



# Changes to BT and KCOM's regulatory and financial reporting 2013/14 update

Submission by BT

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Comments should be addressed to:

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## Summary of our response

1. Overall, we welcome the proposals set out in Ofcom's "Changes to BT and KCOM's regulatory and financial reporting 2013/14 update" consultation, published on 11 December 2013 (the "Consultation"). We believe, subject to the limited exceptions set out in this response, that the changes proposed reflect the decisions of recent market reviews and will give greater transparency to users. However, we consider that resulting level of reporting still goes beyond what is legitimate and proportionate in light of the defined purposes of regulatory reporting and the identified attributes<sup>1</sup>.
2. One of the purposes is to ensure that the appropriate data is published to enable compliance with SMP obligations to be monitored. There is – or should – therefore be a close link between the accounting and reporting obligations (cost accounting, accounting separation and publication of accounting information) and other SMP conditions. In particular, cost accounting has a particular role in supporting price regulation (including network charge controls and cost orientation obligations) and accounting separation is important for obligations of non-discrimination.
3. The current level of granularity in the RFS is excessive and disproportionate. For example, in the 2012-13 RFS we were required to publish details of 214 services, of which 133 had revenue of less than £10m. There is scope for Ofcom to require further amalgamation of services reported in order to ensure that the level of reporting is legitimate and proportionate.
4. In particular in order to reflect properly the decisions in the BCMR the publication of costs should be at a level no lower than that of the market, or of the charge control basket where smaller.
5. Without prejudice to our position on the legitimacy of the reporting obligations imposed on us by Ofcom, should Ofcom impose the proposed changes in the Consultation on us:
  - We anticipate being able to make the necessary changes to our reporting systems and processes to enable publication of the 2013-14 Regulatory Financial Statements ("RFS") on or before 31 July 2013. However, should Ofcom impose additional requirements or alternative obligations, this may lead to a publication delay; and
  - Our concerns in response to the Consultation should be considered within the context of the wider Reporting Consultation.

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<sup>1</sup> We note that Ofcom is currently conducting a Regulatory Financial Reporting Review which will address fundamental issues in regulatory reporting. In our response to the first consultation in that process on 2 November 2012, we raised our concerns about the legitimacy and proportionality of the level of reporting. We will be responding to the second consultation in that process on 14 February 2014.

## Ofcom's consultation questions

*Question 1 – Do you agree with Ofcom's proposed amalgamation of certain services of the same nature in the Call Origination and Call Termination markets?*

6. We agree with Ofcom's proposals to amalgamate the relevant services in the Call Origination and Call Termination markets as their essential nature, prices and underlying costs are the same.
7. We also note that in the Narrowband Market Review, Ofcom concluded that *"Administrative costs have previously been recovered via BT's separate PPP [product management, policy and planning] charge. However ... we have decided to include a contribution to these costs in calculating wholesale call origination rates and, to the extent we consider it to be incremental, within wholesale call termination rates."*<sup>2</sup>
8. We would therefore expect that we should no longer be required to report PPP as separate services within the call origination market.

*Question 2 – Do you agree with the proposed changes to the presentation of the RFS?*

9. We agree with the proposed changes to the presentation of the RFS. We consider that the RFS will be more accessible to stakeholders if the information is grouped in accordance with the categories used for market reviews. The proposed format of the RFS will be easier for all stakeholders to follow and will not result in the loss of any information.

*Question 3 – Do you agree with Ofcom's proposals to amend the list of Network Components?*

10. We agree with Ofcom's proposals, which we consider will provide greater clarity for users of the RFS.

*Question 4 – Do you think we have fairly reflected the decisions of the relevant market reviews in the scope, form and content of the RFS?*

11. We consider that Ofcom's proposals for the amalgamation of services do not go far enough.
12. In order properly to reflect the decisions in the BCMR as to the nature of the appropriate price regulation we consider the publication of costs should be at a level no lower than that of market, or of a charge control basket where smaller.

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<sup>2</sup> NMR, paragraph 8.71

13. We also have specific observations as follows:

*AISBO Markets*

14. Ofcom should require the amalgamation “Wholesale extension services other bandwidth rentals – External” and “Backhaul extension services other bandwidth rentals – External” (£nil and £6m revenue respectively in 2012-13) into “Other external Ethernet rentals”. The revenue for these services is immaterial and not expected to grow, as these services are closed to new supply.

*Retail TI Market*

15. We also propose some minor changes to the proposed template headings of *sub 2Mb retail TI services* to reflect the current terminology used:

- “Speech/Keyline Rentals” updated to “Analogue Private Circuit Rentals”
- “KiloStream N64 Connections” updated to “KiloStream N Connections”
- “KiloStream N64 Rentals” updated to “KiloStream N Rentals”

This would further improve the ease of use of the RFS and avoid confusion.

*Definition of MISBO Market*

16. Proposals to require BT to report at the market level for “a separate MISBO market” should be explicitly limited to the market as defined in the BCMR, namely the MISBO market excluding the Hull area and the WECLA geographic region.

*Conclusion*

17. Subject to the points above, we consider that Ofcom has reflected the decisions of the relevant market reviews – namely the BCMR and NMR - in the scope, form and content of the RFS.

## Glossary of terms

AFI	Additional Financial Information
AISBO	Alternative Interface Symmetric Broadband Origination
the BCMR	“Business Connectivity Market Review” published on 28 March 2013
BES	Backhaul Extension Services
the Consultation	“Changes to BT and KCOM’s regulatory and financial reporting 2013/14 update” published on 11 December 2013
the Reporting Consultation	“Regulatory Financial Reporting: A Review” published on 20 December 2013
MISBO	Multiple Interface Symmetric Broadband Origination
the NMR	“Review of the fixed narrowband services markets” published on 26 September 2013
PPP	Product management, policy and planning
RFS	Regulatory Financial Statements
TISBO	Traditional Interface Symmetric Broadband Origination
WBA	Wholesale Broadband Access
WECLA	Western, Eastern and Central London Area
WES	Wholesale Extension Services