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## **Verizon Enterprise Solutions response to Ofcom's fixed access market reviews: Openreach quality of service and approach to setting LLU and WLR Charge Controls**

1. Verizon Enterprise Solutions ("Verizon") welcomes the opportunity to respond to Ofcom's fixed access market reviews 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. Verizon's approach to responding to this consultation, as a non LLU player, has been to provide a summary of our position in relation to the WLR matters under review, and then focus primarily upon those issues relating to the topic of Quality of Service (QoS) issues as this matter is of significant importance to our business. We then move on to address the specific questions raised by Ofcom in the consultation document related to these matters.
4. 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**

5. In general, Verizon is in overall agreement with Ofcom's analysis.
6. As for the QoS issues Ofcom has considered, Verizon fully supports Ofcom's review in this area as this has been a considerable source of contention between BT and industry over a number of years, which has seen continuous degradation of the level of service provided by BT.
7. The remainder of this response addresses the specific questions posed by Ofcom in the consultation document. Again, Verizon only offers a response to those questions which have relevance for our business.

### **Fixed Access Market reviews – Ofcom questions**

#### **Quality of service review**



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*Question 3.1: Do you agree that it is appropriate to use the existing SLAs as the basic standard around which to set the new minimum standards? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

8. Whilst Verizon would prefer to see enhanced SLAs introduced as a result of this review, a view consistent with our response to the July 2013 consultation, our prime focus is not so much on the actual standard levels but more on the accuracy of the actual service level provided by BT. This is as Verizon holds the view that the current statistics around service performance, as reported by BT, are grossly misrepresentative. Until this issue is adequately addressed it is in many ways immaterial what standards are determined as the reported performance will not be representative of the actual customer experience.
9. Accordingly, Verizon would accept Ofcom's position that existing SLAs can form the basis around which new minimum standards can be set, especially given the uncertainty over increased costs that enhanced SLAs may incur. However, this must be combined with new and effective performance monitoring. The use of 'deemed consent' and the DSO process should be investigated by Ofcom and only when an accurate picture of the service provided by BT is understood should the minimum standards be determined.

*Question 3.2: Do you agree that it is appropriate to use General Manager areas rather than forecasting regions in the minimum standards and the KPIs? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

10. Verizon does not fully agree with Ofcom's proposed revised approach; we supported Ofcom's initial approach as set out in the July 2013 consultation to set regional targets and retain this view. However, the revised approach would reduce the complexity of monitoring the delivered performance, which is a key factor and therefore, with some reservations, Verizon accepts Ofcom's revised proposal to determine minimum standards based on General Manager areas.

*Question 3.3: Do you agree that it is appropriate to apply the same minimum standards to all regions? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

11. Verizon does agree that the same minimum standards should apply to all regions. We also recognise that in some exceptional and very limited circumstances it may be appropriate to allow 'small' regional variations. However, such small regional variations should only relate to issues of logistical constraint, such as public transport availability, and not to purely matters of physical remoteness or past weather patterns. For example, with reference to the Scottish Islands, where it is possible that the ferry only runs a couple of times a week; this of course has direct implications for the ability of an engineer to access a site and meet the SLA target. Accordingly a small variation for such events should be allowed for in that particular region. However, Ofcom should not allow such exceptional variations to lower the minimum standard SLA imposed on BT for the regions, nor include an allowance for such variations in the cost model driving the SLAs.

12. Allowing greater scope for the introduction of small regional variations runs contrary to the overall basis for determining unified minimum standards; for exceptional circumstances BT can always fall back on Force Majeure. Allowing greater flexibility for the introduction of “small variations” would introduce uncertainty, inconsistency and grant too much flexibility to BT given the allowances already made on regional targets (i.e. limited to the 9 GMAs).
13. Setting a clear, consistent minimum standard for all regions is not only the simplest approach it provides a degree of certainty and transparency to this matter which is beneficial not only to customers but also to the Regulator and indeed even BT in terms of clarity of expectations.

*Question 3.4: We have set out the details of our analysis in Annex 5. In light of this analysis, do you agree that the 2011/12 resource deltas from the Resource Simulation Model provide a reasonable basis to assess the resource and associated cost increments associated with minimum standards? Please provide reasoning for your answer.*

14. Verizon would agree in general with Ofcom’s view on this matter that the 2011/12 resource deltas provide a reasonable basis to assess the resource and associated cost increments associated with minimum standards. Whilst ultimately there must inevitably be a degree of judgement in reaching a conclusion, given the experiences before and after this period, Ofcom’s proposal appears to be justifiable and represents a balanced outcome.
15. Certainly, taking the amount of work involved to reach this recommendation, and bearing in mind that Ofcom notes that this represents only a ‘reasonable basis’, expending more time on this question would be disproportionate to any marginal benefits that may accrue.

*Question 3.5: Do you consider whether it is appropriate to take account of the difference in the resource levels between 2011/12 and 2012/13 in setting the final resource multiple to account for the more challenging conditions in 2012/13? Please provide reasoning for your answer.*

16. Verizon does not consider that such an allowance would be appropriate. Given the range of issues impacting the 2012/13 data, any adjustments would be difficult to assess and would be based, largely, on unsubstantiated and disputed data. In any event, further adjustment would be unwarranted given that Ofcom is already proposing to allow BT an allowance for MBORC.

*Question 3.6: Do you agree that the existing MBORC statistics form a reasonable basis for inclusion in the minimum standards? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

17. Verizon has little confidence in the MBORC statistics and therefore has significant reservations about setting any minimum standards on the basis of such data as an input.

18. However, we appreciate Ofcom's position, as it is of course reasonable to factor in some allowance for matters which are truly beyond any organisations reasonable control. Accordingly, the use of the existing MBORC statistics is a reasonable starting position but given concerns over the data, the allowance made should be set on the cautionary side (i.e. minimal allowance).

*Question 3.7: Do you agree that it is appropriate to base the repair MBORC allowance on the statistics for 2012/13? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

19. Given Verizon's response to Q3.6, taking into account our general reservations, we do accept and agree that the 2012/13 statistics should be taken into account when determining the repair MBORC allowance. The fact that Ofcom has factored in that a significant proportion of repairs are still delivered within the SLA target even when there is a MBORC when determining the percentage allowance provides a degree of comfort although it is likely that the figure determined is too generous to BT.

*Question 3.8: Do you agree that it is appropriate to use 3% as the faults MBORC allowance and 1% as the provisioning MBORC allowance? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

20. Verizon does not agree with Ofcom's evaluation that a 3% figure is appropriate for the faults MBORC allowance. Given the fact that a significant number of faults are still delivered within the SLA target even when MBORC has been declared suggests that the target is too low in any event. Coupled with our concerns that the levels of MBORC declarations are already artificially inflated, Verizon considers that a figure of 2% to 2.5% would be more appropriate given that BT's own MBORC declarations for 2012/13 led to a failure against the relevant SLAs of a little above 2.5%. There is certainly no justification for rounding this figure upwards and this rounding is clearly being unduly lenient to BT.

21. As for provisioning, the lack of historical data is a significant factor and makes the determination of any allowance a matter of judgement. Whilst it could be argued that no allowance should be made given the lack of past events, Verizon does understand Ofcom's position and its desire to make some allowance and therefore Verizon reluctantly accepts Ofcom's proposal of a 1% provisioning MBORC allowance. However, Verizon considers that this (and indeed all allowances) needs to be kept under keen scrutiny with a view to reducing them over time.

*Question 3.9: Do you agree with the minimum standards we have proposed for the third year? Please provide reasoning for your answer.*

22. Verizon's prime concern with the proposed third year minimum standards relates to lead times for new installations, which in some regions are often extended as a result of engineering priority being given to faults. This is a significant issue for Business to Business (B2B) providers as significant commitments are made by our customers in relation to the planned install date.

23. Verizon also has concerns with the repair target, which does not appear to represent a significant challenge to BT and does not provide any incentive to identify improvement initiatives.
24. In particular, Verizon would challenge the minimum standard proposal for fault repair. The final year SLA of 77% (incl. MBORC) and 80% (excl. MBORC) is far too low, certainly for B2B providers whose customers expect and demand significantly higher repair SLAs. We would urge Ofcom to reconsider this aspect of their SLA proposals.

*Question 3.10: Do you agree with the range we have identified for the minimum standard in the first year and our proposed recommendation within that range? Please provide reasoning for your answer.*

25. With regard the provision standard, Verizon agrees with Ofcom that a transitional target is not necessary or appropriate and that the ultimate target should be set from day one; accordingly the first year target is considered reasonable although not overly challenging.
26. As for the repair performance standards, on the whole they do appear reasonable given that BT will need to develop processes for measuring and reporting against these targets. Figures in the middle of the range identified by reference to past performance (albeit limited data) can, therefore, be considered appropriate for the initial year.

*Question 3.11: Do you agree with the proposed glide path? Please provide reasoning for your answer.*

27. Whilst accepting the initial year targets, Verizon considers that more challenging targets should have been set for years two and three. It is noted that Ofcom hopes that Openreach will exceed the targets set for the initial years and move as quickly as possible towards the final year targets, however there is no real incentive to do so; Verizon considers that a more challenging target should have been set to incentivise Openreach to ensure the final year targets are achieved earlier.
28. If Ofcom is convinced that a glide path approach is necessary for moving to the final year targets, then at the most Ofcom should have set a two rather than three year glide path. Verizon considers that a more challenging target such as this would have brought greater attention to process improvement and we consider this to be a missed opportunity by Ofcom.

*Question 3.12: Do you agree with our analysis of the risks of unintended consequences in the setting of the minimum standards and our proposed approach to addressing the risk, including the use of new KPIs? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

29. Verizon does agree with Ofcom's analysis of the unintended risks associated with the introduction of minimum standards; there is certainly real potential for BT to game the new system, which would lead to detrimental impacts on both customers and consumers.

30. As for Ofcom's proposals to address such risks by the introduction of tail measure KPIs, Verizon has significant concerns that such an approach will not sufficiently constrain BT, as the performance figures will not prove categorically that BT has taken deliberate decisions to focus on matters still within SLAs to the detriment of those matters already failing against SLA.
31. As Ofcom is clearly reluctant to engage in determining appropriate SLGs, which would lend themselves to addressing long duration failures, it is to be hoped that Ofcom's monitoring of the service performance data will prove to be sufficiently vigorous to be effective. The consultation does not describe in any detail how Ofcom intends to go about this monitoring, or the level of detailed scrutiny it will apply. This appears to be an area which has been somewhat glossed over in terms of the concrete measures to be taken, and the way in which the results of the monitoring will be fed back to industry (and BT). Even if there is no further opportunity to comment, we would urge Ofcom to provide greater detail of its intentions in the final Statement so the industry knows what to expect in this area.
32. To be in a position to conduct an audit and in depth analysis of the reported performance will require the allocation of significant resources for a considerable duration, something which it is unclear whether Ofcom is prepared to commit. As such, on the basis of the information provided, we doubt whether Ofcom's proposals for the additional KPIs will prove sufficient.

*Question 3.13: Do you agree with the set of KPIs proposed? Is it sufficient that they are national rather than regional? Do you agree they should be publically available? Please provide reasoning for your answer. If you do not agree, please also give your proposed alternative.*

33. Bearing in mind Verizon's response to Q3.12 above and our concerns over the effectiveness of the proposed KPIs, we do not agree with Ofcom that the KPIs should be nationally focussed. Verizon firmly considers that the KPIs should be closely aligned with the minimum standards and therefore should be reported on a regional basis, albeit on the restricted basis of the nine General Manager Regions plus Northern Ireland. In our view, any other approach would compromise the entire basis and rationale behind the introduction of the minimum standards.
34. Verizon strongly agrees with Ofcom that the KPI measures should be publically available. Such open access is not only appropriate given the nature of the measures but may go some way to ensuring sufficient resources are employed in capturing, reporting and monitoring the resulting performance.

### **Service Level cost differentials**

*Question 4.1: Do you agree with our proposal on how conceptually to estimate the cost differential? Please provide reasoning for your answer.*



35. On balance, Verizon would agree with Ofcom's proposal to conceptually estimate the cost differential. Verizon is solely concerned with WLR aspects as we are not active in the LLU market but we do appreciate that it is appropriate to recognise a differential to address the differential cost aspects of supporting the various service levels.
36. As such the analysis Ofcom has undertaken and the reconciliation between Openreach's modelling and that of the independent third party Analysys Mason appears inherently sensible, fair and proportionate. In particular, the conclusion around the adoption of the 'Maximum Day' approach for the purpose of estimating the Service Level resource differential is particularly supported, as it reinforces the need for Openreach to fully justify any changes in approach to cost modelling.

*Question 4.2: Do you agree that the Resource Simulation Model appropriately adjusted for estimating the cost differential is an improvement on the way we previously used to set this differential? Please provide reasoning for your answer.*

37. Verizon would agree with Ofcom that, whilst recognising the inherent limitations of such modelling, the Resource Simulation Model does represent an improvement on the previous methodology for determining the cost differential.
38. That said we do have some concerns on the proposals put forward by Ofcom as a result of this modelling.
39. One such concern and a clear indicator of the limitations of this type of modelling is demonstrated by the fact that neither Openreach's nor Analysys Mason's methodology was found to be satisfactory by Ofcom for modelling the service care resource differential. Ultimately Ofcom sided with Openreach's approach, which was a judgement call that could reasonably have gone either way. Given additional time and resources, it is quite possible that Ofcom could have investigated further and identified a more appropriate method which would have resulted in a more resilient outcome.

*Question 4.3: Do you agree that we have undertaken the correct and appropriate adjustments to the Resource Simulation Model to better reflect reality? Please provide reasoning for your answer.*

40. In many ways Verizon would support and agree with Ofcom that the adjustments applied to the Resource Simulation Model do better reflect reality. However, given our concern identified in the response to Q4.2, such support is not without qualification.
41. Just to be clear, despite our concerns raised above, Verizon on the whole considers that Ofcom's adjustments to the model are beneficial, appropriate and better reflect reality. In particular, using the Maximum Day approach as the redistribution method and including provisions so that the benefit from economies of scope between repairs and provisions are taken into account when estimating the Service Level differentials are significant improvements.

*Question 4.4: Do you consider that there may be ways in which the Resource Simulation Model could be changed to make it more reflective of the reality – e.g. Gamma distribution assumptions and exclusion of Saturday working for Service Level 2? Please provide reasoning for your answer.*

42. This is a particularly complex question, which it is clear has been given a deal of consideration by Ofcom. Under such circumstances, in the absence of any analysis which provides substantial benefits it is difficult to provide strong arguments to support further changes which would better reflect reality.
43. However, one issue that could be worthy of further consideration is the matter of Saturday working. Under Ofcom's current proposals, the Resource Simulation Model excludes Saturday working for Service Level 2. This appears to be intuitively incorrect when trying to mirror reality.
44. Ofcom recognises that this exclusion is not entirely satisfactory but reconciles the exclusion on the grounds that the effect of such exclusion may not be material. The basis on which such a conclusion has been reached is not clearly provided, whilst there does seem to be some conflict between Openreach's position in the matter and that of Analysys Mason. Verizon would have preferred to have seen much greater weight given to the position of an independent third party than that of the party which is subject to the output of the model.
45. As such, this does appear to represent one area where further investigation could lead to justifiable changes to the Resource Simulation Model or at the very least Saturday working should be taken into consideration when conducting a proper analysis of the Service Level cost differential.

## **Fault rates**

*Question 5.1: Do you agree with our approach to establishing base year costs? Please provide reasoning for your answer.*

46. Verizon does agree with Ofcom's approach for establishing base year costs. Given the issues considered and the varying positions of Openreach on the one hand and primarily MPF providers on the other, none of which advance truly compelling arguments, Verizon considers that Ofcom is correct in utilising data that reflects the costs and level of overall faults actually incurred. Such an approach represents a sound and reasonable basis for establishing the base year costs.

*Question 5.2: Do you agree that fault rates should remain constant throughout the Charge Control period based on our analysis above? Please provide reasoning for your answer.*

47. ✂.

48. ✂.



*Question 5.3: Do you agree with our proposed approach to equalising relative fault rates, with  $MPF = 1$ ,  $WLR + SMPF = 1$ ,  $WLR \text{ only} = 0.87$  and  $SMPF = 0.13$ ? Please provide reasoning for your answer.*

49. Verizon agrees with Ofcom's basic premise that in the Charge Control, the overall fault costs should be allocated based on the relative fault rates of each service, and the volume of those services.
50. Whilst there are arguments or at least indications, that the MPF fault rate should be higher than all the other services, such a finding would be difficult to absolutely substantiate. Accordingly, Verizon understands Ofcom's position and overall would support the proposal in relation to the equalising of the relative fault rates.

### **Charge Control Design**

*Question 6.1: Do you agree with our revised proposals for baskets and SMPF New Provides? Please provide reasoning for your answer.*

51. In general Verizon is content with the basket changes proposed by Ofcom, although to be clear we are only really focused upon the WLR Connections basket. ✂
52. The one significant concern Verizon has with Ofcom's proposals in this area relates to the WLR Expedite service and the proposal to remove WLR expedites from the ancillary basket and not impose a safeguard cap. We consider Ofcom's justification for such a move leaves too much to chance, in terms of Openreach's behaviour and therefore this move will result in unwelcome uncertainty.
53. Whilst we acknowledge Ofcom's objective of increasing the incentives on Openreach to deliver a more consistent quality of service for the standard new connection service, we are sceptical that this, if indeed it materialises, ✂.
54. We note that Ofcom states that the expedite connection service will remain subject to the usual SMP remedies and that if there are concerns in relation to excessive pricing the recourse to dispute resolution is still open. However, ✂.

*Question 6.2: Do you agree that we should control (i) WLR Standard Connection when simultaneously provided with SMPF New Provide and (ii) WLR Start of Stopped MPF Line and its simultaneous provision with SMPF New Provide? Please provide reasoning for your answer.*

55. Verizon ✂.

*Question 6.3: Do you agree with our proposal not to set charge controls that require Openreach to provide a discount when WLR Transfer and SMPF Single Migration; WLR Start of Stopped WLR Line and SMPF New Provide; and WLR Working Line Take Over and SMPF New Provide are provided simultaneously? Please provide reasoning for your answer.*

56. Verizon does agree with Ofcom that for these scenarios a charge control that does not require Openreach to provide a discount appears appropriate. As Ofcom's view is that the implementation of these scenarios does not result in a cost saving accruing from a reduction in exchange work a discount is not appropriate and the individual service charge controls should be sufficient to ensure that the charges for the services reflects the underlying costs of provision.

*Question 6.4: Do you agree that we should re-allocate costs between the services that have been attributed the cost savings associated with the WLR+SMPF simultaneous connections and migrations services so that all services involving jumpering at the exchange more accurately reflect their underlying costs? Please provide reasoning for your answer.*

57. ✕.

*Question 6.5: Do you agree that we should now charge control the Caller Display service? Please provide reasoning for your answer.*

58. Verizon ✕

*Question 6.6: Do you agree that we should impose a one-off reduction in the Caller Display charge to LRIC (in 2014/15), with common costs reallocated across WLR and MPF as appropriate? Please provide reasoning for your answer.*

59. Verizon ✕.

60. However, ✕

61. Accordingly, ✕.

## **Charge control cost allocations and modelling**

*Question 7.1: Do you agree with our proposal to change the approach to the recovery of evoTAMs costs so as to exclude evoTAMs costs from the SMPF line rental? Do you agree with our revised assessment of TAMs costs? Please provide reasoning for your answer.*

62. Verizon is not an LLU player nor do we purchase SMPF line rental so does not offer a response to this question other than to note that, ✕.

*Question 7.2: Do you agree with our proposal to immediately remove 'DSLAM capital/maintenance' costs associated with SFI faults from the Cost Model? Please provide reasoning for your answer.*

63. Verizon is not active in the LLU market and as SFIs are only applicable to support LLU services, Verizon does not offer a response to this question.

*Question 7.3: Do you agree with our proposal by 2016/17 to allocate the remaining 'DSLAM capital/maintenance costs on a consistent basis with our treatment of other fault-related costs, by means of a glide path? Please provide reasoning for your answer.*

64. As per the previous question Verizon does not offer a response to this question.

*Question 7.4: Do you agree with our approach and estimates of the likely ranges for the WLR/WLR+SMPF minus MPF differentials? Please provide reasoning for your answer.*

65. Ofcom's approach and reasoning of the likely ranges for the differentials under review appear reasonable.

66. However, given the number of assumptions made it is unclear to Verizon whether the estimate of the degree of differential is soundly based. Ofcom's consultation document in this matter uses phrases such as "on the balance of the available evidence" and "we have chosen to assume", phrases which reflect the degree of uncertainty underpinning the proposed differentials. Accordingly, whilst Ofcom's proposals may appear reasonable the potential for significant variation in scale means we are unable to endorse Ofcom's calculated differential rates. Further work on this matter may well be required before Ofcom issues its final statement.

*Question 7.5: Do you agree with our proposal to update the cost model base year information for the most recent 2013 RFS cost information (adjusted as proposed in this Consultation) while retaining the 2012 RFS allocation methodologies (as adjusted as set out in the July 2013 Consultation and this Consultation)? Please provide reasoning for your answer.*

67. Verizon strongly agrees with Ofcom's proposal to retain the 2012 RFS allocation methodologies as the basis for the cost model. The variance between the 2012 and 2013 RFS cost allocations is so significant that detailed reasoning to justify the changes would be needed before adopting the 2013 allocations. Despite Ofcom requesting such explanations from BT and even taking the unprecedented step of ordering BT to prepare and publish an explanatory document detailing the reasons behind each change, such clear and concise explanation has not been forthcoming. Indeed, of the 22 methodology changes BT references in its explanatory document they have only restated 7 for the prior year in the 2013 RFS. As a result there is a significant gap in the understanding of the full impact and implications of the methodology changes BT has implemented in developing its 2013 RFS. Under such circumstances it would not be appropriate to adopt the 2013 allocation methodology.

68. As for Ofcom's proposal to update the cost model base year information with reference to the 2013 RFS cost information, Verizon has significant reservations about such an approach. Generally Verizon would be in support of Ofcom utilising the most up to date cost information when determining charge controls but in this instance, due to significant concerns over the accuracy and reliability of the 2013 RFS, Verizon considers Ofcom should base its judgements by reference to the 2012 RFS.

69. Even though Ofcom has made certain adjustments, significant concerns remain around the suitability of utilising the 2013 RFS and explanatory document, especially as it appears from the exchange between BT and Ofcom on this issue that significant gaps still remain in terms of fully understanding the rationale behind the cost information provided by BT. Under such circumstances Ofcom should exercise extreme caution before utilising the 2013 cost information in its cost model.
70. As for BT's assertion that Ofcom should use the latest published RFS data in charge control models and only deviate in exceptional circumstances, this is not a view held by Verizon. Ofcom has the powers to set out the requirements for SMP providers to report financial data in order to access compliance with regulatory obligations. However, the regulator is not compelled to automatically accept or use such data. In this instance, even if Ofcom were obliged to use the latest published financial data as BT claim, the reasons outlined by BT as being circumstances where Ofcom would be justified in not using the latest reported financial data do arise in this case, as the published financial information does raise clearly identified concerns with the regulatory accounting principles and economic efficiency considerations employed.
71. As a result of the above, Verizon holds the view that of the two options outlined by Ofcom, i.e. to use the 2013 RFS data but adjusted to remove the new allocation methodologies or to use the 2012 RFS data as they did in the July 2013 Consultation, the most appropriate option which best safeguards against over-recovery by BT is to use the 2012 RFS as the base year data and source of allocation methodologies for the Charge Controls.

*Question 7.6: Do you agree that BT's provision for claims for deafness arising from the use of copper line testing equipment used in the past by engineers should be excluded from the cost base of the Charge Controls? Please provide reasoning for your answer.*

72. ✕.

73. Irrespective of the basis of determining the base year cost model data (2012 or 2013 RFS) Ofcom ✕.

*Question 7.7: Do you consider that BT's CTC costs should be included in the cost base of the Charge Controls? Please provide reasoning for your answer.*

74. Verizon considers that the ✕.

75. We would emphasise that how BT manages its labour relations is a matter for BT and BT should be afforded the freedom to select its own approach to industrial relations. However, the funding of such practices should be borne by BT's shareholders alone, with such costly and entirely discretionary labour practices being removed from charge control cost models so they are not surcharged to BT's competitors.

76. Furthermore, BT's explanatory document to the 2013 RFS indicates that the majority of the CTC costs are attributable to BT Retail and BT Global Services and so are not in any way related to the provision of the fixed access services under consideration in this Market Review and therefore should be excluded.

*Question 7.8: Are you aware of any other specific BT RFS cost items which merit further investigation by Ofcom to establish whether they properly constitute efficiently incurred forward looking costs? Please provide reasoning for your answer.*

77. One further cost item that should be investigated and considered by Ofcom is the Openreach Computing and Development Costs. The 2013 RFS moves costs from Ethernet to LLU/WLR and has the result of increasing costs in the WLR market by £24m and £8m for LLU.
78. Verizon's concern is that the move from Ethernet to LLU/WLR will result in double recovery, as at least some of these costs have already been recovered through the BCMR Charge Control (which was based on the 2012 RFS). Therefore, if the Charge Control for LLU/WLR is calculated based on the 2013 RFS some costs will clearly be recovered twice.
79. This change by BT highlights a general concern in relation to the distribution of costs between markets and products as a result of cost allocation methodology changes which, by its very nature, opens up significant potential for cost over-recovery. This issue needs to be fully investigated by Ofcom before accepting any proposed changes in methodology for cost allocations when developing Charge controls. BT will clearly have considered carefully all of the possible impacts that changes in its methodology will have in all markets, and its incentive to make changes will naturally be to benefit its own position (and/or weaken the position of its competitors). Ofcom must therefore apply the same careful consideration and have in mind the bigger picture in order to ensure it understands why BT is proposing the changes, and exactly what effects it will have across markets.

### **Proposed Charge Controls**

*Question 8.1: Do you agree with our proposal to set the main rental charges such that the differential in charges between WLR+SMPF and MPF is equal to £10 by 2016/17, rather than moving more rapidly to reflect our now lower estimate of the LRIC differential of £0 to £4? Please provide reasoning and information to support your response to this question.*

80. Verizon does not fully support Ofcom's proposal for setting the differential between the services at a level that is higher than the latest estimate suggests it should be. Verizon would prefer Ofcom to set the differential at the lower figure, i.e. between £0 and £4, at the earliest possible time; in other words by a one off adjustment.
81. We understand and appreciate Ofcom's arguments in favour of promoting a stable and predictable regulatory regime and the view that this is best accomplished by a more



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gradual reduction accomplished via a glide path. Furthermore, we accept the comments Ofcom makes about the expectations stakeholders may reasonably have had based on past regulatory decisions.

82. So whilst Verizon understands the reasoning behind Ofcom's proposal we do not accept that this approach is justified in this instance and therefore retain our view that to achieve the best outcome in terms of allocative and productive efficiency, the difference in charges between the services should be equal to the difference in long run incremental cost (LRIC) as early as possible, despite Ofcom's dynamic efficiency concerns, and not be delayed to a period after the end of the next Charge Control period.

*Question 8.2: Do you agree with our proposed approach to making one-off adjustments for the removal of evoTAMs costs and DSLAM capital maintenance costs? Please provide reasoning for your answer.*

83. Verizon does agree with Ofcom's proposal to make a one-off adjustment for the removal of evoTAMs costs and DSLAM capital maintenance costs. Under the circumstances where Ofcom has concluded that it is not appropriate to recover evoTAMs costs from the charges within the scope of this charge control, it is totally justifiable and indeed necessary to remove such costs immediately at the outset of the new Charge Control via a one-off adjustment.
84. As Ofcom notes, the movements in individual charges resulting from this change are not unacceptably large and therefore the overall impact is unlikely to be excessive or impact on investment decisions, which Ofcom rightly focuses upon when considering the implementation of one-off adjustments.

Verizon Enterprise Solutions  
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