



Verizon Enterprise Solutions response to Ofcom consultation: “Changes to BT and KCOM's regulatory and financial reporting 2013/14 update”

1. Verizon Enterprise Solutions (“Verizon”) welcomes the opportunity to respond to Ofcom’s ‘Changes to BT and KCOM’s regulatory and financial reporting 2013/14 update’ consultation (the ‘Consultation’).
2. Verizon is the global IT solutions partner to business and government. As part of Verizon Communications – a company with nearly \$108 billion in annual revenue – Verizon serves 98 per cent of the Fortune 500. Verizon caters to large and medium business and government agencies and is connecting systems, machines, ideas and people around the world for altogether better outcomes.
3. Please note the views expressed in this response are specific to the UK market environment and regulatory regime and should not be taken as expressing Verizon’s views in other jurisdictions where the regulatory and market environments could differ from that in the UK.

Summary

4. Verizon wholeheartedly agrees with Ofcom’s general comments in terms of the necessity and usefulness of Regulatory financial information; as Ofcom notes it informs many of their decisions and underpins a significant amount of Ofcom’s market activities. As such the information needs to be relevant and up to date and so Verizon welcomes this review and update.
5. Whilst Ofcom states that such information is required to enable them to monitor and enforce various obligations that are placed on dominant providers in markets where they are found to have significant market power (“SMP”), it is perhaps in this regard that Ofcom needs to focus, i.e. ensure the information demanded is sufficient to allow Ofcom to effectively monitor and enforce the obligations placed on dominant providers.
6. Whilst the above comment is probably more relevant and appropriate in terms of the work Ofcom is undertaking in parallel in terms of the fundamental review of the regulatory reporting framework, it is still worth bearing in mind during this more limited and focused activity.
7. Although Ofcom considers that the matters covered by this review are minor and will not have a significant impact, Verizon maintains a very close interest in any proposed changes of this nature and so welcomes the fact that Ofcom is consulting on the proposed changes even though it is not, according to Ofcom’s assessment, absolutely necessary under their statutory duties. Indeed, Verizon does not consider that all of the changes are necessarily minor or without potentially significant impact, as described below.



Specific proposals for BT to make improvements to the RFS

8. The following sets out Verizon's views on Ofcom's proposals for improvements to the RFS. Verizon agrees with Ofcom that, where such changes are acceptable, they should be adopted for the presentation and publication of the 2013/14 RFS.

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?

9. Although in general Verizon does not agree that reducing the level of detail contained within the published RFS is justifiable or appropriate, in this particular instance, given the specific service in question, then Verizon does agree with Ofcom's proposal.
10. The fact that Ofcom states clearly that the proposed modification would still allow them to monitor BT's compliance with its SMP obligations in these particular markets, provides some reassurance that the change is indeed minor in nature and would not have a significant impact.

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

11. Verizon is in agreement with regard this proposal. A change to align the RFS presentation so that the market results are grouped by market review would indeed make the RFS more user friendly and accessible.
12. The fact that there will be no loss of information as a result of this change also supports Ofcom's view that this change is purely to aid transparency and ease of access rather than anything more fundamental.

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

13. Verizon does not consider that the planned changes to the list of network components will have any material affect to the way we review and utilise the published RFS and therefore accept Ofcom's proposals.
14. Furthermore, if indeed such changes will aid Ofcom, as is suggested, to ensure appropriate cost allocation to regulated wholesale services, then such changes are to be welcomed.

Proposed changes to BT's and KCOM's RFS as a result of the conclusions of the Business Connectivity and Narrowband Market Reviews

15. The following sets out Verizon's views on Ofcom's proposals for changes to the RFS resulting from the conclusions of the latest Business Connectivity and Narrowband Market Reviews. Again, Verizon agrees with Ofcom that, where such changes are found to be warranted, they should be adopted for the presentation and publication of the 2013/14 RFS.
16. Verizon strongly holds the view that BT's reporting in the RFS should be in line with and reflect the market definitions determined by Ofcom following a market review. Such a process aids consistency and transparency, key factors in ensuring the RFS is fit for purpose and meets both the needs of the Regulator and other stakeholders.



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?

17. Verizon considers that Ofcom has reflected the market review decisions in the changes proposed. However, the implementation and impact of the decisions is a matter of concern and is worth reiterating.
18. A significant consequence of Ofcom's decision to remove the cost orientation obligation following the market reviews is that BT will no longer be required to publish DLRIC and DSAC information for the leased line and narrowband markets. However, Ofcom has stated that there is still an obligation for BT to produce this data but instead of being widely available to stakeholders, it will only be provided to Ofcom on an annual basis as Additional Financial Information on a confidential basis.
19. Ofcom considers that this new reporting arrangement is appropriate and proportionate as it reflects the situation in the markets and provides the most relevant data to stakeholders.
20. We do not agree that this information should be withheld from public scrutiny. In the interests of transparency, Verizon considers that the DLRIC and DSAC data should continue to be made available to stakeholders as such data, even in the absence of a cost orientation obligation, is still of relevance to stakeholders as it provides them with an understanding of BT's costs, how they are allocated and how they may change from year to year. Even without the associated cost orientation obligation, this is highly valuable information to those competing with the incumbent. Subject to the outcome of the current BT Regulatory Reporting consultation that has been issued by Ofcom, BT enjoys a high degree of flexibility in terms of how it manages and allocates its costs – and the publication of cost standard information acts as something of a check on this. The reduction of transparency in the manner proposed does not seem fair or reasonable and will provide stakeholders with even less opportunity to scrutinise the incumbent's costs. We would also note that to continue publication of DLRIC and DSAC would not cause BT any material additional burden since it has to provide the information to Ofcom anyway.
21. Such an approach would be consistent with decisions Ofcom has taken with regard to other aspects of reporting, for example in relation to sub 2Mb retail TI services. Currently information in relation to this service is provided in confidence to Ofcom but as a result of this review Ofcom is requiring BT to report prices, revenues and costs to gross margin level for the services in an AFI published online together with BT's RFS.
22. In the absence of such an approach, the removal of information currently provided to all stakeholders that, in the future, will only be available to Ofcom raises concerns over the relevance and reliance that stakeholders could place on the published RFS.
23. Such concerns will undermine industry confidence in the published RFS, which is contrary to Ofcom's overall objectives, not only of this review but the wider fundamental review of the regulatory reporting framework Ofcom is currently conducting. We would strongly urge Ofcom to rethink this element of its proposals.

Verizon Enterprise Solutions
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