

Regulatory Financial Reporting A review

14 February 2014

KCOM, trading as KC, is subject to regulatory reporting obligations in relation to a number of defined product markets in the Hull area as a result of Ofcom concluding that the business has SMP in those markets. We responded to Ofcom's Call for Inputs in December 2011 and the subsequent consultation published in September 2012. Our comments were limited to particular concerns in respect of the regulatory reporting obligations applying to KCOM.

We welcome the fact that the changes proposed in the current consultation are focused on BT's regulatory reporting obligations and Ofcom is currently proposing no changes to KCOM's obligations. We continue to believe that any major changes to the regulatory accounting regime as it applies to KCOM are potentially very disruptive and costly.

With regard to the current consultation, we make no comments in relation to the specific proposals. However, we do note the comment that Ofcom "will, in due course, consider whether any of the changes that we are proposing here for BT may be appropriate to apply to KCOM." Many of the proposed changes and issues discussed are directly relevant to BT's accounts and the way in which they are produced or linked to BT's charge controls and therefore are not relevant for KCOM. Likewise KCOM is no longer subject to any cost orientation obligations – the only regulatory reporting obligations which continue to apply are in respect of accounting separation.

We see proportionality as being the key issue in relation to any obligations imposed on KCOM with the need for Ofcom to recognise that:

- we are subject to different regulatory obligations than BT in respect of our charges for services in markets in which we have been found to have SMP;
- we are structured differently to BT, more specifically we do not operate separate businesses for the provision of retail and wholesale services;
- the size of our regulated business is significantly smaller than BT's with correspondingly smaller levels of complexity and resource; and
- the scale of our regulated business means that we are unlikely to generate the same level of disputes for investigation as BT. To put this in context the regulated accounts we prepare only support wholesale product costings which make up only 1.5% of the revenues from our business in Hull and less than half a percentage of the KCOM Group revenues. Additionally, since 2004 Ofcom has not had to deal with any formal disputes relating to the provision of regulated services by KCOM in the Hull area.

We would expect Ofcom would take these factors into account if in future it were to consider whether it is appropriate to apply similar changes to KCOM as are proposed for BT, or indeed whether any other changes to KCOM's obligations would be appropriate.



More generally, we do believe that there is scope for the removal or simplification of the reporting obligations which currently apply to KCOM. In particular, the conditions which place regulatory accounting obligations on BT and KCOM are almost identical and are somewhat burdensome. Given the very different scales of our businesses, the fact that Ofcom requires KCOM provides a lower level of detail than BT and the limited interest in our accounts we believe there is potential to simplify the formal obligations on KCOM. We would welcome the opportunity to discuss this further.

