

Stakeholder queries on Ofcom's consultation of 31 March 2011 on charge control review for LLU and WLR services

Theme: Other

Stakeholder	Condoc page no.	Condoc para. ref.	Stakeholder query	Ofcom response
Analysys Mason	A63	§A8.74 - 77	When and how do the the explanations for 'specific' and 'blended' methodologies apply for each of the specific 93 methodologies?	Specific map costs one-2-one to an activity type, e.g. Line card costs go to the line card activity. Blended are where the cost heading (e.g. Accommodation) contains two costs, with different drivers (Office and Exchange)
Analysys Mason	A62 - 63	§A8.73	What are the precise differences between the different sub-types of 'labour' methodologies, e.g. dynamic direct pay versus Operations volume pay?	the Activity KMH sets out the different elements included in the dynamic drivers
Analysys Mason	A66 - 69	§A8.85 - A8.120	Would it be possible to receive additional documentation on the rationale for using a specific allocation methodology (cost item to activity) for the key cost items?	Allocation methodologies are based on those used in the RFS. Using the 'Cost Assumptions', 'Activity Allocations' and 'Product Allocations' tab of the CA model will show you the relationships.
Analysys Mason	A67	§A8.103 - 108	How is the 'Net development base' methodology blended and why is it static?	Net development base is used to allocate depreciation of IS Development expenditure. It is blended by spend to different IS projects, which is static as it occurred in the past.
Analysys Mason	A70 -77	§A8.128 - A8.164	Would it be possible to receive additional documentation on the usage factors that are used for all activities, in particular detailing the rationale for using specific assumptions and identifying the information	Documentation does not exist - See Ofcom answer to AM16 in 'Other' section for an approach.

			source?	
Analysys Mason	A70 -77	§A8.128 - A8.164	Where is the allocation of the activity'MDF Hardware Jumpering' not discussed?	This is a provisioning activity. The cost going into the activity are set out in activity column headed A026 in the 'Activity_Allocations' tab. The onward allocation of these costs is set out in A026 (row 26) of the 'Product_Allocations' tab
Analysys Mason	A70 -77	§A8.128 - A8.164	We also note that usage factor assumptions are static throughout the period, and would like to understand Ofcom's basis for this.	In our modelling we have assumed the usage factors are constant over time. We would be interested to hear in responses if this is not considered appropriate.
Analysys Mason	CA for Publish (empty) model	Activity_Allocations worksheet	On worksheet 'Activity Allocations', the inputs in rows 46 – 75 overlap with the inputs in rows 76 – 99; what is the difference and how are the inputs applied?	Rows 76-99 are not used.
Analysys Mason	A63	A8.78	The explanation "Depreciation costs are allocated to the assets to which they relate. For example dropwire depreciation is fully allocated to "Use of Dropwire." mentioned in the paragraph A8.78 of the Annexes can be applied to all the "Depn xxx" costs or only the "Depn: Dropwire"?	Depreciation is fully allocated to the Asset, it will then be allocated to activity. Dropwire happens to go 100% to Dropwire Activity.
Analysys Mason	A73	A8.140	Ofcom states that "In our model repair costs are driven and allocated by the frequency of actual faults and labour operations time spent repairing those faults". Is this applied to all the "repair" activities (ie repair of access fibre", "Repair of Dropwire & NTE - Business Line", etc.) or only the "Distribution-side copper"?	All repair activities.
Analysys Mason	CA and CF models		Would it be possible to receive 'frozen' versions of the CA model and CF model that have a similar structure to that of the 'empty' models?	No, as discussed at modelling workshop.
Analysys Mason	CA and CF		Would it be possible to receive some information on what is the role of the macro	Does not relate to allocations, relates to publishing the models.

	models		code in the CA model and the CF model? For example, in determining the routing factors, does it paste them straight from somewhere else (where?), or does it perform some calculations?	
Analysys Mason	CA and CF models		Would it be possible to obtain a version of the model with this information (for example the cost related to the activity "Usage of distribution copper and duct")?	The modelling work shop and subsequent explanations should allow AM to be able to navigate cost allocation through the CA Model. The key elements are to check which Base 1 allocation methodology is used (see Cost_Assumptions tab). The Activity_Allocations tab shows the destination activities (and %) for these costs. For the onward allocation of these activity costs to products, the base 2 allocation the Product_Allocations tab sets out the product usage factors.
Analysys Mason	CA and CF models		Would it be possible to obtain documentation on the CF model?	None available.
Frontier Economics	CA for Publish	Product_metrics	In sheet "Product_Metrics" in the CA model, the unit operating costs have been broken down by activity type – see the list of activity types below: a. NBB b. FSP&I c. BTW charge d. Frame provision e. Frame repair f. Field provision g. Field repair h. SMC i. Other Please explain what activities are include in each type.	The 'Activity type' discriptions were carried over from the previous model. Neither ofcom, nor we beleive BT now uses this mapping. For reference NBB = Network Building Block (depn of network assets by products), FSP&I = Field Service Planning and Investment (other depn and overheads), BTW = BT Wholesale (cost of sales from BT operate), Frame provision (connection/migration on frame), Frame Repair (Operations resource on Frame repairs), Field provision (provisioning activities on network), Field Repair (repair activities on network), SMC = Service Management Centre (call centres and support engineering tasks)., Other (mainly

				product facing functions such as sales and product management and systems and development.
Frontier Economics	80 (annexes)	Fig 9.3 - 9.5	Please confirm the WACC used in 2009/10 in the document.	Should be 10.1% in 2009/10
Frontier Economics	CA for Publish	Product_metrics	Does the "Net holding gains & losses", shown in columns BE to BJ in sheet "Product_Metrics" in the CA model, feed into the calculations in this sheet and/or is it included within the depreciation charge shown?	No and yes.
Frontier Economics	CA for Publish	Product_metrics	In the sheet 'Product_Metrics' for those lines identified as amalgamated information in cell EM5, it appears that the EBIT and EBITDA columns are incorrect and show operating costs and operational expenditure respectively. Can Ofcom supply a corrected version of the model?	No longer required.
Sky	A90	Fig A10.2	What is the driver of large drops in CAPEX for LLU from 2012/13 to 13/14?	a) Copper driven Capex falls due to lower forecast house building activity. B) LLU falls as less Capex required at exchanges to accommodate LLU roll out. These are both Complex activities rather than directly product driven activities.
Sky	107	7.90	Is there any evidence to support the removal of the drop wire adjustment for WLR and what is the impact of the change?	The Dropwire adjustment has not been removed, it is the additional adjustment that was made to account for the distribution of lines between WLR Res and assumed MPF in 2004/5 that has been removed. As Openreach no longer splits Dropwire between Res and Bus are unable to do the calculation. Additionally as Dropwire has a ten year life, most of it would have been written off by 13/14 in any case. The maximum adjustment would be 15% of the adjustment (c20p in 12/13)

Talk Talk	129	§8.61	What is the MDF license fee? How does this relate to 'frame related costs'? What is the usage factor for MDF license fee?	See paragraph 8.60. This explains what the MDF licence fee is. This minor charge is not an individually identified in the CCA FAC/cost allocation modelling. It therefore does not have a usage factor.
Talk Talk	A67	§A8.95	How are the allocations to activities derived? E.g. §A8.95	As explained at the modelling workshop, Dynamic allocations are driven by the KMH spent by Ops staff on those activities.
Talk Talk	A70	Fig 8.12	What is in 'other'? It is large and large difference between WLR and MPF	Repairs on Main Distribution Frame, Service Centres, Computing, line test equipment, use of EVO Tams, Directories and Sales and product management costs. Directories is the most significant
Talk Talk	A80	Fig 9.3	Can Ofcom provide a breakdown of the ROCE / asset.	This is available in the published models.
Talk Talk	A80	Fig 9.4	Why is there zero DACS costs (since it is assumed DACS is used §A8.131)?	Not zero but very small (c£20k). There are only about 50k lines with the equipment. The equipment itself is highly depreciated.
Talk Talk			What is included in linecard costs? Does it include space, cumulo rates, power, chassis, linecard, maintenance, testing equipment? What is the space component in this?	The line card costs include an allocation of the cost of the line card, space, cumulo rates, power, chassis and maintenance, but does not include testing equipment. The proportion of the fully allocated line card costs driven by Accommodation is circa 21%. The accommodation costs that is allocated to line card relates to the housing of line card ports, and some accommodation costs associated with WLR/line cards related services are charged to calls in other parts of BT.
Talk Talk	A80	Fig 9.4	Where is computing cost for WLR?	As can be seen in the published models (CA Activity Allocations tab), WLR products pick up around twice as much computing depreciation as MPF. In the product Activity tab WLR costs are allocated to provisioning products only whereas LLU costs go to

				rentals as well as transfers.
Talk Talk	A85	§A9.40	What is the explanation for the changes in the table?	The middle sentence in the text is incorrect and reflects an adjustment we did not process.
Talk Talk			Where do the cost of tie cables appear in the costs provided?	Are part of E side copper.
Talk Talk			How are SLG charges (external as well as internal) calculated / included in the modeling?	No assumption on share, VCTs are forecast by applying Ofcom efficiency and inflation on the 10/11 figure.
Talk Talk			What is the allocation of costs to 'non-regulated' services? Is it reasonable? Why?	At this stage we have not found any need to reallocate costs from non regulated copper products as BT amended its RFS allocations for the major items. Additionally, in the product metrics tab of the published model you are able to comment on product profitability.
Talk Talk			Does Ofcom have any information available (that ideally can be shared) on how allocations are done for purposes of management accounts and statutory accounts?	No, just the reasoning behind the regulatory adjustments.
Talk Talk	123	§8.30 et seq	Can Ofcom provide a quantified step through of each stage (and description) to get from CCA FAC to LRIC (£11 - £13)?	We did not derive the LRIC range of £11 to £13 for line card costs from the CCA FAC forecasts in the main modelling. The CCA FAC figure of £11.08 in 2013/14 is modelled based on the FAC line card figure in the RFS for 2009/10 and assumes this cost is around steady state level. The LRIC estimates were derived from past CCA FAC and LRIC figures. For 2004/5 and 2005/6, the line card LRICs from BT's regulatory accounts were £13.48 and £11.11. These figures would be around £12.30 and £10.30 if a cost of capital of 8.6% had been used. These figures are around 90% of the CCA FAC values. If the

				<p>CCA FAC figures for 2006/7 to 2009/10 in BT's regulatory accounts were multiplied by 90%, it would result in LRIC estimates that were generally lower than the £11 to £13 range. We recognise that recent figures may be too low because they involve fully depreciated assets. However, we are aware that if some assets are fully depreciated now, this means that depreciation (and hence line card costs) would have been too high in the past (see paragraph 8.37).</p>
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