



BT's response to Ofcom's consultation document

Promoting competition and investment in fibre networks: BT Regulatory Financial Reporting Reporting requirements covering wholesale fixed telecoms markets 2021-26

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1. Executive summary

- 1.1 BT is broadly supportive of the format and principles proposed for the Regulatory Financial Statements (RFS). We welcome a reduction in detailed reporting in many areas and an emphasis on transparent explanation. Our comments focus mainly on Ofcom's detailed proposals.
- 1.2 We note the extra detail and granularity proposed for the financial reporting of physical infrastructure, and we are able to provide the majority of the information. However, we will need to agree some adjustments around Ofcom's Lead In proposals. We propose using methodologies to calculate costs, a common practice for other shared costs in the rest of the RFS, rather than a "recording" approach.
- 1.3 While we are supportive of what Ofcom is trying to achieve with the reporting schedules on the whole, we would ask that Ofcom adopt a more flexible approach. In particular,
- Ofcom's reporting objectives could be achieved without the publication of WLA (and FTTP) cost and volume information (as outlined in performance schedules 4.7 and 4.8) in the format proposed since they contain Openreach confidential commercial information that would provide potential rivals with an unfair advantage when competing with Openreach in the supply of ultrafast capable networks.
 - Ofcom proposes to prescribe very detailed cost attribution schedules, splitting direct and indirect costs and Group allocated costs. We would like to work with Ofcom to finesse the details of the descriptions of methodologies to make them easier to maintain in a quality manner whilst preserving the increased transparency that Ofcom seeks to achieve.
- 1.4 As part of its change to the presentation in the RFS, Ofcom proposes that network component costs are provided privately to Ofcom rather than published in the RFS. We agree with this proposal as it is consistent with the overall redesigned structure and content that Ofcom propose for the RFS. At the same time, Ofcom proposes we publish new network diagrams¹ so that stakeholders can identify and bring any issues to Ofcom's attention. It is hard to imagine how stakeholders could do this in any meaningful way without the network component data. On that basis we consider that Ofcom should remove the requirement to publish network diagrams.
- 1.5 As an alternative, we would be happy to work with Ofcom to enhance the AMD to better reflect the new structure and content of the RFS. Further, we believe that Ofcom has a deep understanding of how the attributions reflect the network components. We do not consider that providing the new network diagrams, along with the network component data to Ofcom, would materially enhance their understanding of component costs. Moreover, we believe that Ofcom has underestimated the work required to produce these network diagrams. On that

¹ Paragraphs 5.40 and 7.46 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

basis we would propose not to provide network diagrams to Ofcom and would appreciate further discussion with Ofcom so it can consider the proportionality of this proposal.

- 1.6 We have concerns that RFS accounting and reporting neither represents GAAP nor is it in line with Ofcom's pricing policy in a number of areas. The RFS is relatively long and complex and in turn requires a complex accompanying AMD. This tends to act against Ofcom's key transparency objective. Over time we would welcome the opportunity to explore further RFS revisions with Ofcom to provide a more focused set of statements.
- 1.7 Another key principle is that reporting should follow policy and obviously we recognise there is a major shift in Ofcom's regulatory framework for fixed telecoms going on right now and we would expect that the RFS would follow that, if not immediately then over time. We would welcome the opportunity to explore further RFS revisions with Ofcom to provide a more focused set of statements.

2. Introduction

- 2.1 In its reporting consultation, Ofcom sets out that some features of its proposed approach to regulation in the WFTMR 2020 *“could mean that the information required in future will be different from that needed in the past”*.²
- 2.2 It notes that, *“[g]oing forward, the vast majority of our regulation of BT will be focused on Openreach and there is an increased emphasis on passive products and geographic remedies to encourage greater investment in network infrastructure to support the rollout of fibre.”*
- 2.3 Ofcom sets out that the purpose of regulatory financial reporting is to provide it with the information necessary to:
- make informed regulatory decisions;
 - assess the impact and effectiveness of its decisions; and
 - monitor and, if necessary, enforce no undue discrimination and some price control regulations.³
- 2.4 In addition, Ofcom states that the attributes of good regulatory reporting are:
- Relevance. The information needs to answer the right questions, in the right way and at the right time.
 - Reliability. The underlying data must be reliable, suitable rules for treatment of those data must be chosen and those rules need to be followed.
 - Transparency. The basis of preparation should be understood by the users of the reports and the presentation of the data should be clear.
 - Proportionality. The reporting requirements should be proportionate to the benefits.⁴

BT Response

- 2.5 We welcome Ofcom's proposals that Reporting requirements are aimed at strengthening the relevance, reliability and transparency of the Regulatory Financial Statements whilst ensuring the mandated regulatory financial reporting and the underpinning processes BT must adopt to meet them are proportionate. We support these objectives. In this consultation response, we propose amendments to Ofcom's proposals that we believe will better balance the conflicts between these objectives and result in a better balanced approach to achieve these overall aims

² Paragraph 2.16 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

³ Paragraph 2.3 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

⁴ Paragraph 2.5 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

3. Accounting separation and cost accounting remedies

- 3.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 3 of the consultation, and our response to Question 3.1.

Question 3.1: *Do you agree with our proposal to impose accounting separation and cost accounting remedies on each of the proposed SMP markets? Please set out your reasons and supporting evidence for your response.*

Summary of Ofcom's proposals

- 3.2 Ofcom proposes that BT has significant market power (SMP) in the following markets⁵:
- a) the supply of wholesale access to telecoms physical infrastructure for deploying a telecoms network in the UK excluding the Hull Area (physical infrastructure market);
 - b) the supply of wholesale local access at a fixed location (WLA) in two geographic areas: Area 2 and Area 3;
 - c) the supply of Leased Lines Access (LLA) in three geographic areas: Area 2, Area 3 and high network reach (HNR); and
 - d) the supply of Inter-exchange connectivity services (IEC) in two geographic areas: BT Only and BT+1 exchanges.
- 3.3 Ofcom also proposes to impose an accounting separation obligation on BT in each of the proposed SMP markets together with a cost accounting obligation intended to ensure that costs are attributed across markets (and the individual services within them) in a fair, objective, transparent and consistent manner.

BT Response

- 3.4 We have provided our view on Ofcom's market analysis and SMP findings in our response to Ofcom's WFTMR 2020 consultation, where we set out, inter alia, that we do not agree the BT has SMP in the market for physical infrastructure, nationally; that we do not agree that BT has SMP in ultrafast capable connections and that Leased Lines Access (LLA) markets are likely to be effectively competitive beyond the Central London Area.⁶
- 3.5 Notwithstanding this, and on the basis that Ofcom maintains its proposed market assessment in the final statement, we set out below how we propose to comply with Ofcom's directions and propose amendments to Ofcom's proposals which we believe would be more in line with its objectives.

⁵ Paragraph 3.13 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

⁶ BT Group response to Ofcom's Wholesale Fixed Telecoms Market Review 2021-26, 13 May 2020

- 3.6 In doing so, we will continue to work with Ofcom to improve the value of the RFS to Ofcom and other stakeholders.

- 3.7 We have no objections to accounting separation and cost accounting in principle but have some concerns over some of the specific methodologies proposed in sections 4 and 5 of the consultation document. These are detailed below in the relevant sections of this response.

4. Performance Schedules

- 4.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 4 of the consultation, and our response to Question 4.1.

Question 4.1: *Do you agree with our proposals in relation to the published performance schedules set out in Section 4? Please set out your reasons and supporting evidence for your response.*

Summary of Ofcom's proposals

- 4.2 Ofcom proposes that BT continues to provide schedules that detail financial information, albeit with some changes:
- **Separately show operating costs incurred within Openreach and operating costs attributed from other parts of BT** (affecting the summary of market performance and attribution of wholesale current cost schedules)
 - **Split operating costs from Openreach and other parts of BT by direct and overhead cost categories** (affecting the summary of market performance and attribution of wholesale current cost schedules)
 - **Revised asset categories to include poles, electronics and software** (affecting the attribution of wholesale current cost and attribution of wholesale MCE schedules)
 - **Improve visibility of relationship between physical infrastructure (PI) and downstream markets** (affecting each market schedule)
 - **Show if 'specific items' from the statutory accounts are attributed to SMP markets** (affecting the summary of market performance schedule)
 - **Remove the adjusted financial performance schedule**

Headline

We broadly support most of the changes to these performance schedules, but we have some concerns in specific areas.

BT Response

- 4.3 Within the context of the current RFS, both Ofcom's and our intention are that the schedules should be of use to stakeholders and provide relevant information. Therefore, the removal of low value schedules is welcome as it helps the users of the RFS focus on valuable reporting.
- 4.4 We consider the following proposals should be removed because they are unnecessary or not useful to stakeholders:

- Service level reporting granularity is not appropriate given Ofcom's pricing approach. Our key concern is that a service level focus will give undue prominence to individual service level returns which would not be in line with the way that prices have been set by Ofcom. We propose that reporting returns at a market level is more appropriate;
 - Prescribing the financial recording of poles⁷ source data is unnecessary. Operational data should be used instead to allocate Poles costs into Ofcom's proposed sub-divisions. Further, the breakdown ought to be supplied to Ofcom privately (as an AFI); and
 - The proposed provision of new network diagrams⁸ (not currently produced) are of little use without component cost breakdown schedules, which we agree should no longer be a reporting requirement. On that basis we propose that Ofcom remove the requirement to provide new network diagrams completely.
- 4.5 By the same rationale, we propose that any information that is of little use to stakeholders other than Ofcom should be provided privately to Ofcom only. For example, Ofcom has proposed that components are not published in the RFS, but that a list of the unpublished components would be made available. It's not clear how stakeholders could use that information, nor how it could *"help inform stakeholders so they can have confidence that BT is complying with its obligations."*⁹ We propose that we supply this information to Ofcom privately instead.
- 4.6 We believe the following two new reporting requirements should be changed because they risk inappropriately disclosing confidential information:
- Ofcom's proposed performance schedules for the WLA market risk disclosure of commercially sensitive information in relation to Openreach's FTTP service in prospectively competitive areas and markets, and should be amended to remove this risk; and
 - Ofcom's new requirement to separately report leaver costs should be removed.
- 4.7 Lastly, we have a number of concerns where we propose a more pragmatic reporting approach. These include:
- Ofcom's proposed property cost reporting where we propose to align regulatory reporting to GAAP and BT's Statutory accounts;
 - a delay to the introduction of the Specific Items reporting proposals changes that better aligns with our planned systems development schedule; and
 - alternate proposals for the reporting of Dark Fibre patch panels and testing costs that would be easier and less costly to introduce.

Focused items

- 4.8 At paragraph 4.43 of the consultation document, Ofcom proposes to remove the requirement on BT to produce the Adjusted Financial Performance Schedule on the

⁷⁷ See paragraph 5.6 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

⁸ See paragraph 5.40 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

⁹ See paragraph 2.4 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

basis that its original justification no longer applies. We agree with this proposal and Ofcom's rationale.

- 4.9 We also support Ofcom's proposals for shared ancillaries reporting¹⁰, which provides more transparency to shareholders of costs without over-complex allocations that are difficult to base in actual consumption.

Reporting service returns

- 4.10 Ofcom proposes that we should report returns by service rather than by market¹¹.
- 4.11 However, in the WFTMR Ofcom states that it has set prices to allow appropriate cost recovery over both copper and fibre services together and makes adjustments in its cost modelling that are not directed in the RFS. For example, in Annex 16 of the WFTMR Ofcom explains that in Area 3 it has moved approximately £325m nominal costs, over the charge control period, from MPF into FTTC¹².
- 4.12 It is therefore not helpful to show the over-recovery in one service and the under-recovery in another, as this gives undue prominence to service returns which are not in themselves meaningful.
- 4.13 We propose that ROCEs be reported by market instead.

Infrastructure reporting

- 4.14 Ofcom's proposal contains some new requirements on reporting, particularly around some of the infrastructure elements, which represent a significant effort to produce for the purpose of financial statements. These requirements are not reflected in other areas of the RFS, which necessarily uses allocations based on activity-based costing and there is no further benefit for stakeholders in the new proposed methodologies.
- 4.15 Certain schedules proposed by Ofcom are excessively detailed and the level of detail required goes far beyond what our records can support. For example – in one of the AFIs, Ofcom proposes we report on different types of poles, whilst we do not currently report poles at all.
- 4.16 The reported level of pole detail proposed by Ofcom is as follows¹³:
- Poles – multi-end-user attachment
 - Poles – single-end-user attachment
 - Pole top equipment
 - Cable up a pole

¹⁰ Table 4.14 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

¹¹ Paragraph 4.49 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

¹² WFTMR paragraph 16.132

¹³ Table 4.4 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

4.17 The pole information captured within our cost systems does not separate the pole assets into the line items identified by Ofcom and would have to be produced using an apportionment mechanism based on the operational data of the types of pole equipment, year of preservation, and estimated unit cost. We are happy to report these costs on that basis.

Network diagrams

4.18 Ofcom proposes new network diagrams¹⁴ to enable Ofcom and stakeholders to better understand which components relate to activities in discrete parts of the network and which components relate to other activities. Ofcom's purpose is to improve transparency that helps stakeholders have confidence that BT complies with its regulatory obligations and to identify and bring any issues to Ofcom's attention.

4.19 However, as network component costs are to be provided privately to Ofcom, these diagrams (which do not relate to the RFS), actually relate to information shared with Ofcom only. It is therefore unclear how stakeholders other than Ofcom could make use of them. We believe that Ofcom already has a deep understanding of the make-up of network components and that the provision of the network diagrams would not serve to materially improve Ofcom's understanding.

4.20 The production of such diagrams will be difficult. Network diagrams are usually produced for particular engineering purposes, and so there is not necessarily a pre-existing consensus as to the best way to represent the network to help understand the RFS. [3<]

4.21 There are also many components that do not represent discrete parts of the network, but which have been directed by Ofcom or created by BT. They are building blocks of the methodologies, but not identifiable parts of the network. This will add a layer of complexity to the exercise.

4.22 We believe that there are better ways to give more transparency of methodologies. Better reporting of attribution rules and how they are applied, as proposed in the reporting consultation, will help. BT is working on a number of initiatives to improve transparency with the regulator and make the AMD clearer, which we believe will also achieve the aim of helping stakeholders understand the methodologies more effectively.

WLA reporting

4.23 Ofcom proposes that we publish information relating to pricing, volumes and costs for FTTP services, with figures reported separately for 40Mb/s services and all other FTTP bandwidths¹⁵.

¹⁴ Paragraph 5.40 and 7.46 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

¹⁵ Table 4.7 and 4.8 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

- 4.24 Openreach sets out in its response to the Wholesale Fixed Telecoms Market Review¹⁶ that it does not agree with Ofcom's provisional finding that Openreach has SMP in relation to the provision of ultrafast-capable connections.
- 4.25 Notwithstanding its provisional position on the finding of SMP across all WLA services, Ofcom identifies that the potential for competition to emerge over the period to 2026 as a result of investments in competing fibre access networks – i.e. it defines 'area 2' as potentially competitive and proposes remedies designed to promote this alternative investment. This finding does not, however, appear to have impacted the proposals Ofcom makes around financial reporting. We think it should.
- 4.26 Ofcom should consider the risks to the efficient operation of the emerging market for ultrafast-capable connections of requiring Openreach to publish details of its effective pricing, volumes and costs relating to FTTP services at the proposed level of detail. This detail – which could reveal information about the mix of bandwidths supplied, the average discounts customers were receiving and about the costs Openreach was incurring in building its FTTP network each year – would be of significant commercial benefit to Openreach's network rivals, including established rivals such as Virgin Media. While network builders may reveal some key performance indicators to their investors, this would not go to the level of detail Ofcom is proposing we should publish each year.
- 4.27 Ofcom should consider whether/how reporting of the proposed level of detail for FTTP services actually serves the stated objectives of regulatory reporting:
- Ofcom is only proposing to set a safeguard anchor control on 40Mb/s FTTP services where copper services are not available. This control is not based on estimated costs of FTTP but related to the ongoing prices for MPF and 40Mb/s FTTC services. Monitoring compliance with the safeguard control does not require reporting of the details Ofcom is proposing.
 - As noted, Ofcom's objective in its proposed regulation of FTTP services is to promote investment in fibre networks by Openreach and other network builders. The effectiveness of this policy will therefore be assessed by tracking build volumes over time. Openreach reports its build volumes in its quarterly KPIs to the market and most other network builders will provide updates on their coverage and/or will provide such data to Ofcom as part of the Connected Nations programme. It is therefore not clear how the reporting of Openreach price, volume and cost data provides additional insight into the effectiveness of Ofcom's policies.
 - Even if Ofcom had a valid concern with Openreach's ability to set excessive prices for FTTP services – which Ofcom does not claim – reporting annual costs and annual revenues for FTTP services at this stage will not provide sufficient insight into this. We plan to roll out our FTTP network at pace with an ambition to pass 20 million premises by the mid to late 2020s. As we deploy network, we will look to migrate customers onto the new platform. But the costs of building the

¹⁶ Paragraph 2.28-2.36 of Openreach's response to Promoting competition and investment in fibre networks: Wholesale Fixed Telecoms Market Review 2021-2026

network and provisioning lines will clearly outweigh the revenues we receive from FTTP services over this review period and the performance of our investments can only be assessed over the long run reflecting network utilisation and service mix. In the immediate term, therefore, reporting of cost and revenue data is of more obvious value to rival network builders than it is to our customers or other stakeholders and, in this regard, we think will tend to reduce rather than enhance the effectiveness of Ofcom's broader policies around FTTP pricing.

- 4.28 On the basis of the above, we believe Ofcom's objective of promoting competition will be achieved without the publication of cost and volume information (as outlined in performance schedules 4.7 and 4.8) in the format proposed and to the extent they contain Openreach confidential commercial information regarding its FTTP business that would provide potential rivals with an unfair advantage when competing with Openreach in the supply of ultrafast capable networks.

Leaver costs

- 4.29 At paragraph 4.26 and in Table 4.2 of the consultation document, Ofcom proposes to require BT to report Leaver Costs separately. To date these costs are not reported separately.
- 4.30 Our view is that it is neither appropriate nor proportionate to have these costs both published and recorded separately for a number of reasons.
- As indicated by Ofcom in the WFTMR consultation document (Annex 16, paragraph 16.27), restructuring costs are associated with changes in BT's organisational structure that result in employee redundancies (with costs from redundancies known as leaver payments). Together with restructuring costs and property rationalisation provision costs, leaver costs reveal the forward-looking strategy of a company and as such are commercially sensitive and should not be disclosed.
 - In addition, leaver costs are not being adjusted separately for the purpose of setting the charge control remedy (see WFTMR consultation document, Annex 16). On this basis, we do not agree that reporting these costs separately would help stakeholders assess the effectiveness of the charge controls remedy.
 - Finally, leaver costs are very small, and reporting them separately would unnecessarily involve additional work (hence additional costs) and a further level of complication.

Property costs

- 4.31 We also note that in Table 4.2 of the consultation document, Exchanges and Other Property are listed in 'Opex (excluding depreciation)'. However, post-IFRS16, Exchanges and Other Property costs will primarily be in the Depreciation section. Therefore, we request that Ofcom moves these costs into the Depreciation section (and ideally groups them with the 'Land and buildings' line as recorded currently). This would ensure consistency between our statutory accounts and the RFS.

Cost attributions

- 4.32 To date, BT's accounts do not specify whether the additional costs attributed to 'Specific items' have been allocated to SMP or non SMP products. Specific items are not recorded in our ledgers at a level of granularity suitable for the RFS. Instead, we conduct reviews to check that the costs have been treated correctly.
- 4.33 We have system changes planned for our core accounting systems roadmap for 2022, that would deliver the required granularity. We would therefore request that Ofcom postpones to 2022/23 the implementation of this requirement. In the meantime, we will share results of our existing specific items review process each year.
- 4.34 Ofcom's proposed new reporting of attribution rules could be a helpful way of giving transparency to the allocation process, but it will require some adjustments to the format to make it useful and feasible. We are happy to work with Ofcom to assess the adjustment required while supporting the general thrust of what Ofcom expects from the reporting.
- 4.35 For example, the format would have BT report costs that go "direct to Openreach services". We have no such costs: they are allocated to components, which are then attributed to services. However, we understand what Ofcom has in mind, and can work to propose a suitable format.
- 4.36 Further consideration is needed on the proposed attribution rules¹⁷. Ofcom would like this list to cover the most significant methodologies. We have hundreds of such rules, and a new form of summary will need to be created to summarise this meaningfully, perhaps a taxonomy of methodologies by main driver.
- 4.37 We think it is too early to be sure that the summary should list the specific methodologies Ofcom has proposed (e.g. BT Group factorised pay, BT Technology PAC etc; are these just activity groups, or do they also consider bases?). We propose that the format focuses on the largest methodologies and would like to discuss this further with Ofcom.

Dark fibre recording and reporting

- 4.38 For Dark Fibre access, Ofcom proposes to require that we publish revenue, volume, average prices and costs information (including the additional information foreseen in Direction 2, Annex B, Table E) for patch panels (split between customer premises and exchanges) and initial testing.
- 4.39 To meet Ofcom's proposal to record patch panels separately would require a significant change to Openreach's booking practices, asset register and planning processes. [X] To change this would require us to change our booking practice so

¹⁷ Paragraph 5.23 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

that patch panels have a dedicated job, estimate and asset identifiers on our systems and our asset register. It would also require us to change our planning processes, which would in part require communication to all our planning teams. The effort and cost to make these changes would be disproportionate to the benefit of such reporting.

- 4.40 We propose that a more practical solution for reporting patch panels would be to use our current cost apportionment approach, that aligns published price with unit cost. This apportionment methodology uses a unit cost per patch panel derived by Ofcom¹⁸, using input assumptions (e.g. hours per patch panel install; equipment cost; utilisation per patch panel) and inputs supplied by Openreach (e.g. labour rate). We propose to review and update the relevant inputs as part of the apportionment methodology.
- 4.41 Similarly, to meet Ofcom's requirement to record initial testing of Dark Fibre circuits separately would require Openreach to change its booking practices and field engineering systems. This is problematic because engineers will deliver Dark Fibre Services, including initial testing as part of a single job associated with the connection.
- 4.42 As above, we propose a more proportionate approach for reporting initial testing. We propose that we continue to use our current cost apportionment approach that aligns published price with unit cost. This apportionment methodology uses a unit cost per Initial test derived by Ofcom. The unit cost is derived using Ofcom input assumptions (e.g. time to conduct test) and inputs supplied by Openreach (e.g. labour rate). We propose to review and update the relevant inputs as part of the apportionment methodology.

¹⁸ Ofcom inter-exchange dark fibre pricing model

5. Preparation and Assurance

- 5.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 5 of the consultation document, and our response to Question 5.1.

Question 5.1: *Do you agree with our proposals in relation to the preparation and assurance of the RFS set out in Section 5? Please set out your reasons and supporting evidence for your response.*

Summary of Ofcom's proposals

- 5.2 Ofcom proposes BT publishes information on the basis of the preparation of the RFS in relation to:
- Publication requirements including attribution rules applied to main cost categories, a Cost Component List and a mapping to services in the price list in the Wholesale Catalogue;
 - Basis of preparation – directions applicable to all markets, where BT must present costs in geographic markets using national unit costs, does not capitalize costs recovered from up front revenues, must separately identify externally funded assets and does not attribute non-relevant costs to SMP markets;
 - Basis of preparation – directions applicable to specific markets, where BT must improve the reporting of poles, attribute duct costs to PI services consistent with the proposed approach to setting prices and separately identify certain dark fibre costs; and
 - Assurance – provide reconciliation of the RFS to the audited BT Group statutory accounts.

Headline

While we are comfortable with many of Ofcom's proposals, we have some areas of concern, in particular: auditors' assurance and directions on record keeping.

BT Response

- 5.3 BT values transparency with the regulator, and therefore, is happy to provide data and models supporting our cost accounting system so that Ofcom can run the same software (CostPerform) that BT uses to prepare the RFS.
- 5.4 We are very supportive of providing useful and relevant information to stakeholders to gain a better understanding of the published RFS. In addition, we welcome the opportunity to collaborate with Ofcom to provide available data, metadata and models to provide assurance that we have prepared the RFS in compliance with the directions.

- 5.5 In this consultation, Ofcom proposes to direct BT in relation to the process it uses for recording its costs. This is unnecessary where BT can provide a reasonable apportionment mechanism, as used in the rest of the RFS.

Audit opinion

- 5.6 Ofcom proposes that there should be an audit opinion that the RFS are “fit for purpose”¹⁹.
- 5.7 In line with guidance in the ICAEW Technical Release “Reporting to Regulators on Regulatory Accounts”, the audit opinion in the RFS notes that the RFS have been produced in line with a special purpose framework (the AMD), and states that “The nature, form and content of the Regulatory Financial Statements are determined by Ofcom. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable for Ofcom’s purposes.”
- 5.8 The proposed condition 11.10 requires that BT also confirms the RFS is “fit for purpose”. However, for the same reasons the auditors deem it inappropriate to provide an opinion on this, it would also be inappropriate for BT to do so.
- 5.9 At paragraph 5.101 and Table 5.3 of the consultation document, Ofcom proposes that BT should engage regulatory auditors to provide the assurance, in the form of agreed upon procedures, that we have properly separated poles assets from other assets and that the assets life is reasonable.
- 5.10 If the objective is to obtain an independent opinion on the appropriateness of the methodologies applied, agreed upon procedures would not achieve this aim – the auditors can only conduct specific tests without an opinion.
- 5.11 The current regulatory audit is a significant cost for BT and involves significant efforts for BT and the independent auditors. We would welcome discussion with Ofcom and relevant stakeholders if the current audit does not provide the required level of assurance and trust in the RFS.

Record keeping

- 5.12 In the consultation, Ofcom makes several references to recording costs, rather than reporting them²⁰. We accept that where proportionate, BT may need to make changes to record-keeping to produce the reporting that Ofcom specifies. However, this is not normally necessary, and the majority of RFS costs are calculated using our Regulatory Accounting System, e.g. using apportionments, methodologies etc.

¹⁹ Annex 5, condition 11.10, sub-section viii of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

²⁰ E.g. Paragraph 5.6, 5.103, 5.106, 5.124 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

- 5.13 Making changes to underlying accounting systems is often very slow and costly and is likely to be disproportionate to the benefit. It will also be a less flexible solution, as any future changes could also be slow and costly to implement.
- 5.14 Allowing BT some flexibility to adopt approaches other than changing the financial systems, in order to satisfy its regulatory reporting obligations, is likely to result in better, more efficient and more accurate solutions not envisaged at the time the reporting was specified. This is a key reason why we welcome the way the directions are specified in relation to components costs and Cumulo where the outcome is specified but the way we implement the solution is left to BT's discretion. We consider this is the correct approach to produce the outcome Ofcom requires to an adequate quality standard while not being overly prescriptive so that the most efficient solution can be adopted by BT.
- 5.15 We believe it is unnecessary for Ofcom's purpose to direct BT to change its core accounting systems in order to report costs. We would therefore propose that references to "record" in the proposed legal instrument should be changed to "report", with BT retaining its discretion to find the most effective way of achieving the required quality and accuracy, and Ofcom vetting this via the established mechanism of the Change Control Notification.

Other Specific Proposals

- 5.16 BT supports Ofcom's proposal to remove the requirement to provide LRIC information from the 'form and content' direction because we believe it is in line with an overall objective of simplifying and condensing the mandated regulatory reporting requirement.
- 5.17 We believe that LRIC is a relevant view of costs for various purposes and note those purposes are not in any way invalidated because of Ofcom's proposed change to the 'form and content' direction. [REDACTED]
- 5.18 We have continued to improve the mapping of aggregated cost data within BT's Fixed Asset Register ("FAR") to our physical asset inventory held within its PiPER system and Ofcom is aware of the difficulties we face in doing so²¹. We would be happy to continue to work with Ofcom to develop a report that provides this required assurance using a mapping of BT FAR to Piper.
- 5.19 Ofcom proposes that BT publishes a Cost Component List describing components used to prepare the RFS. This information won't be useful to stakeholders as it relates to cost components which are not (and should not be) published. Therefore, we believe this list should not be published.

²¹ [REDACTED]

Network Adjustments

- 5.20 Ofcom proposes “In addition to the 2019 PI requirements, BT must attribute all network adjustments associated with poles to the pole asset and ensure these network adjustments can be separately identified”²².
- 5.21 BT already captures all network adjustments associated with poles separately²³. However, attributing all network adjustments associated with poles to the pole asset would not allow for these network adjustments to be separately identified.
- 5.22 We therefore propose to continue to capture all network adjustments associated with poles separately and attribute the network adjustments associated with poles to the pole component (as opposed to the pole asset or Class of Work) to ensure these network adjustments can be separately identified.
- 5.23 Ofcom states that its objective is to ensure consistency with its regulatory decision. We believe that Ofcom could meet that objective by imposing a proportionate and practical remedy which would require BT to move the costs identified by Synthetics analysis into the appropriate class of work. This would provide a sufficiently adequate representation of costs because the synthetics reflect the costs of the underlying activities.

Divergence from GAAP and from Pricing Models

- 5.24 In recent years BT has written a commentary on the RFS, the “Regulatory Financial Commentary” (RFC) which it publishes alongside the RFS to clarify the extent to which the misalignment between Ofcom pricing decisions and accounting directions results in costs and margin movements year on year. Further in this commentary BT also clarifies the extent to which differences between accounting treatments in the RFS and the Statutory accounts (primarily the differences in the adoption of GAAP standards) results in costs and margin misalignment between the RFS and Statutory accounts.
- 5.25 The RFS is still an uneasy compromise between pricing models and statutory accounts and may not always be easy to understand for some stakeholders. We believe that ideally, the RFC would be redundant and the RFS ought to align with Ofcom’s pricing decisions (pricing models) and the statutory accounts. Closer alignment would improve clarity and transparency for stakeholders. We acknowledge that Ofcom has for some time made efforts at alignment, but we think it should go further.
- 5.26 We are concerned that the regulatory reporting Ofcom proposes to introduce in the WFTMR consultation document may result in further divergence. We are particularly concerned about three types of misalignment:

²² Table 5.3 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

²³ Paragraph 5.105 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

- *Misalignment of RFS with Ofcom's pricing policy and objectives:* Ofcom has generally set prices at a market level and in many cases without reference to underlying costs. In this context, the proposal to report costs and margins for most services at an individual service level does not provide a relevant yardstick to measure BT against its obligations.
- *Misalignment of the RFS with pricing models:* Ofcom adjusts published RFS costs in its pricing models and does not always reflect those adjustments in the RFS. As a consequence, returns in markets such as WLA and WFAEL do not appear in the RFS in the same way as Ofcom considers them in the pricing models. We question why Ofcom would ensure some adjustments are accounted for in the RFS e.g. expensing ECC costs but others are not. We believe it would be more consistent and transparent if all pricing adjustments were reflected in the RFS. We recognise there are some practical difficulties with some adjustments, particularly the "copper-fibre transfer", and we would be happy to discuss this further with Ofcom.
- *Divergence from GAAP:* Divergence from GAAP presents challenges to stakeholders who seek to compare the RFS to the statutory accounts. They add complexity in the preparation of the RFS and reduce its comprehensibility versus accounting standards which are well understood by finance audiences. For example, the treatment of SLGs in the RFS is different from the treatment of SLG under IFRS15. Ofcom also directs we expense various assets that are properly treated as capital expenditure under IFRS. We think the RFS would provide better value if they were more closely aligned to the financial information that BT uses to make decisions in the business and would provide more transparency on rationale for business decisions. It would also provide stakeholders with a better understanding of our business without having to reconcile two different sets of numbers.

5.27 Addressing these issues will almost certainly involve the introduction of new methodologies. We recognise that a further challenge to the reader of the RFS is that large numbers of methodology changes each year makes it difficult to compare returns from one year to the next. Although some changes are made by BT due to organisational changes or other reasons, the most significant changes are required by Ofcom. We believe there would be great value in minimising the number of times the RFS changes – making it easier to compare results over time, with less frequent disconnects from one period to the next.

5.28 We would like Ofcom to recognise the three alignment issues described above and consider improving alignment in these areas over the coming years.

5.29 We also note that Ofcom's pricing policy considers a basis of accelerated depreciation to reflect the NPV of cost recovery of assets via indexation of legacy services. We would be happy to discuss a potential methodology with Ofcom.

Complexity in the RFS

- 5.30 We acknowledge that the RFS will always entail some complexity to produce but we think it is too complex and could be simplified. There are hundreds of different bases of allocation, the document is long, and the reporting is granular and detailed. Further, BT is concerned about the increasing complexity of producing the RFS, which makes errors more likely, leads to high costs and, importantly, stakeholders misunderstanding or not trusting how the numbers have been calculated. On that basis, we consider that increasing detail in the RFS will undermine the value of extra transparency – what good is extra detail if it leads to less clarity and trust in the data?
- 5.31 We believe this is a good time for Ofcom to strike a better balance and focus more on the issue of RFS complexity. We would ask it to endorse the production of a less complex RFS as a key shared objective for the benefit of BT and all stakeholders. In this we would ask that Ofcom especially consider the cumulative impact on costs and scope for error of lots and lots of specific attribution drivers.
- 5.32 Some of the unnecessary complexity of producing the RFS would be addressed by Ofcom tackling the misalignment issues, as outlined above, and we do not comment further on those issues here.
- 5.33 We believe there are a large number of attribution bases that could be replaced with simpler, less costly and less error prone alternatives without a significant impact on accuracy. We think this should be the focus of ongoing development of the RFS.
- 5.34 To illustrate, consider Ofcom's challenge to the use of Previously Allocated Costs (PAC) for the attribution of some overheads during 2019/20.
- Ofcom identified examples where it felt the costs could be attributed on more specific bases than the broader-brush PAC approach and that this would be more accurate.
 - The resulting in changes, reported in the CCN, moved cost-stacks for affected services by less than 0.5%²⁴ and has resulted in new reporting disclosures (proposed in this consultation) such as the AFIs and methodology reporting.
- 5.35 It is not clear why the change was deemed necessary by Ofcom given the tiny impact it has had on the cost attributed by the previous PAC method and the extra complexity it has given rise to in the production of the RFS. In this case we would argue that Ofcom should have decided that on balance the cost and complexity of the new attribution method outweigh the benefit and it should have stuck with the simpler, less costly and less error prone PAC method.
- 5.36 We ask that Ofcom explicitly recognises in the final statement that complexity is a shared problem for BT, Ofcom and other stakeholders; fewer methodologies would be better; a shorter document would be better and fewer annual methodology changes would be better. Further, we would ask that Ofcom commits to working

²⁴The review that Ofcom conducted resulted in changes in the CCN that moved cost-stacks for services by less than 0.5%

with us to implement improvements to the form and content of the RFS that align with this objective over the next few years.

Materiality

- 5.37 Whilst we welcome Ofcom's specific consideration of the materiality threshold for the CCN Report, we see this consultation as an opportunity to streamline and prioritise our focus and efforts across the RFS. In that respect we would ask that Ofcom set the materiality threshold in the RFS so that there is less time and effort spent on the reporting of insignificant items and more on the reporting of significant items. For example, errors or methodology changes below the £5m threshold are not of significant interest to stakeholders but require disproportionate time and effort to analyse and report.
- 5.38 As per our letter to Ofcom dated 28 September 2018, we consider that it would be reasonable and proportionate to increase the materiality to the higher of £5m or 5% for any reported errors and methodology changes. On that basis, we would propose that the materiality threshold should be set at this level for changes included in the CCN Report and the Reconciliation Report.

Infrastructure records

- 5.39 Ofcom proposes that BT should separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018 and attribute costs with different methodologies²⁵.
- 5.40 While it is straightforward to separately identify the net replacement cost and associated depreciation of duct installed before and after 31 March 2018, it would not be practical to separately record the individual assets at source. We therefore propose to use an apportionment mechanism to achieve the required reporting outcome.
- 5.41 Ofcom proposes to estimate PI charges based on measures of relative utilisation²⁶. On this basis Ofcom proposes to require BT to provide information on this metrics i.e.
- Kilometres of lead-in duct
 - Average occupancy (per 25mm sub-duct equivalent) for spine duct single bore, 2 bores and 3+ bores
 - Average number of sub-ducts crossing i) a joint box and ii) a manhole
 - Number of pure and mixed DP and feeder poles and number of cable poles
 - The number of single and multi-premise attachments for cable poles and pure and mixed DP and feeder poles
 - The average number of cables up a pole and number of manifold attachments for all poles

²⁵ Paragraph 5.111 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

²⁶ Paragraphs 6.24-6.25 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

- 5.42 While we currently record lead-in length and volumes to new premises as part of our planning process, we do not currently have the ability to separately identify and record the capital costs of lead-in duct as the third-party developers plan and build Newsites on our behalf. We provide the developer with the relevant infrastructure to complete the work on a single job/estimate, and this does not break down the cost of the lead-in duct vs single bore duct.
- 5.43 To change the current process would require a fundamental rebuild of our current systems (PIPER) and an additional onus on the third-party developer to update and correct the planned building records with accurate location and lengths of lead-in duct.
- 5.44 We therefore propose a more proportionate approach which is to use an apportionment methodology which we believe still meets Ofcom's objectives. We are looking to improve our existing duct methodology to differentiate the unit cost of lead in duct from single bore duct. We will do this by using operational data in order to derive a cost for lead-in duct and we will be working closely with Ofcom and update it on our progress.
- 5.45 The figures we will be providing to Ofcom should be those which we will be using for pricing. i.e. we will not be reporting based on these metrics as at 30 September each financial year, but on the basis that pricing is set.

6. Information Provided

6.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 6 of the consultation, and our response to Question 6.1.

Question 6.1 *Do you agree with our proposals in relation to information provided to Ofcom set out in Section 6? Please set out your reasons and supporting evidence for your response.*

Summary of Ofcom's proposals

6.2 Ofcom requires BT to provide information privately to Ofcom, principally relating to LRIC information and further information on the RFS such as data and models supporting the RFS and 'additional financial information' (AFIs) relating to SMP markets. Ofcom proposes to remove the obligation to provide LRIC information along with many of the schedules.

6.3 Ofcom proposes that the following information will now also be required:

- LRIC: Remove requirement on BT to provide LRIC information.
- Data and models supporting the RFS: BT to provide data and models supporting its cost accounting system so that Ofcom can run the same software (CostPerform) that BT uses to prepare the RFS.
- Information relating to all proposed SMP markets: BT to provide the following schedules i) a breakdown of costs attributed using PAC methodologies ii) a mapping between the operating cost and MCE of each cost component and the operating cost and MCE cost categories from the market performance summary and iii) a breakdown of grant funding and associated expenditure by asset category.
- Information relating to PI: BT to provide information on the costs of lead-in duct and how it has attributed duct costs to PI services in the RFS.
- Information relating to WLA: BT to provide information on FTTP investment in Area 2 and Area 3.
- Information relating to dark fibre: BT to provide information on patch panels and initial testing for dark fibre circuits.

BT Response

6.4 BT welcomes the removal of requirement to supply irrelevant information supporting the RFS and will continue to support Ofcom in understanding the cost allocation methodologies used in supporting models. As the fibre network is extended, this also calls upon additional information to be provided privately to Ofcom and we are supportive of this principle.

Detailed information

- 6.5 We are happy to provide a note in the RFS on the number of premises passed²⁷. We propose in WLA area 3 to use post code information, and therefore calculate the revenue generated from the mark up of charge controlled MPF rentals²⁸.
- 6.6 We also support the removal of supplying LRIC information.
- 6.7 One of the significant benefits of adopting CostPerform is that Ofcom is able to use the same cost allocation tool to see exactly how costs flow through the accounts. We are therefore happy to provide the supporting models to enable this.
- 6.8 In the interests of proportionality, we propose that the focus in the RFS should be on the most material items in terms of methodologies and allocations. The focus on scrutinising costs using PAC is disproportionate, where Ofcom proposes a breakdown of costs attributed using PAC methodologies (e.g. BT Group PAC, Openreach PAC, Technology PAC) by two-digit OUC along with a description of the activities undertaken by each OUC.
- 6.9 Ofcom is using its recent review of PAC, which moved 0.5% of the FAC on any given cost stack, as the reason for new AFIs on PAC²⁹. We believe this is disproportionate, especially when coupled with the requirements to report SLGs to each individual product, and further, separate rows for each pay and previously allocated costs (PAC) driver used.
- 6.10 While we support Ofcom in demonstrating the way costs have been attributed for duct in the RFS we have specific concerns that surround the provision of information on physical infrastructure (and lead-in duct in particular) which we believe Ofcom should address (as detailed in Section 5 above).
- 6.11 Section 4 of the consultation document also covers issues relating to provision of information on patch panels and initial testing for dark fibre circuits. This is addressed in paragraphs 4.36-4.40.
- 6.12 We agree there should be transparency around how BDUK funding is allocated to regulated services and are working with Ofcom to develop a solution that provides this. This may necessitate some minor adjustments to the directions on reporting BDUK in the RFS.

²⁷ Paragraph 1.3 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

²⁸ Paragraph 4.105 of Reporting requirements covering wholesale fixed telecoms markets 2021-26.

²⁹ We believe that the review was biased as it only checked the correct treatment of costs currently attributed on a PAC basis, rather than looking for costs that aren't currently treated with PAC but should be. We believe a broader and less biased analysis would have reduced the overall impact Ofcom's changes from PAC have and be even less than the 0.5% FAC referred to above.

7. SMP conditions and directions

7.1 In this section we set out our comments on Ofcom's proposed reporting requirements, as set out in Section 7 of the consultation, and our response to Question 7.1.

Question 7.1: *Do you agree with our proposed SMP conditions and directions? Please set out your reasons and supporting evidence for your response.*

Summary of Ofcom's proposals

7.2 Ofcom proposes to impose an SMP condition regarding regulatory financial reporting on BT in relation to each of the markets in which it has proposed to make an SMP finding in the January WFTMR Consultation, together with legal tests for each as detailed in section 3. It also proposes to impose an accounting separation obligation and a cost accounting obligation as well as such directions as it considers appropriate in relation to BT's reporting obligations from time to time.

7.3 There are six directions Ofcom proposes incorporating the effects of the proposals in sections 3, 4, 5 and 6 of the WFTMR Reporting consultation:

- i. Regulatory Accounting Principles Direction
- ii. Preparation, Delivery, Publication, Form and Content Direction
- iii. Consistency with Regulatory Decisions and Regulatory Asset Value Direction
- iv. Audit of the RFS Direction
- v. Reconciliation Report Direction
- vi. Network Components Direction

BT Response

7.4 In general, the SMP conditions and accounting separation are consistent with previous years and present no problem to BT.

7.5 We look forward to the forthcoming consultation on Wholesale Calls & Interconnection, originally scheduled for Q1 2020/21, where we hope to have an opportunity to provide further input into the format of the RFS, the increased focus of the RFS on Openreach and improving the value of reporting to stakeholders.

7.6 Ofcom's directions are also fine in principle; detailed responses to elements have already been addressed in sections above.

7.7 In line with the responses presented in sections 3, 4, 5 and 6 above, we propose specific changes in the conditions and directions in paragraphs below.

Proposed changes to draft SMP conditions

- 7.8 Proposed change to the SMP condition 11.10 (viii), in line with response included in paragraphs 5.6-5.8 above:
- 7.8.1 Remove the sub-condition 11.10 (viii): ~~ensure that any Regulatory Financial Statement and corresponding audit opinion that it delivers to Ofcom and/or publishes are fit for such purpose (or purposes), if any, as notified by Ofcom in writing~~
- 7.9 Proposed change to the definition of “Additional Procedures”:
- 7.9.1 Change the definition to: “Additional Agreed Upon Procedures” means an engagement carried out in accordance with international standard (ISRS 4400) under which the Regulatory Auditor or another independent third party performs a set of procedures required by Ofcom and based on Ofcom’s specific requirements in relation to the Regulatory Financial Statements, and reports the findings of that work to Ofcom.
- 7.10 Proposed change to the SMP condition 11.20:
- 7.10.1 Change the condition to: The Dominant Provider shall commission Additional Agreed Upon Procedures when requested to do by Ofcom.
- 7.11 Proposed change to the SMP condition 11.34 (v):
- 7.11.1 Change the condition to: Undertake Additional Agreed Upon Procedures on the systems reconciliation report, which must report: ...
- 7.12 Proposed change to the definition of “Network Component List”, in line with response included in paragraphs 4.4, and 4.18-4.22 above:
- 7.12.1 Change the definition: “Network Component List” means the document ~~published~~ updated from time to time by the Dominant Provider in accordance with these Conditions and delivered privately to Ofcom, which contains the information specified in Condition 11.24.
- 7.13 Proposed change to the SMP conditions 11.24 and 11.27, in line with response included in paragraphs 4.4, and 4.18-4.22 above:
- 7.13.1 Change the following conditions:
- 11.24 The Dominant Provider must ~~publish~~ update a Network Component List, and deliver privately to Ofcom, within four months of the end of the Financial Year,
- a) listing each of the Network Components used in the Regulatory Accounting System;
 - b) providing a description of each such Network Component; and
 - ~~c) providing one or more diagrams showing to which part of the network, or to which activity, each of the Network Components relates (including Network Diagrams where the Network Components relate to physical parts of the network).~~
- 11.27 Ofcom may direct the Dominant Provider to modify the Network Component List and to use those, ~~(and only those),~~ Network Components in its Regulatory Accounting System.

- 7.14 Proposed change to the SMP condition 11.28:
- 7.14.1 Amend the numbering as this appears to be a heading rather than a condition

Proposed changes to draft 'Preparation, Delivery, Publication, Form and Content of the RFS' Direction

- 7.15 Proposed change to the Direction 2, proposed summary by market performance schedule, in line with response included in paragraphs 4.7, 4.30 and 4.31 above:
- 7.15.1 Delay the implementation of the requirement, to include a note below the schedule showing which specific items reported in the BT Group statutory accounts have been attributed to SMP markets, to 2022-23.
- 7.16 Proposed change to the Direction 2, proposed attribution of wholesale current costs schedule, in line with response included in paragraphs 4.6, 4.7, 4.27-4.29 above:
- 7.16.1 Move the 'Exchanges' and 'Other Property', currently listed in 'Rest of BT opex (excl depreciation)' section, into the 'Depreciation' section (and ideally groups them with the 'Land and buildings' line as recorded currently).
 - 7.16.2 Remove the requirement to report Leaver Costs separately.
- 7.17 Proposed change to the Direction 2, proposed market summaries schedules, in line with response included in paragraphs 4.4, 4.6, 4.10-4.17, 4.23-4.26 and 6.5 above:
- 7.17.1 Remove the requirement to report operating costs, MCE and a RoCE at service level. We propose that returns be reported by market instead.
 - 7.17.2 Remove the requirement from PI summary to report excessive details for infrastructure elements especially poles which are required to be reported under four different categories (Poles – multi-end-user attachment; Poles – single-end-user attachment; Pole top equipment; and Cable up a pole).
 - 7.17.3 Remove the requirement to publish cost and volume information (as outlined in performance schedules "Wholesale Local Access – Area 2 Summary" and "Wholesale Local Access – Area 3 Summary") in the format proposed and to the extent they contain Openreach confidential commercial information regarding its FTTP business.
 - 7.17.4 Update the requirement from WLA – Area 3 summary, which requires us to report a note on FTTP rollout in Area 3 and associated markup, to use post code information, and therefore calculate the revenue generated from the markup of charge controlled MPF rentals.
 - 7.17.5 Remove the requirement from LLA – Area 3 summary to report detailed revenue, volume, average price and cost information for various services. We propose that the patch panels and initial testing of Dark Fibre circuits to be reported using our current cost apportionment approach, that aligns published price with unit cost as derived by Ofcom.
- 7.18 Proposed change to the Direction 2, proposed attribution rules applied to wholesale current costs schedule, in line with response included in paragraphs 4.32-4.35 above:
- 7.18.1 Remove the requirement of reporting of specific types of attribution rules as these need further consideration. We propose that the format should focus

on the largest methodologies and propose to work with Ofcom to summarize these meaningfully.

- 7.19 Proposed change to Direction 2, section 9, additional financial information (AFI) in respect of each Market, in line with response included in paragraphs 4.5 and 6.8-6.9 above:
- 7.19.1 Remove the requirement to prepare and deliver AFI for PAC breakdown.
 - 7.19.2 Remove the requirement to prepare and deliver AFI for Cost component mapping.
- 7.20 Proposed change to Direction 2, section 10, additional financial information (AFI) in respect of the PI Market, in line with response included in paragraph 6.10 above:
- 7.20.1 Remove the requirement to prepare and deliver AFI for costs of lead-in duct and single bore spine duct.
- 7.21 Proposed change to Direction 2, section 13, additional financial information (AFI) in respect of Leased Lines Access – Area 3 and IEC – BT only, in line with response included in paragraphs 4.7, 4.36-4.40 and 6.11 above:
- 7.21.1 Remove the requirement to prepare and deliver AFI for costs of dark fibre patch panels and initial testing.

Proposed changes to draft 'Consistency with Regulatory Decisions and Regulatory Asset Value' Direction

- 7.22 Proposed change to Direction 3, Schedule B, sections 10-15, recording of Network Adjustment costs, in line with response included in paragraphs 5.5, 5.12-5.15 and 5.20-5.23 above:
- 7.22.1 Remove the requirement to 'record' and replace with 'report'.
 - 7.22.2 Remove the requirement to all Network Adjustments associated with poles to the pole asset and replace it with the requirement to attribute the Network Adjustments associated with poles to the pole component (as opposed to the pole asset or Class of Work) to ensure these network adjustments can be separately identified.
- 7.23 Proposed change to Direction 3, Schedule B, section 16, mapping of Fixed Asset Register to PiPER system, in line with response included in paragraph 5.18 above:
- 7.23.1 BT to continue to work with Ofcom to develop a report that provides this required assurance using a mapping of BT FAR to Piper.
- 7.24 Proposed change to Direction 3, Schedule B, sections 17-18, recording of capital cost of poles, in line with response included in paragraphs 5.5, 5.9-5.11 and 5.12-5.15 above:
- 7.24.1 Remove the requirement to 'record' and replace with 'report'.
 - 7.24.2 Remove the requirement to commission Additional/Agreed Upon Procedures to obtain assurance on recording of capital cost of poles and accuracy of accounting asset life of poles.

- 7.25 Proposed change to Direction 3, Schedule B, section 19, recording of capital cost of new lead-in duct, in line with response included in paragraphs 5.5, 5.12-5.15 above:
7.25.1 Remove the requirement to 'record' and replace with 'report'.
- 7.26 Proposed change to Direction 3, Schedule B, section 20-22, identification of duct installed pre-March 2018, in line with response included in paragraphs 5.38 to 5.44 above:
7.26.1 Remove the requirement to attribute associated with pre-March 2018 duct to PI assets using the specified percentages. We propose a more proportionate approach which is to use an apportionment methodology which we believe still meets Ofcom's requirements.
- 7.27 Proposed change to Direction 3, Schedule B, section 30, recording of cost of patch panels, in line with response included in paragraphs 4.36-4.40, 5.5 and 5.12-5.15 above:
7.27.1 Remove the requirement to 'record' and replace with 'report'.
- 7.28 Proposed change to Direction 3, Schedule B, section 31, recording of cost of initial testing of dark fibre circuits, in line with response included in paragraphs 4.36-4.40, 5.5 and 5.12-5.15 above:
7.28.1 Remove the requirement to 'record' and replace with 'report'.