rows should be completed for all columns except that relating to the PI market
- Attribution of PI: this row should be completed for all columns except that relating to the PI market. The total in this row should reconcile to the row called 'inputs to downstream services'
- All other rows: these should be completed for all columns
- Row names can be modified, or rows added or removed with agreement from Ofcom

Within Openreach, "SMP markets" must include a separate column for each of:

- Wholesale local access – Area 2
- Wholesale local access – Area 3
- Leased lines access – Area 2
- Leased lines access – Area 3
- Leased lines access – High Network Reach
- IEC – BT only exchanges
- IEC – BT + 1 exchanges
- Shared Ancillaries

Notes for completing the 'Attribution of Wholesale Current Costs' schedule:

- **Openreach 'Other opex'**: BT must provide a further breakdown of these costs where they exceed 10% of total Openreach operating costs, with the additional breakdown to be agreed with Ofcom.
- **Rest of BT 'Other opex'**: BT must provide an additional breakdown of these costs where they exceed 10% of total rest of BT Operating costs attributed to Openreach, with the additional breakdown to be agreed with Ofcom.
- Row names can be modified, or rows added or removed with agreement from Ofcom.

Within Openreach, "SMP markets" must include a separate column for each of:

- Wholesale local access – Area 2
- Wholesale local access – Area 3
- Leased lines access – Area 2
- Leased lines access – Area 3
- Leased lines access – High Network Reach
- IEC – BT only exchanges
- IEC – BT + 1 exchanges
- Shared Ancillaries

Attribution of Wholesale Current Cost Mean Capital Employed

The Attribution of Wholesale Current Cost Mean Capital Employed schedule shall be in the form specified below, and contain the information required by the column and row headings.

Attribution of Wholesale Current Cost Mean Capital Employed XX For the year ended 31 March 20XX

£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												

Notes for completing the 'Attribution of Wholesale Current Cost Mean Capital Employed' schedule:

Row names can be modified, or rows added or removed with agreement from Ofcom.

Within Openreach, "SMP markets" must include a separate column for each of:

- Wholesale local access – Area 2
- Wholesale local access – Area 3
- Leased lines access – Area 2
- Leased lines access – Area 3
- Leased lines access – High Network Reach
- IEC – BT only exchanges
- IEC – BT + 1 exchanges
- Shared Ancillaries

Reconciliation Statement - Income Statement

The Reconciliation Statement - Income Statement schedule shall be in the form specified below, and contain the information required by the column and row headings.

Reconciliation Statement - Income Statement 20XX

For the year ended 31 March 20XX

	Openreach			BT Group plc		
	Revenue	Operating Cost	Return or operating profit	Revenue	Operating Cost	Return or operating profit
	£m	£m	£m	£m	£m	£m
As in the Annual Report (before specific items)						
Adjustments						
Specific items						
Use of Technology Assets						
Attribution differences						
Net short term interest						
Share of post tax loss of associated and joint ventures						
Capitalised costs treated as operating expenses						
CCA adjustments						
Roundings						
As in the RFS						

Note on completion of Reconciliation Statement – income statement/Profit and Loss Account

With agreement from Ofcom, the row names under the 'adjustments' heading can be modified, or rows added or removed.

BT must include a brief description of each adjustment

Reconciliation Statement – Mean Capital Employed

Reconciliation Statement - MCE - BT Group 20XX

For the year ended March 20XX

MCE - BT Group plc	20XX	20XX-1		20XX	20XX-1
	£m	£m		£m	£m
Total assets less current liabilities in the Annual Report			Openreach		
			Market 1		
			Market 2, etc		
			Total Openreach SMP		
			Rest of BT		
			Market 1		
			Market 2, etc		
			Total Rest of BT SMP		
			Openreach non-SMP		
			Rest of BT - non-SMP		
			Eliminations		
			Roundings		
			Total CCA MCE in the RFS		

Note on completion of Reconciliation Statement – Mean Capital Employed

With agreement from Ofcom, the row names under the 'adjustments' heading can be modified, or rows added or removed.

BT must include a brief description of each adjustment

Attribution rules applied to Wholesale Current Costs

BT must publish a schedule showing the attribution rules applied to each of the Openreach and Rest of BT operating cost categories published in the Attribution of Wholesale Current Cost schedule.

For each cost category information on the following types of attribution rules should be provided, alongside a brief description of the attribution rule:

- **Direct to Openreach services.** E.g. SLG payments could be directly associated with particular services or groups of services.
- **Direct to rest of BT.** This would capture costs that are directly allocated to residual markets or services outside of Openreach.
- **Pay driver.** A separate row must be provided for each pay driver used (e.g. Openreach Pay, BT Group Pay, Technology Pay, BT Group Factorised pay).
- **PAC driver.** A separate row must be provided for each PAC driver (e.g. Openreach PAC, Group PAC and Technology PAC).
- Additional rows for any attribution rule applied to 10% or more of the relevant cost category.

For each attribution rule the schedule should show:

- the amount of operating cost attributed;
- the proportion of total operating cost attributed; and
- the percentage of costs that are attributed to Openreach SMP markets.

Attribution diagrams for Wholesale Current Cost Mean Capital Employed

For each asset reported in the Attribution of Wholesale Mean Capital Employed schedule BT must publish a diagram showing the principal cost pools used in the Regulatory Accounting System alongside a description of the basis of allocation and the associated allocation percentages. These diagrams can be published as an appendix to the RFS.

Market Summaries

BT must publish the schedules set out in this section:

- i. PI Summary with Note on network adjustments above and below the financial Limit;
- ii. Wholesale Local Access – Area 2 Summary;
- iii. Wholesale Local Access – Area 3 Summary with Note on FTTP rollout in Area 3 and associated mark-up;
- iv. Leased Lines Access – Area 2 Summary;
- v. Leased Lines Access – Area 3 Summary;
- vi. Leased Lines Access – High Network Reach 3 Summary;
- vii. IEC – BT Only Summary;
- viii. IEC – BT + 1 Summary; and
- ix. Shared Ancillaries

Each schedule shall be in the form specified for it below, and contain the information required by the column and row headings. In each schedule, with agreement from Ofcom, BT can include additional rows i) where required to ensure total revenues or costs reconcile to the Performance Summary by Market schedule or ii) where these row items would be better presented in the Market Summary schedules than in the Reconciliation Statements. For example, in relation to IFRS15 (relating to revenue from contracts with customers) BT could include rows such as.:

- IFRS15 Deferred Revenue
- IFRS15 Outpayments required to be treated as a credit to revenue

Note on network adjustments above and below the financial Limit

This note should appear below the PI Summary schedule

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

ii) Wholesale Local Access – Area 2 Summary

X.X.X Wholesale Local Access - Area 2 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	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	%	%
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														

Note on completion of ii) Wholesale Local Access – Area 2 Summary

- ‘Ancillaries (CPI-0%, list where revenue > £5m)’ means that each ancillary subject to a CPI-0% control with total revenue exceeding £5m should be reported on a separate row

iii) Wholesale Local Access – Area 3 Summary

X.X.X Wholesale Local Access - Area 3 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	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	%	%
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 (£0 cap)														
Other ancillaries														
Other WLA Area 3														
Rounding														
Total WLA Area 3														

Note on FTTP rollout in Area 3 and associated mark-up

This note should appear below the Wholesale Local Access – Area 3 Summary schedule.

	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	

Note on completion of iii) Wholesale Access – Area 3 Summary

- FTTC rentals basket means the services included in the Rental Charges Basket as defined in Condition 12C.2
- ‘Ancillaries (CPI-0%, list where revenue > £5m)’ means that each ancillary subject to a CPI-0% control with total revenue exceeding £5m should be reported on a separate row

iv) Leased Lines Access – Area 2

X.X.X Leased Lines Access - Area 2 Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume								
	£m	£m	£m			Price	Price	£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

BT must include a note under this schedule on the amount of capitalised ECCs expensed within the year.

Note on completion of iv) Leased Lines Access – Area 2 Summary

- ‘Ethernet and WDM basket’ means the services included in the Ethernet and WDM Basket as defined in the Annex to Condition 12E
- ‘ECC basket’ means the services included in the Direct ECC Services Basket as defined in the Annex to Condition 12G
- ‘Ancillaries (list where revenue > £5m)’ means that each ancillary with total revenue exceeding £5m should be reported on a separate row

v) Leased Lines Access – Area 3

X.X.X Leased Lines Access - Area 3 Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume	Average	Average	opex	opex	MCE	MCE	ROCE	ROCE
	£m	£m	£m		Measure	Price	Price	£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

BT must include a note under this schedule on the amount of capitalised ECCs expensed within the year.

Note on completion of v) Leased Lines Access – Area 3 Summary

- ‘Ethernet and WDM basket’ means the services included in the Ethernet and WDM Basket as defined in the Annex to Condition 12E

- 'ECC basket' means the services included in the Direct ECC Services Basket as defined in the Annex to Condition 12G
- 'Ancillaries (list where revenue > £5m)' means that each ancillary with total revenue exceeding £5m should be reported on a separate row

vi) Leased Lines Access – High Network Reach

X.X.X Leased lines access - High Network Reach Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal Revenue	External Revenue	Total Revenue	Internal Volume	External Volume Measure	Internal Average Price	External Average 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

Note on completion of vi) Leased Lines Access – High Network Reach Summary

- ‘Ancillaries (list where revenue > £5m)’ means that each ancillary with total revenue exceeding £5m should be reported on a separate row

vii) IEC – BT Only Summary

X.X.X Inter-Exchange Connectivity Services - BT Only Exchanges Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume								
	£m	£m	£m			Price	Price	£m	£m	£m	£m	%	%
Dark fibre access													
Connections - single fibre													
Connections - dual fibre													
Rentals - single fibre													
Rentals - dual fibre													
Main link													
Patch panels - exchange													
Patch panels - customer premises													
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 (if applicable)													
Total IEC BT only exchanges													

BT must include a note under this schedule on the amount of capitalised ECCs expensed within the year.

Note on completion of vii) IEC – BT Only Summary

- 'Ethernet and WDM basket' means the services included in the Ethernet and WDM Basket as defined in the Annex to Condition 12E
- 'ECC basket' means the services included in the Direct ECC Services Basket as defined in the Annex to Condition 12G
- 'Ancillaries (list where revenue > £5m)' means that each ancillary with total revenue exceeding £5m should be reported on a separate row
- Where services listed in this schedule are not applicable to the IEC – BT only market, BT can, with agreement from Ofcom, omit them from this schedule

viii) IEC – BT + 1 Summary

X.X.X Inter-Exchange Connectivity Services - BT + 1 Exchanges Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	Internal	External	Total	Internal	External	Internal	External	Internal	External	Internal	External	Internal	External
	Revenue	Revenue	Revenue	Volume	Volume								
	£m	£m	£m		Measure	Price	Price	£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 IEC BT + 1 exchanges

BT must include a note under this schedule on the amount of capitalised ECCs expensed within the year.

Note on completion of vii) IEC – BT + 1 Summary

- ‘Ethernet and WDM basket’ means the services included in the Ethernet and WDM Basket as defined in the Annex to Condition 12E
- ‘ECC basket’ means the services included in the Direct ECC Services Basket as defined in the Annex to Condition 12G
- ‘Ancillaries (list where revenue > £5m)’ means that each ancillary with total revenue exceeding £5m should be reported on a separate row
- Where services listed in this schedule are not applicable to the IEC – BT only market, BT can, with agreement from Ofcom, omit them from this schedule

ix) Shared Ancillaries

X.X.X Shared Ancillaries Summary 20XX

For the year ended 31 March 20XX

Detailed service analysis

Service	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	%	%

Cablelink

Accommodation

Electricity charges

Total Shared Ancillaries

Note on completion of ix) Shared Ancillaries

- 'Cablelink' means the services included in the definition of Cablelink Services in section 3 of the Annex to Condition 12F
- 'Accommodation' means the services included in the definition of:
 - Co-Mingling New Provide and Rental Services in Part 4 of Annex 1 to Condition 12B
 - Accommodation Services in section 1 of the Annex to Condition 12F
 - Overlapping Accommodation Services in section 2 of the Annex to Condition 12F
- Electricity charge means Electricity Charge as defined in Condition 6.4(a)

Analysis of Service Wholesale Current Costs and Mean Capital Employed

Immediately after each Market Summary schedule listed below, BT must also publish the following schedules:

- a) Analysis of Service Wholesale Current Cost; and
- b) Analysis of Service Wholesale MCE.

Each such schedule must include a column for each service/basket required in the Market Summary schedule concerned.

The Market Summary schedules in relation to which this requirement applies are:

- i) PI Summary
- ii) WLA – Area 2 Summary
- iii) WLA – Area 3 Summary
- iv) LLA – Area 2 Summary
- v) LLA – Area 3 Summary
- vii) IEC – BT Only Summary
- viii) IEC – BT + 1 Summary
- ix) Shared Ancillaries Summary

a) Analysis of Service Wholesale Current Costs

The Analysis of Service Wholesale Current Costs schedule shall be in the form specified below, and contain the information required by the column and row headings.

Analysis of Service Wholesale Current Costs 20XX
For the year ending March 20XX

	Include column for each service/basket published in market summary	Total
EOI input prices		
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 PI 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		

Notes for completing the Analysis of Service Wholesale Current Costs schedule.

- **Openreach 'Other opex'**: BT must provide a further breakdown of these costs where they exceed 10% of total Openreach operating costs, with the additional breakdown to be agreed with Ofcom.
- **Rest of BT 'Other opex'**: BT must provide an additional breakdown of these costs where they exceed 10% of total rest of BT Operating costs attributed to Openreach, with the additional breakdown to be agreed with Ofcom.
- Row names can be modified, or rows added or removed with agreement from Ofcom.

b) Analysis of Service Wholesale MCE

The Analysis of Service Wholesale MCE schedule shall be in the form specified below, and contain the information required by the column and row headings

Analysis of Service Wholesale MCE 20XX

For the year ending March 20XX

	Include column for each service/basket published in market summary	Total
<hr/>		
Non-current assets		
- Duct		
- Poles		
- Other PI assets		
- Copper		
- Fibre		
- Electronics		
- Software		
- Land and buildings		
- Other depreciation		
- Less funded assets (BDUK, etc)		
Current assets		
Current liabilities		
Provisions		
Roundings		
<hr/>		
Total MCE		

Notes for completing the 'Analysis of Service Wholesale MCE' schedule

Row names can be modified, or rows added or removed with agreement from Ofcom.

Appendix for Physical Infrastructure Market

The Appendix for the Physical Infrastructure Market may be published either after the PI Market Summary schedule or after all the Market Summary schedules. It shall be in the form specified below, and contain the information required by the column and row headings

Network adjustments restated on an MCE basis

For the year ended 31 March 20XX

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

Glossary

The Glossary shall be included in the RFS as a separate statement.

The Glossary must include definitions of financial and non-financial terms used in the RFS as necessary to secure that it is reasonable to consider that a person with an understanding of regulatory accounting principles has sufficient information, clearly enough presented, to understand the RFS.

Annex B

Reference	Additional Financial Information	Description
<u>A) Additional Financial Information to be provided in respect of each Market</u>		
(i)	Data supporting the cost attribution system	<p>All data, metadata and models used to run the cost attribution system (CostPerform as at the date of this notice) for the current and the prior year.</p> <p>The data and models provided must be sufficient for Ofcom to:</p> <ul style="list-style-type: none"> • generate the Regulatory Financial Statements when using the same software as BT; • extract information on Openreach and each reported SMP market; • extract information on all services and cost components for each reported SMP market • calculate unit costs for services and components by reference to total costs and volumes; • understand how the cost of capital has been employed in the RFS to attribute costs; • see all attribution levels in the cost attribution system, including attributions to non-SMP parts of BT. <p>The information should also be accompanied by any additional spreadsheets or models used to prepare the schedules published in the Regulatory Financial Statements.</p>

(ii)	CCA fixed asset movement statement	<ul style="list-style-type: none"> • For each asset category for BT Group: <ul style="list-style-type: none"> a) gross replacement costs brought forward, additions (including capex and assets in the course of construction)/disposals/transfers, holdings gains/(loss), gross replacement costs carried forward; and b) gross depreciation brought forward, HCA depreciation charge, supplementary CCA depreciation, disposals/transfers/other movements, holding gains/(loss), gross depreciation carried forward) • A reconciliation to the HCA fixed assets movement statement in the BT Group statutory financial statements
(iii)	Data supporting CCA valuations	Tabular data showing the indices, index weightings and composite indices used by BT to revalue assets onto a current cost basis.
(iv)	Asset values and depreciation	<p>For each asset category:</p> <ul style="list-style-type: none"> • Asset life • Valuation basis (e.g. HCA or CCA) • Depreciation basis • Description of index used for CCA valuations • Description of samples or surveys used to determine asset value, if used • HCA and CCA depreciation (including information on supplementary depreciation and holding gains/losses for CCA depreciation) • Gross Book Value (GBV) by year of acquisition • Gross Replacement Cost (GRC) • Net Replacement Cost (NRC)

(v)	Regulatory Asset Value (RAV) adjustment applied to Access Duct	<p>The following information, including all formulae:</p> <ol style="list-style-type: none"> 1. A breakdown of the GBV and NBV of duct, including all annual changes (including capital expenditure, disposals and assets in the course of construction); 2. A breakdown of the CCA valuation of duct, showing the valuation of pre- and post-1997 Access Duct consistent with Schedule A of Direction 3, as well as non-Access Duct; 3. The RAV adjustment made to the valuation of duct in the RFS (and a reconciliation to duct values in the RFS); and 4. An explanation of how this information has been used to attribute duct costs to PI services.
(vi)	PAC breakdown	<p>A breakdown of costs attributed using PAC methodologies (e.g. BT Group PAC, Openreach PAC, Technology PAC) by two-digit OUC (Organisation Unit Code along with a description of the activities undertaken by each OUC.</p> <p>(In this direction, OUC has the meaning it is given in BT's accounting systems as at the date of this notification)</p>
(vii)	Cost component mapping	<p>A mapping between the operating cost and MCE of each cost component and the operating cost and MCE cost categories from the Attribution of Wholesale Current Costs and Attribution of Wholesale Current Cost Mean Capital Employed schedules.</p>
(viii)	Grant funded assets	<p>The following information on all grant funded investments:</p> <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

B) Additional Financial Information to be provided in respect of the PI Market		
(i)	Costs of lead-in duct and single bore spine duct	<ul style="list-style-type: none"> • Total capital and operating costs on lead-in and single bore spine duct • Estimates of the unit cost of lead-in and single bore spine duct • A reconciliation of these figures to the PI market summary
(ii)	Attributions of duct costs to PI services	<p>A schedule showing how duct costs have been attributed to PI services, including:</p> <ul style="list-style-type: none"> • How pre- and post- March 2018 duct has been attributed • Any assumptions made • A reconciliation of duct costs in the PIA Market to duct costs in the RAV schedule
(iii)	PI utilisation metrics	<p>The following information, as at 30 September each year.</p> <ul style="list-style-type: none"> • 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 poles • Number of pure and mixed feeder poles • Number of cable poles • Number of single and multi-premise attachments for i) cable poles ii) pure DP poles iii) mixed DP poles iv) pure feeder poles and v) mixed feeder poles • Average number of cables up a pole for all poles • Number of manifold attachments for all poles

C) Additional Financial Information to be provided in respect of WLA Markets		
i)	FTTP investment in Area 2 and Area 3	<p>Provide information on incremental FTTP investment in each of Area 2 and Area 3 on an annual and cumulative basis, including:</p> <ul style="list-style-type: none"> • capital costs (by asset type e.g. lead-in duct, single bore spine duct, poles, and fibre) and operating costs • FTTP revenues in Area 2 and 3
(ii)	FTTP roll-out and mark-up on MPF rentals	<p>Provide full details and calculations behind the roll out and K-factor mark-up figures published in the RFS, including:</p>

		<ul style="list-style-type: none"> Total FTTP homes passed in Area 2 and Area 3, less homes passed funded by government subsidies Cumulative revenue generated from the K-factor mark up on MPF rentals
(iii)	Time related charges	Provide hourly costs for TRCs, split by direct and overhead costs.
(iv)	Special fault investigations	Provide hourly costs for SFIs, split by direct and overhead costs, and total costs for each SFI module

D) Additional Financial Information to be provided in respect of the Leased Lines Access and Inter-exchange connectivity services markets

(i)	Time related charges	Provide hourly costs for TRCs, split by direct and overhead costs.
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E) Additional Financial Information to be provided in respect of the Leased Lines Access – Area 3 and IEC-BT only markets

(i)	Dark fibre patch panels and initial testing	<p>Provide information on the unit costs and volumes of:</p> <ul style="list-style-type: none"> Patch panel equipment at exchanges Patch panel equipment at customer premises <p>Provide information on labour costs associated with i) installing patch panels and ii) undertaking initial testing of dark fibre circuits, including:</p> <ul style="list-style-type: none"> Hourly engineering pay Average time to complete the task Any differences between single and dual fibre testing Any differences between patch panels at the exchange and customer premises
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F) Additional Financial Information to be provided in respect of Shared Ancillaries

(i)	Electricity Charges	Provide information setting out the calculation of Electricity Charges including the precise level of BT's Mark up on the purchase of electricity costs which is reconciled to the published Regulatory Financial Statements.
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Direction 3: Direction specifying the requirements in relation to consistency with regulatory decisions and regulatory asset value adjusted current costs basis

Background

1. This Direction is made under:
 - (a) Section 49 of the Act;
 - (b) SMP Condition 11.2;
 - (c) SMP Condition 11.3;
 - (d) SMP Condition 11.5; and
 - (e) SMP Condition 11.12.

2. This Direction applies with respect to the following markets unless otherwise specified:
 - (a) PI
 - (b) WLA Area 2
 - (c) WLA Area 3
 - (d) LLA HNR
 - (e) LLA Area 2
 - (f) LLA Area 3
 - (g) IEC; and
 - (h) IEC BT+1

Direction

3. Ofcom hereby directs BT as set out in Schedules A and B.

Schedule A

4. In this Schedule A, the following terms shall have the following meanings:
- (a) **“Access Ducts”** means the underground pipes which hold copper and fibre lines, and which are used in the part of BT’s network which connects directly to customers from the local telephone exchange; and
 - (b) **“Retail Prices Index”** means the measure of inflation which is published monthly by the Office for National Statistics.
 - (c) **“Access Fibre Cable”** means the fibre cable from BT exchange to the end user’s premises. This includes fibre assets from the following Classes of Work;
 - (ii) LFSC Local Line Of Spine Cable
 - (iii) LFDC Local Line Of Distribution Cable
 - (iv) CJF Junction Cable Optical Fibre
 - (d) **“Copper”** means the overhead and underground copper cables that connect BT’s exchanges to distribution points and main socket on an end user’s property.
 - (e) **“Poles”** means the poles which carry overhead copper and fibre cables between customer premises, distribution points and the spine network.
5. In preparing the Regulatory Financial Statements, explanations and other required information on a regulatory asset value adjusted current costs basis, BT shall value assets as follows:
- (a) Access Ducts capitalised prior to 1 August 1997: on the basis of the closing historical cost on 31 March 2005 which is indexed by the Retail Price Index from 31 March 2005.
 - (b) Access Ducts capitalised on or after 1 August 1997 on the basis of the closing historical cost indexed by the Retail Prices Index;
 - (c) All non-Access Ducts: on the basis of the closing historical cost indexed by the Retail Prices Index.
 - (d) Access Fibre Cable: on the basis of the closing historical cost.
 - (e) Copper: on the basis of the closing historical cost index by the Retail Prices Index.
 - (f) Poles: on the basis of the closing historical cost indexed by the Retail Prices Index.

Schedule B

Part 1: Definitions and interpretation

6. For the purposes of Part 2 of this Schedule,
- (a) **“Fixed Asset Register”** means a list of assets held by BT, including their location, description, gross book values (GBV) and accumulated depreciation;
 - (b) **“Network Adjustment”** means:
 - (v) for third parties, PIA Adjustment Services; and
 - (vi) for BT, activities the same as or equivalent to PIA Adjustment Services undertaken by BT for itself;
 - (c) **“PIPeR”** (Physical Inventory Planning E-Records) means the database held within Openreach that holds all Openreach external inventories of duct, copper and fibre assets.

Part 2: Requirements to ensure the Regulatory Financial Statements are consistent with regulatory decisions made by Ofcom

Externally funded network build

7. BT must ensure that externally-funded assets, and the funding associated with these assets, are separately identified and accounted for in its Regulatory Accounting System.

SLG payments

8. BT must ensure that Service Level Guarantee (SLG) payments are presented as operating costs in the Regulatory Financial Statements.

PI requirements

9. The following paragraphs 9 to 21 shall apply with respect to the PI Market.

Network Adjustments

10. BT shall separately identify and record Network Adjustment costs both above and below the PIA Adjustment Limit in BT’s Regulatory Financial Reporting System. However, this shall not apply with respect to Network Adjustments BT undertakes for itself where there are objectively justifiable reasons why this is not possible.
11. BT shall ensure that any costs it incurs for Network Adjustments requested by third parties that are below the Financial Limit are appropriately capitalised within the PI Market and attributed to Wholesale Services that use the Physical Infrastructure.
12. BT shall ensure that costs it incurs for Network Adjustments BT undertakes for itself that are below the PIA Adjustment Limit are appropriately capitalised within the PI market and attributed to Wholesale Services that use the Physical Infrastructure. However, this shall not

apply with respect to Network Adjustments BT undertakes for itself where there are objectively justifiable reasons why this is not possible.

13. In the case of costs incurred for Network Adjustments requested by third parties above the PIA Adjustment Limit that BT recovers separately from the third party requesting the Network Adjustment, BT shall ensure that these Network Adjustments costs above the PIA Adjustment Limit are treated as an operating cost in the PI Market and the recovery of these costs from third parties is treated as an operating income in the PI Market.
14. In the case of costs incurred for Network Adjustments that BT undertakes for itself that are above the PIA Adjustment Limit, BT shall ensure that all these Network Adjustments costs above the PIA Adjustment Limit are treated as an operating cost in the PI Market and the recovery of these cost from third parties is treated as an operating income in the PI Market. However, this shall not apply with respect to Network Adjustments BT undertakes for itself where there are objectively justifiable reasons why this is not possible.
15. BT must attribute all Network Adjustments associated with poles to the pole asset and ensure that these Network Adjustments can be separately identified

Fixed Asset Mapping

16. BT shall ensure that aggregated cost data within its Fixed Asset Register are mapped on an annual basis to its physical asset inventory held within its PiPER system.

Poles

17. BT must identify and record the capital cost of poles separately from other asset and infrastructure costs. BT must commission Additional Procedures in relation to this requirement.
18. BT must ensure the accounting asset life of poles reflects their useful economic life. BT must commission Additional Procedures in relation to this requirement.

Duct

19. BT must identify and record the volume (by length in metres and number of new connections) and capital cost of new lead-in duct installed after 1 April 2021.
20. BT must separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018.
21. BT must attribute costs associated with pre-March 2018 duct to PI assets using the following percentages:

- lead-in duct 9.42%
- Spine duct – single bore 36.32%
- Spine duct – 2 bores 9.69%
- Spine duct 3+ bores 15.42%

- Joint boxes 17.37%
- Manholes 11.79%

22. BT must attribute costs associated with post-March 2018 duct to PI services in proportion to the estimated standard cost of each PI service, which estimation must be done by reference to unit costs and volumes associated with PI services. This analysis must be updated each year to take account of changes in the mix of jobs.

Preparation of costs for geographic markets

23. The following paragraph 23 shall apply with respect to the following markets:

- (a) WLA – Area 2;
- (b) WLA – Area 3;
- (c) Leased Lines Access – Area 2;
- (d) Leased Lines Access – Area 3;
- (e) Leased Lines Access – High Network Reach;
- (f) IEC – BT only exchanges; and
- (g) IEC – BT +1 exchanges.

24. BT must prepare unit costs by reference to national unit costs. ‘National unit costs’ means a unit cost per service that does not take account of any differences in circuit lengths. Total costs will represent the national unit cost per service multiplied by the volume of services in the geographic market.

Excess construction charges

25. The following paragraph 25 shall apply with respect to following markets:

- (a) Leased Lines Access – Area 2;
- (b) Leased Lines Access – Area 3;
- (c) Leased Lines Access – High Network Reach;
- (d) IEC -BT only; and
- (e) IEC – BT+1.

26. BT must identify all capitalised excess construction charge costs and write these off as an expense in the year they were incurred.

Dark fibre

27. The following paragraphs 27 to 30 shall apply with respect to the following markets:

(a) Leased Lines Access - Area 3; and

(b) IEC -BT only markets

28. BT must separately identify systems and development costs (recorded in the 'Openreach Systems and Development – Ethernet' component as at the date of this notice) associated with dark fibre services.
29. BT must separately identify SLG payments in relation to provision and assurance for dark fibre services.
30. BT must 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.
31. BT must 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.

Direction 4: Direction setting requirements in relation to the audit opinion for the Regulatory Financial Statements

Background

32. This Direction is made under:
- (a) Section 49 of the Act; and
 - (b) SMP Condition 11.5, having regard to the requirement imposed by SMP Condition 11.10(iii).
33. This Direction applies with respect to the following markets:
- (a) PI
 - (b) WLA Area 2
 - (c) WLA Area 3
 - (d) LLA HNR
 - (e) LLA Area 2
 - (f) LLA Area 3
 - (g) IEC; and
 - (h) IEC BT + 1

Direction

34. Ofcom hereby directs BT as follows.
35. BT shall secure, to the satisfaction of Ofcom, an appropriate audit opinion in respect of the published Regulatory Financial Statements as a whole, in respect of each Regulatory Financial Statement and in respect of groups of Regulatory Financial Statement, to the “properly prepared in accordance with” (“**PPIA**”) standard, as determined following consultation with Ofcom and the Regulatory Auditor.
36. BT shall ensure that the Regulatory Auditor shall state whether in their opinion:
- (a) each Regulatory Financial Statement has been properly prepared in accordance with the applicable SMP services conditions, the Regulatory Accounting Principles, and the Accounting Methodology Documents, including the Prior Year Comparatives;
 - (b) each Regulatory Financial Statement and corresponding audit opinion that BT delivers to Ofcom and/or publishes is fit for such purpose (or purposes), if any, as notified by Ofcom to BT in writing; and

- (c) anything has come to their attention that would lead them to conclude that the applicable SMP services conditions, the Regulatory Accounting Principles and the Accounting Methodology Documents have not been properly applied in the preparation of the relevant Regulatory Financial Statement, disclosing where practicable any adjustments he considers to be required in respect of any such matter.

Direction 5: Direction setting requirements in relation to the reconciliation report and accompanying audit opinion

Background

37. This Direction is made under:
- (a) Section 49 of the Act;
 - (b) SMP Condition 11.5, having regard to the requirements imposed by SMP Conditions 11.10(ii), 11.10(iv), 11.31 and 11.32.
38. This Direction applies with respect to the following markets:
- (a) PI
 - (b) WLA Area 2
 - (c) WLA Area 3
 - (d) LLA HNR
 - (e) LLA Area 2
 - (f) LLA Area 3
 - (g) IEC; and
 - (h) IEC BT + 1

Interpretation

39. In this Direction the following terms shall have the following meanings:
- (a) **“Audit and Risk Committee”** means the committee of the board of directors of BT whose principal duties include financial reporting, internal controls, risk management and audit and includes any committee or unit established from time to time by the board of directors of BT to perform such duties;
 - (b) **“Change Control Notification”** means a list of each and every change to the Regulatory Accounting Methodology which BT is required to publish and deliver to Ofcom by 31 March of the Financial Year in which the change to the Regulatory Accounting Methodology is to be made;
 - (c) **“Markets Level”** means the level at which total costs, total revenue and total assets are reported for each separate Market applies;
 - (d) **“Material Change”** means a change in any element of the Regulatory Accounting Methodology which results in a change (be it positive or negative) in any figure in the Regulatory Financial Statements which exceeds the higher of 5% or £1 million. The percentage change in a figure shall be calculated by taking the value of the

affected figure before the change in the Regulatory Accounting Methodology is applied, and subtracting from it, the value of the same figure after the change in the Regulatory Accounting Methodology is applied, and then dividing this result by the former value;

(e) **“Material Error”** means an error which:

(i) results in a correction (be it positive or negative) in any figure in the Regulatory Financial Statements which exceeds the higher of 5% or £1 million. The percentage correction in a figure shall be calculated by taking the value of the affected figure in the Regulatory Financial Reporting before the error is corrected, and subtracting from it, the value of the same figure after the error is corrected, and then dividing this result by the former value; and

(ii) fulfils at least one of the following conditions:

1. the error has arisen within the Regulatory Attribution System;
2. the error has been brought to the attention of the Audit and Risk Committee by the Regulatory Auditor;

(f) **“Regulatory Attribution System”** means the set of computerised and manual accounting methods, procedures, Processes and controls established to attribute the costs, revenues, assets and liabilities and summarise, interpret, and present the resultant financial data in an accurate and timely manner for the purposes of the whole of the Regulatory Financial Statements, the Accounting Methodology Documents, the accounting records and the Regulatory Accounting System; and

(g) **“Regulatory Financial Reporting”** means the whole of the Regulatory Financial Statements, the Accounting Methodology Documents, the accounting records and the Regulatory Accounting System.

Direction

40. Ofcom hereby directs BT as follows.

41. The reconciliation report must set out:

(a) in relation to changes to the Regulatory Accounting Methodology:

- (i) each and every change (including each change set out in the Change Control Notification)
- (ii) the impact of each Material Change at the Markets Level, by setting out, for each Material Change separately, the difference between the Current Year Figures and the Current Year Figures had such Material Change not been made, expressed as an absolute amount;

(iii) the impact of changes which are not Material Changes at the Markets Level, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such changes not been made, expressed as an absolute amount; and

(b) in relation to Material Errors identified since the publication of the previous Financial Year's Regulatory Financial Statements:

(i) for each Material Error, a description of the Material Error, the circumstances of discovery of the Material Error, the reason for the Material Error, and whether such Material Error has been corrected in the restated Prior Year Comparatives;

(ii) the impact of each Material Errors presented in the Regulatory Financial Statements for the previous Financial Year, by setting out:

1. the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Errors been corrected in the previous Financial Year ("the Corrected Previous Year Figures"); and

2. the difference as an absolute amount between the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year and the Corrected Previous Year Figures.

(c) the impact of each Material Error at the Markets Level, by setting out, for each Material Error, the difference as an absolute amount between:

(i) the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year; and

(ii) the Current Year Figures set out in the Regulatory Financial Statements for the previous Financial Year had such Material Error been corrected in the previous Financial Year.

42. BT must obtain an audit opinion on the reconciliation report which must set out:

(a) whether all Material Changes were included in the Change Control Notification. Where this is not the case, the audit opinion must report whether Material Changes other than those included in the Change Control Notification were made as a result of an audit requirement made following delivery of the Change Control Notification or otherwise;

(b) whether the description of each of the Material Changes provided by BT in the Change Control Notification is accurate;

- (c) whether BT included each and every Material Change in the reconciliation report and correctly calculated the impact of all changes presented in the Regulatory Financial Statements in accordance with paragraph 5(a)(ii) above;
 - (d) whether the description of each of the Material Errors provided by BT in the reconciliation report is accurate; and
 - (e) whether the Corrected Previous Year Figures set out in the reconciliation report in accordance with paragraph 5(b)(ii)(1) above are properly prepared in accordance with the Accounting Methodology Documents for the previous Financial Year had these Accounting Methodology Documents not included these Material Errors.
43. BT must ensure it maintains the data to enable it to compile a report which sets out the impact of all changes on all figures presented in the Regulatory Financial Statements, by setting out, on an aggregated basis, the difference between the Current Year Figures and the Current Year Figures had such a change not been made expressed as an absolute amount and as a percentage.

Direction 6: Direction specifying network components

Background

44. This Direction is made under:
- (a) Section 49 of the Act;
 - (b) SMP Condition 11.25
45. This Direction applies with respect to the following markets:
- (a) PI
 - (b) WLA Area 2
 - (c) WLA Area 3
 - (d) LLA Area 2
 - (e) LLA Area 3
 - (f) LLA HNR
 - (g) IEC; and
 - (h) IEC BT + 1

Direction

46. Ofcom hereby directs BT that as at 1 April 2021 the Network Components included in the Network Component List are those set out in Schedule A to this Direction.

Schedule A

[Existing components]

1. Low TISBO 3rd Party Equipment Depn
2. TISBO Excess Construction
3. PC rentals 2Mbit/s regional trunk
4. PC rentals 34Mbit/s regional trunk
5. PC rentals 140Mbit/s regional trunk
6. Co-mingling set up
7. Co-mingling rentals
8. WLA Tie cables
9. Local Loop Unbundling systems development
10. Wholesale Access specific
11. Routeing & records
12. MDF Hardware jumpering
13. E side copper capital
14. E side copper current
15. D side copper capital
16. D side copper current
17. Local exchanges general frames equipment
18. Local exchanges general frames maintenance
19. Analogue line test equipment
20. Dropwire capital & analogue NTE
21. Analogue line drop maintenance
22. Analogue line cards
23. OR Service Centre - Provision Ethernet
24. OR Service Centre - Provision Analogue/ISDN2
25. OR Service Centre - Provision WLA
26. OR Service Centre - Assurance Ethernet
27. OR Service Centre - Assurance Analogue/ISDN2
28. OR Service Centre - Assurance WLA
29. Combi Card and MSAN Access – Voice
30. Combi Card – Broadband
31. Core Directors – Broadband
32. Edge Ethernet ports broadband
33. Ethernet Backhaul Direct – active
34. Ethernet Backhaul Direct – passive
35. Ethernet Backhaul Direct extended reach
36. Ethernet Backhaul Direct resilience – active
37. Ethernet Backhaul Direct – resilience – passive
38. Ethernet Switch BB
39. Core/Metro (broadband)
40. Metro-core broadband transmission
41. ADSL connections

42. EVOTAM testing systems
43. MPF line testing systems
44. Broadband line testing systems
45. DSLAM support
46. DSLAM equipment
47. PC rental 2Mbit/s link per km distribution
48. PC rental 34Mbit/s link per km distribution
49. PC rental 140Mbit/s link per km distribution
50. Point of Handover electronics
51. PC rental 64kbit/s link
52. PC rental 2Mbit/s link
53. PC rental 34Mbit/s link
54. PC rental 140Mbit/s link
55. PC rental 64kbit/s link per km transmission
56. 2Mbit/s and above PC link connection cct provision
57. 64kbit/s PC link connection cct provision
58. PC rental 64kbit/s link local end
59. PC rental 34Mbit/s link local end
60. PC rental 140Mbit/s link local end
61. PC rental 2Mbit/s local end copper
62. PC rental 2Mbit/s local end fibre
63. Backhaul Extension Services Fibre
64. Wholesale Extension Services Fibre
65. OR systems & development - Ethernet
66. Ethernet Access Direct Fibre
67. Other Ethernet rentals - CCTV
68. Interconnect local end rental 2Mbit/s
69. Interconnect 2Mbit/s connection
70. Interconnect extension circuits (IEC) 2Mbit/s link
71. Interconnect Extension Circuits (IEC) 2Mbit/s per km
72. Intra Building Circuit (IBC) connection
73. Intra Building Circuit (IBC) rental
74. Ethernet main links
75. Other Ethernet new provides - CCTV
76. Customer support - partial private circuits
77. Customer support - interconnect
78. Customer support - broadband
79. Broadband backhaul circuits (excl Virtual Paths)
80. Openreach sales product management
81. Co-mingling power & vent
82. Revenue Receivables
83. Co-mingling electricity
84. Caller display
85. Metro BRAS and MSE
86. Openreach time related charges

87. PC rental 2Mbit/s link national trunk
88. PC rental 140Mbit/s link national trunk
89. FTTC Development
90. iNode features
91. Network Features
92. Special Fault Investigation
93. EOI Notional Payables
94. Ethernet Monitoring Platform
95. NGA Visit Assure
96. OR Project Services
97. EAD Electronics Capital
98. Optical Ethernet Electronics Capital
99. Ethernet Excess Construction Capex
100. Ethernet Excess Construction
101. Ethernet Electronics Current
102. Broadband MSAN Access
103. MSAN Access SFBB
104. Abortive Visits
105. Pair Gain
106. OR Service Centre – Provision GEA
107. OR Service Centre – Assurance GEA
108. Ofcom Administration Fee Wholesale
109. Ofcom Administration Fee Openreach
110. FTTP Development
111. GEA FTTP Access Fibre Spine
112. GEA FTTP Distribution Fibre Spine
113. GEA FTTC Access Fibre Spine
114. GEA FTTC Distribution Fibre Spine
115. GEA FTTP Electronics
116. GEA FTTC Electronics
117. GEA DSLAM Cabinets
118. GEA FTTP Customer Site Installation
119. GEA FTTC Customer Site Electronics
120. GEA FTTP Repairs
121. GEA FTTC Repairs
122. GEA FTTP Provisions
123. GEA FTTC Provisions
124. Cumulo Rates NGA
125. Cumulo Rates Non NGA – Openreach
126. Cumulo Rates Non NGA – Non Openreach
127. FTTP Funded Fibre Rollout Spend
128. FTTC Funded Fibre Rollout Spend
129. FTTP Fibre Rollout Funding
130. FTTC Fibre Rollout Funding
131. Expedite Provision Costs

132. SLG Ethernet Provision Internal
133. SLG Ethernet Provision External
134. SLG Ethernet Assurance Internal
135. SLG Ethernet Assurance External
136. SLG WLR Provision Internal
137. SLG WLR Provision External
138. SLG WLR Assurance Internal
139. SLG WLR Assurance External
140. SLG WLA Internal
141. SLG WLA External
142. GEA Cable links
143. NGA E Side copper cable
144. Dark Fibre Specific Connections costs
145. Dark Fibre Specific Rental costs
146. PIMR Cost
147. PIMR Costs – Downstream Asset

[New fibre components]

148. Interexchange fibre
149. Legacy FTTC – OLT
150. Legacy FTTC – Spine fibre
151. Legacy FTTC – Distribution fibre
152. Legacy FTTC – DSLAM
153. Legacy FTTC – Tie Cable
154. Legacy FTTC – Final Drop
155. Legacy Ethernet – Ethernet electronics
156. Legacy Ethernet – Spine fibre
157. Legacy Ethernet – Distribution fibre
158. One Fibre Network – Ethernet electronics
159. One Fibre Network – Headend electronics FTTP
160. One Fibre Network – Spine fibre
161. One Fibre Network – Distribution fibre
162. One Fibre Network – Final drop
163. One Fibre Network – Terminating equipment